



FRIENDTIMES INC.

(incorporated in the Cayman Islands with limited liability)

Stock Code : 6820

GLOBAL OFFERING



Sole Sponsor



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Joint Global Coordinators



國泰君安國際
GUOTAI JUNAN INTERNATIONAL



招銀國際
CMB INTERNATIONAL

Joint Bookrunners and Joint Lead Managers



國泰君安國際
GUOTAI JUNAN INTERNATIONAL



招銀國際
CMB INTERNATIONAL



農銀國際
ABC INTERNATIONAL



海通國際
HAITONG



華泰金控
HUATAI FINANCIAL

IMPORTANT

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



FRIEND TIMES

FriendTimes Inc.

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	330,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	33,000,000 Shares (subject to adjustment)
Number of International Offer Shares	:	297,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price (subject to a Downward Offer Price Adjustment)	:	Not more than HK\$1.96 per Offer Share and expected to be not less than HK\$1.52 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund on final pricing) (If the Offer Price is set at 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK\$1.37 per Offer Share)
Nominal value	:	US\$0.00001 per Share
Stock code	:	6820

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HAITONG



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HUATAI FINANCIAL

Co-Lead Managers



長雄證券有限公司
EVERLONG SECURITIES COMPANY LIMITED



瑞豐國際
HIF SECURITIES LIMITED



JINCAP
中信證券有限公司
JINCAP SECURITIES LIMITED



TANRICH
ASIA-PAC SECURITIES



富途證券

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in paragraph headed "A. Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be determined by agreement between us and the Sole Representative (on behalf of the Underwriters) on or about Friday, 27 September 2019 and, in any event, not later than Monday, 30 September 2019. The Offer Price will be not more than HK\$1.96 per Offer Share and is currently expected to be not less than HK\$1.52 per Offer Share (subject to a Downward Offer Price Adjustment). Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$1.96 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$1.96 per Offer Share. If, for any reason, the Offer Price is not agreed between us and the Sole Representative (on behalf of the Underwriters) on or before Monday, 30 September 2019 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Sole Representative (on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.friendtimes.net. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Representative (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

24 September 2019

EXPECTED TIMETABLE

Hong Kong Public Offering commences on WHITE and YELLOW Application Forms available from	9:00 a.m. on Tuesday, 24 September 2019
Latest time for completing electronic applications under HK eIPO White Form service through the designated website www.hkeipo.hk ⁽²⁾	11:30 a.m. on Friday, 27 September 2019
Application lists open ⁽³⁾	11:45 a.m. on Friday, 27 September 2019
Latest time for lodging WHITE and YELLOW Application Forms.....	12:00 noon on Friday, 27 September 2019
Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, 27 September 2019
Latest time for completing payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 27 September 2019
Application lists close ⁽³⁾	12:00 noon on Friday, 27 September 2019
Expected Price Determination Date ⁽⁵⁾	Friday, 27 September 2019
Where applicable, announcement of the Offer Price being set below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment (see the section headed “Structure of the Global Offering — Pricing and Allocation”) on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the Company’s website at www.friendtimes.net on or before ⁽⁶⁾	Friday, 4 October 2019
(1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering will be published on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.friendtimes.net on or before	Friday, 4 October 2019

EXPECTED TIMETABLE

(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus from Friday, 4 October 2019

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above will be published on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our website at **www.friendtimes.net** from Friday, 4 October 2019

Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** (alternatively: **www.hkeipo.hk/IPOResult**) with a "search by ID" function from Friday, 4 October 2019

e-Auto Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful application to be posted on or before Friday, 4 October 2019

Dispatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾ Friday, 4 October 2019

Dispatch/collection of refund cheques and **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before⁽⁸⁾⁽⁹⁾ Friday, 4 October 2019

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence on Tuesday, 8 October 2019

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for lodging applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day of lodging applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or "extreme conditions" caused by a super typhoon, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27 September 2019, the application lists will not open on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.

EXPECTED TIMETABLE

- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Friday, 27 September 2019 and, in any event, not later than Monday, 30 September 2019. If, for any reason, the Offer Price is not agreed by Monday, 30 September 2019 between us and the Sole Representative (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.
- (6) To be announced as soon as practicable after the Price Determination Date but before the allotment result announcement.
- (7) Share certificates for the Hong Kong Offer Shares are expected to be issued on Friday, 4 October 2019 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects, and neither of the Underwriting Agreements has been terminated in accordance with its terms, prior to 8:00 a.m. on the Listing Date, which is expected to be on or about Tuesday, 8 October 2019. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the final Offer Price is less than the initial price per Offer Share payable on application.
- (9) Applicants who have applied on **white** Application Forms or **HK eIPO White Form** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheques (where applicable) and/or share certificates (where applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong between 9:00 a.m. to 1:00 p.m. on Friday, 4 October 2019. Applicants being individuals who are eligible for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

Applicants who have applied on **yellow** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all information required may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **yellow** Application Form applicants are the same as those for **white** Application Form applicants.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund — If you Apply Via **Electronic Application Instructions** to HKSCC” for details.

Uncollected share certificates and refund cheques will be despatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the sections “How to Apply for Hong Kong Offer Shares — Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund.”

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

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering.

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SUMMARY

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

OVERVIEW

We are a leading integrated and well-established mobile game developer, publisher and operator with particular success in female-oriented games. Since our inception in 2010, we have been strategically focusing on mobile games targeting female players in the PRC to capture the significant growth potential in both the mobile game industry and the female-oriented game market. According to Frost & Sullivan, we ranked the third in the PRC female-oriented mobile game market as measured by revenue from female-oriented mobile games in 2018, which accounted for approximately 2.9% of the female-oriented mobile game market in the PRC in 2018, and the first in the ancient Chinese style female-oriented mobile game market in the PRC in terms of revenue from ancient Chinese style female-oriented mobile games in 2018. We accounted for approximately 31.5% of the revenue of ancient Chinese style female-oriented mobile game market in the PRC in 2018. The revenue from ancient Chinese style female-oriented mobile game market accounted for only 9.1% of the revenue from female-oriented mobile game market in the PRC in 2018. Leveraging on our success in the PRC market, we expanded into overseas market in 2011. We were awarded the “National Key Cultural Export Enterprise (國家文化出口重點企業)” in 2018.

We have experienced significant growth during the Track Record Period due to our successful launch of several self-developed quality female-oriented games and our ability to launch our signature games periodically. For example, we initially launched our *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游) in 2015, 2017 and 2018, respectively. Our cumulative registered players increased from 30.5 million in 2016 to 99.5 million as at 31 July 2019, and our average monthly paying players increased from 186,600 in 2016 to 234,900 for the seven months ended 31 July 2019. Accordingly, our revenue increased from RMB568.8 million in 2016 to RMB700.2 million in 2017 and then to RMB1,464.3 million in 2018, representing a CAGR of 60.4% from 2016 to 2018, and from RMB274.7 million for the three months ended 31 March 2018 to RMB393.5 million for the three months ended 31 March 2019. In 2016, 2017 and 2018 and the three months ended 31 March 2019, our gross profit was RMB358.3 million, RMB432.3 million, RMB918.3 million and RMB252.2 million, respectively, and our gross profit margin was 63.0%, 61.7%, 62.7% and 64.1%, respectively. During the same periods, our profit for the year/period was RMB80.7 million, RMB117.9 million, RMB336.7 million and RMB86.6 million, respectively, representing a CAGR of 104.3% from 2016 to 2018, with a net profit margin of 14.2%, 16.8%, 23.0% and 22.0%, respectively.

OUR INTEGRATED BUSINESS MODEL

We believe our success is attributable to our strong integrated abilities in game development, publishing and operations. Such an integration of upstream and downstream services in the value chain of the mobile game industry has enhanced management efficiency, productivity and profitability of our operations. As at 31 March 2019, we had a robust research and development team consisting of 864 employees, accounted for over 65% of our total number of employees. Our stable and committed core research and development team has years of relevant experience and low turnover rate. Benefiting from our significant commitment of research and development resources, we stay in the fore front of technology development and self-developed most of our games. During the Track Record Period, 99.2%, 99.2%, 100.0% and 99.9% of our total revenue, respectively, were generated from our self-developed games.

We also have strong game publishing and operating capability. As at 31 March 2019, we had a dedicated team consisting of a total of 354 employees for game publishing and operation. We have established stable cooperation with well-known distribution platforms, such as Apple’s App Store, Google Play and Mobile Hardcore Alliance to distribute our games, and most of our games are distributed through these third-party distribution platforms. These platforms typically charge us 30% to 55% of the sales proceeds of our games as revenue sharing, and payment channel and other service fees. We offer our games on a free-to-play basis and generate all of our revenue from the in-game sale and consumption of virtual items. We endeavour to cultivate player’s loyalty to enhance their in-game purchase through adjusting our marketing and pricing strategy from time to time. Our strong game publishing and operating capability enhanced our control over the entire operation chain as well as our profitability. During the Track Record Period, a large percentage of the games we offered are self-published, accounting for 85.1%, 90.1%, 96.3% and 95.5%, respectively, of our total revenue.

SUMMARY

OUR EXISTING GAMES

We successfully developed, published and operated a number of popular ancient Chinese style female-oriented mobile games, such as *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳), *Rise of Queendom* (宮廷計手游) and *Fate: Royal Revenge* (京門風月), each of which has achieved a high ranking in the best-selling games board for iPhone on Apple's App Store. For example, *Royal Chaos* (熹妃Q傳) achieved a highest ranking of no. 14 in the best-selling games board for iPhone on Apple's App Store on 8 March 2019. We utilise our strong data analytics abilities to design engaging games to adapt to the latest market trend and to satisfy the evolving player demand.

Our hit game titles feature engaging stories and are able to achieve a relatively long lifecycle. For example, *Legend of Empress* (熹妃傳), one of our signature ancient Chinese style female-oriented games, was launched in June 2015 and still maintained at a stable and mature stage after over 50 months' operations, far exceeding the lifecycle of mobile games in general, which is generally between three to 12 months according to Frost & Sullivan. Our first 3D game, *Royal Chaos* (熹妃Q傳), has also achieved great success after its launch in September 2017 and expanded our player base to a wider range of players as it adopts more lively and humorous artistic style. *Rise of Queendom* (宮廷計手游), launched in March 2018, has also become our hot game title attracting a large number of players. The operational performance of *Legend of Empress* (熹妃傳) remained relatively stable after the launch of *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游), demonstrating our strong ability to monetise our existing games and enhance the stickiness of our players.

The table below sets forth certain information of our top four games during the Track Record Period:

	Year ended 31 December						Three months ended		Development	Earliest launch date
	2016		2017		2018		31 March 2019			
	Amount	% of our total revenue from games	Amount	% of our total revenue from games	Amount	% of our total revenue from games	Amount	% of our total revenue from games		
<i>Legend of Empress</i> (熹妃傳)	479,830	84.5	473,053	67.6	443,482	30.3	97,361	24.7	Self-developed	June 2015
<i>Royal Chaos</i> (熹妃Q傳)	—	—	91,120	13.0	691,790	47.2	182,362	46.3	Self-developed	September 2017
<i>Rise of Queendom</i> (宮廷計手游)	—	—	—	—	275,226	18.8	105,415	26.8	Self-developed	March 2018
<i>Fate: Royal Revenge</i> (京門風月)	50,525	8.9	114,545	16.4	46,203	3.2	6,674	1.7	Self-developed	June 2016
Total	530,355	93.4	678,718	97.0	1,456,701	99.5	391,812	99.5		

OUR PIPELINE GAMES

While consolidating our leading position in ancient Chinese style female-oriented games, we also seek to diversify our game portfolio and service offerings. We plan to expand our female-oriented game portfolio into other genres of female-oriented games. We are also developing other genres of games that target a wider audience of players, such as SLG and collective card games.

As at the Latest Practicable Date, our pipeline included five new mobile games with different language versions, 16 new language versions of existing games and five H5 games. As at the Latest Practicable Date, we had also received the preliminary approvals from the NAPP at the provincial level for the simplified Chinese (PRC) version of one of our existing games, *Story: Cyborg Fantasy* (化芯物語) and the simplified Chinese (PRC) version of three of our newly developed mobile games, namely, *Fate: The Loved Journey* (此生無白), *Majesty & Conquest* (王冠與征服) and *Wizardlord* (魔法交鋒). Among the five new mobile games in the pipeline, three of them are female-oriented mobile games and the remaining two are non-female-oriented mobile games.

The details of our five new mobile games with different language versions (totaling 15 language versions) and our 16 new language versions of existing games in the pipeline as at the Latest Practicable Date are set forth in the following table:

Title	Genre	Language	Expected launch time
New Games			
Fate: The Loved Journey (此生無白)	RPG Female-oriented	Simplified Chinese (PRC)	Subject to approval ⁽¹⁾
		Traditional Chinese	1st half of 2020
		Korean	1st half of 2020
		English/Simplified Chinese (Overseas)	1st half of 2020
		Japanese	2nd half of 2020
Majesty & Conquest (王冠與征服)	SLG Non-female oriented	Vietnamese	1st half of 2021
		Thai	1st half of 2021
		Simplified Chinese (PRC)	Subject to approval ⁽¹⁾
Wizardlord (魔法交鋒)	Collective Card Games Non-female oriented	English/Simplified Chinese (Overseas)	1st half of 2020
		Simplified Chinese (PRC)	Subject to approval ⁽¹⁾
Game X ⁽³⁾	RPG Female oriented	English/Simplified Chinese (Overseas)	2nd half of 2019
Game Y ⁽⁴⁾	Casual Female oriented	Simplified Chinese (PRC)	Subject to approval ⁽²⁾
		Traditional Chinese	2nd half of 2020
		Simplified Chinese (PRC)	Subject to approval ⁽²⁾
		Traditional Chinese	2nd half of 2020

SUMMARY

Title	Genre	Language	Expected launch time
New language versions of existing games			
Rise of Queendom (宮廷計手遊)	RPG	English/Simplified Chinese (Overseas)	1st half of 2020
Royal Chaos (熹妃Q傳)	RPG	Arabic	1st half of 2020
Legend of Empress (熹妃傳)	RPG	German/French	2nd half of 2019
Dynasty of Kingdoms (帝王雄心)	SLG	English/Simplified Chinese (Overseas) Traditional Chinese	1st half of 2020 1st half of 2020
Fate of the Empress (浮生為卿歌)	RPG	Simplified Chinese (PRC) Japanese Korean Vietnamese Thai	2nd half of 2019 ⁽⁵⁾ 1st half of 2020 1st half of 2020 2nd half of 2020 2nd half of 2020
Yokai Kitchen (精靈食肆)	Management Simulation	Japanese Arabic Thai Vietnamese	2nd half of 2019 2nd half of 2020 2nd half of 2020 2nd half of 2020
Story: Cyborg Fantasy (花芯物語)	Love simulation	Simplified Chinese (PRC) Traditional Chinese	Subject to approval ⁽¹⁾ 2nd half of 2019

Notes:

- (1) Being games that we have received preliminary approvals from the NAPP at the provincial level, but are pending for the publication numbers to be issued by the NAPP at the national level. After obtaining the requisite publication numbers, these games are ready to be launched in the PRC. Our Directors expect that these games can be formally and commercially launched in the PRC soon after the publication numbers are obtained. Our Directors also plan to launch these games in overseas markets at or around the time as indicated in the table above regardless of the formal launch date in the PRC.
- (2) Being games that are in the development process. We intend to submit game registration applications for these games once their development and production processes are completed. Our Directors plan to launch these games in overseas markets at or around the time as indicated above regardless of the formal launch date in the PRC.
- (3) A story-based game with modern city background.
- (4) A casual elimination game combined with simulation game play elements.
- (5) We received the publication number issued by the NAPP at the national level in July 2019.

OUR PLAYERS

We have successfully established a large loyal player base in the PRC and the overseas markets where we offered our games. The following table sets forth the average DAUs, average MAUs, average monthly paying players and monthly ARPPU of our main games for the periods indicated:

	Year ended 31 December			Three months ended 31 March	Seven months ended 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands for average DAUs, MAUs and average monthly paying players and in RMB for monthly ARPPU)</i>				
Average DAUs	470.7	813.1	760.0	615.3	635.5
Legend of Empress (熹妃傳)	335.4	309.4	211.9	162.9	155.7
Royal Chaos (熹妃Q傳)	—	394.3	385.3	322.5	326.5
Rise of Queendom (宮廷計手遊)	—	—	125.4	113.3	111.2
Fate: Royal Revenge (京門風月)	86.3	65.2	21.2	12.5	11.5
Average MAUs	2,627.4	4,203.5	3,987.1	3,019.4	3,155.4
Legend of Empress (熹妃傳)	1,675.6	1,735.0	1,126.9	881.2	840.1
Royal Chaos (熹妃Q傳)	—	1,755.5	1,779.9	1,296.8	1,364.4
Rise of Queendom (宮廷計手遊)	—	—	841.8	758.8	743.1
Fate: Royal Revenge (京門風月)	648.5	406.1	95.0	56.0	51.7
Average monthly paying players	186.6	340.6	323.5	234.7	234.9
Legend of Empress (熹妃傳)	138.0	131.8	93.6	65.2	58.9
Royal Chaos (熹妃Q傳)	—	170.1	149.8	103.6	104.2
Rise of Queendom (宮廷計手遊)	—	—	64.7	59.6	59.0
Fate: Royal Revenge (京門風月)	40.1	30.1	8.3	4.8	4.5
Monthly ARPPU	240.1	201.4	395.4	533.9	544.9
Legend of Empress (熹妃傳)	259.0	268.0	378.1	457.9	492.5
Royal Chaos (熹妃Q傳)	—	133.9	405.1	571.0	584.9
Rise of Queendom (宮廷計手遊)	—	—	425.3	571.5	599.6
Fate: Royal Revenge (京門風月)	175.2	286.3	398.8	383.5	335.2

All of our games adopt the free-to-play model and our players spend money only when they purchase in-game virtual items. When our games are first launched, a large number of players are attracted to try the new games freely or to spend a small amount of money to try certain functions of our games. As such, in the early growth stage when a game is newly launched, its average DAUs, MAUs, and monthly paying players would be relatively higher while its ARPPU would be relatively lower. As

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time goes by, some players who become less interested in our game will gradually play less or cease to play our game and those players with keener interest in our game will continue to play our game. The operating data of our signature games generally demonstrated such trend as further described below.

The significant increase in our average DAUs and MAUs in 2017 compared to 2016 were primarily related to the successful launch of one of our signature games *Royal Chaos* (熹妃Q傳) in 2017. Our monthly ARPPU decreased from RMB240.1 in 2016 to RMB201.4 in 2017 primarily due to the initial launch of the simplified Chinese (PRC) version of *Royal Chaos* (熹妃Q傳) in September 2017, which was in its early growth stage with the characteristic of usually having a relatively lower ARPPU. Our monthly ARPPU increased from RMB201.4 in 2017 to RMB395.4 in 2018 and further to RMB544.9 for the seven months ended 31 July 2019 due to the following reasons: (i) *Legend of Empress* (熹妃傳) maintained at its stable and mature stage and games at stable and mature stage normally have increasing ARPPU, (ii) due to the popularity of this game, we had released new version upgrades with greater offering of diversified virtual items, new game plays, and enhanced functions, as well as more in-game promotional events for this game in 2018, (iii) *Royal Chaos* (熹妃Q傳) has entered into its stable and mature stage in 2018 which increased the monetization of its existing active players, and (iv) the launch of *Rise of Queendom* (宮廷計手游) in 2018 which entered into its stable and mature stage in August 2018.

Our *Legend of Empress* (熹妃傳) has been in its stable and mature stage during the Track Record Period since its initial launch in June 2015; thus during the Track Record Period, its average DAUs, average MAUs and average monthly paying players were in decreasing trend, while its monthly ARPPU was increasing, in particular in 2018 and the seven months ended 31 July 2019, where there was significant increase in its monthly ARPPU which was primarily due to new version upgrades with greater offering of diversified virtual items, new game plays, and enhanced functions, as well as more in-game promotional events that have overall enhanced player spending. Its simplified Chinese (PRC) version is in mid stable and mature stage and is expected to enter into recession stage around 2021.

Our *Royal Chaos* (熹妃Q傳) was initially launched in September 2017 and began to enter into its stable and mature stage during 2018. Therefore, its average DAUs, average MAUs and average monthly paying players were generally stable in 2017 and 2018, while its monthly ARPPU had increased significantly in 2018 compared to 2017. Its monthly ARPPU in 2017 was RMB133.9 which was relatively lower because it was only launched in September 2017 and needed some time to build up popularity and customers' paying habit. Its simplified Chinese (PRC) version is in early stable and mature stage and is expected to enter into recession stage around 2024.

Our *Rise of Queendom* (宮廷計手游) was initially launched in March 2018 and began to enter into its stable and mature stage later in the same year. Therefore, its average DAUs, average MAUs and average monthly paying players decreased slightly from 2018 to the seven months ended 31 July 2019 but its monthly ARPPU increased significantly from RMB425.3 in 2018 to RMB599.6 for the seven months ended 31 July 2019 as the remaining paying players were spending more. Its simplified Chinese (PRC) version is in early stable and mature stage and is expected to enter into recession stage around 2024.

Our *Fate: Royal Revenge* (京門風月) was initially launched in June 2016. Its average DAUs, average MAUs and average monthly paying players were in a decreasing trend from 2016 to the seven months ended 31 July 2019, while its monthly ARPPU was in an increasing trend from 2016 to 2018 due to the successful monetization of our players. Its monthly ARPPU witnessed a drop from RMB398.8 in 2018 to RMB335.2 for the seven months ended 31 July 2019 because we released less new virtual items in the first half of 2019. Its simplified Chinese (PRC) version is in late stable and mature stage and is expected to enter into recession stage around second half of 2020.

Please refer to the section headed "Business — Our Players — Games Operational Information" for detailed analysis of the fluctuations of the operational information and monetization level of our main games.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success in the industry: (i) a leading mobile game developer, publisher and operator with a focus on female-oriented games; (ii) active expansion into overseas markets backed by our stable cooperation with mainstream distribution platforms in the overseas markets and our game localisation capabilities; (iii) highly integrated business model with game development, publishing and operation capabilities; (iv) strong game development team and sophisticated data analysis and application capabilities; and (v) dedicated and visionary management team with stable teams and highly engaging corporate culture.

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OUR BUSINESS STRATEGIES

Our goal is to strengthen our leadership in the online game industry in the PRC and globally. We intend to achieve our goals by pursuing the following strategies: (i) further expand and enrich our game portfolio to strengthen our market position; (ii) deepen and expand our overseas markets; (iii) engage in effective marketing and promotion activities to enhance our brand and game recognition; (iv) expand our player base and build up gaming social platform; and (v) enhance our capabilities of utilising and commercialising game IPs.

CUSTOMERS

For our self-published games, we consider players who have purchased in-game virtual items in our games to be our paying customers. For our games published through third-party publishers, we consider such third-party publishers as our customers.

During the Track Record Period, our five largest customers together accounted for less than 15% of our revenue during each year in the Track Record Period. During the Track Record Period, none of our Directors, their close associates, and to the knowledge of our Directors, any Shareholder owned more than 5% of our Company's issued share capital, had any interest in any of our five largest customers.

SUPPLIERS

Our suppliers primarily include third-party distribution platforms, third-party advertising and marketing service providers, third-party payment channels, server providers, third-party game developers and other related game developing services providers.

In 2016, 2017 and 2018 and the three months ended 31 March 2019, the purchase amounts with our five largest suppliers, all being Independent Third Parties, were RMB201.9 million, RMB282.2 million, RMB644.1 million and RMB143.3 million, respectively, representing 53.6%, 62.1%, 64.4% and 60.6% of the total purchase amounts with our suppliers. During the same periods, the transaction amounts with our largest supplier amounted to RMB81.5 million, RMB115.1 million, RMB306.3 million and RMB70.9 million, respectively, accounting for 21.6%, 25.3%, 30.6% and 30.0% of the total purchase amounts with our suppliers.

RISK FACTORS

Our business faces risks including those set out in the "Risk Factors" section in this prospectus. Some of the major risk factors that we face include:

- (i) a small number of games have contributed a substantial majority of our revenue. Failure to maintain the continuous success of these games could materially and adversely affect our business and results of operations;
- (ii) if we fail to launch successful new games to retain existing players and attract new players, our business and growth may be materially and adversely affected;
- (iii) any regulatory changes in the approval and registration process of new online games by the PRC government may adversely affect our business;
- (iv) we rely on a small portion of our total players for almost all of our revenue from games, and may not be able to monetise our players effectively; and
- (v) substantially all of our revenue from games come from sales of our in-game virtual items. If this business model ceases to be commercially viable, our results of operations and business prospects could be materially and adversely affected.

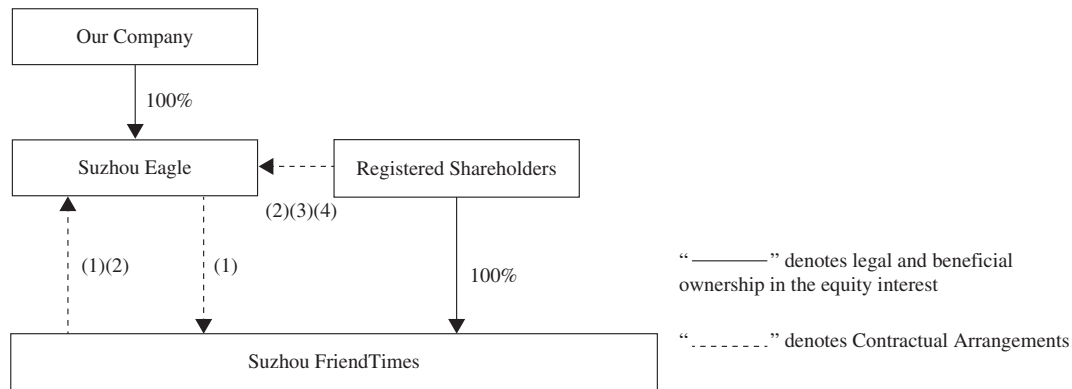
CONTRACTUAL ARRANGEMENTS

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

The Contractual Arrangements allow the results of operations and assets and liabilities of our Operating Entities to be consolidated into our results of operations and assets and liabilities under the HKFRS as if they were subsidiaries of our Group.

SUMMARY

The diagram below illustrates the relationships among the entities under the Contractual Arrangements:



Notes:

- (1) Payment of service fee from Suzhou FriendTimes to Suzhou Eagle in exchange of the provision of technical services, management support and consulting services. Please refer to the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Exclusive Business Cooperation Agreement” for details.
- (2) Exclusive call option to acquire all or part of the Registered Shareholders’ equity interest and/or assets in Suzhou FriendTimes. Please refer to the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Exclusive Option Agreement” for details.
- (3) Entrustment of shareholders’ rights of the Registered Shareholders. Please refer to the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Voting Rights Proxy Agreement and Powers of Attorney” for details.
- (4) Pledge of equity interest by the Registered Shareholders of their equity interest in Suzhou FriendTimes. Please refer to the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Equity Pledge Agreement” for details.

For details, please refer to the section headed “Contractual Arrangements”.

2015 Draft FIL and 2019 FIL

On 19 January 2015, the MOFCOM released the 2015 Draft FIL and the Explanatory Notes for public consultation. On 15 March 2019, the National People’s Congress promulgated the 2019 FIL which will be effective on 1 January 2020. According to our PRC Legal Advisers, there remains uncertainties regarding the interpretation and implementation of the 2019 FIL and its impact on the legality and validity of our Contractual Arrangements. For further details of the 2015 Draft FIL and 2019 FIL, please refer to the sections headed “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” and “Risk Factors — Risks Relating to Our Company Structure — Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 FIL, the status of the 2015 Draft FIL and how they may impact the viability of our current corporate structure, corporate governance and business operations”.

Tax Rates

Under the Contractual Arrangements, Suzhou FriendTimes is required to pay to Suzhou Eagle service fees that equal to the profit of Suzhou FriendTimes after deducting certain items. Such service fee payments to Suzhou Eagle reduce Suzhou FriendTimes’s taxable income and correspondingly increase the taxable income of Suzhou Eagle, which, due to the higher income tax rates applicable to Suzhou Eagle than that of Suzhou FriendTimes, may affect our results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

We have benefited from a series of preferential tax treatment, which have contributed significantly to our results of operations during the Track Record Period. However, Suzhou Eagle is currently subject to the regular income tax of 25% and has yet to apply for and does not currently enjoy preferential tax treatment. Due to the higher income tax rate applicable to Suzhou Eagle than Suzhou FriendTimes after the Contractual Arrangements were in place since 20 February 2019, if Suzhou FriendTimes transfers its before-tax profits to Suzhou Eagle, such transfer may result in increased income tax expenses for our Group on a consolidated basis, which may materially and adversely affect our results of operations, particularly, our net profit and net profit margin. For illustrative purpose, if we had been operating under the Contractual Arrangements during the Track Record Period and that Suzhou Eagle was not able to enjoy any preferential tax treatment, and, for the sake of prudence, assuming the consultancy and technical service fee paid by Suzhou FriendTimes to Suzhou Eagle under the Contractual Arrangements is not accepted by the tax authority as tax deductible on the part of Suzhou FriendTimes, we would have incurred additional income tax expenses of approximately RMB20.2 million, RMB29.5 million, RMB84.2 million and RMB21.7 million for each of the year ended 31 December 2016, 2017, 2018 and

SUMMARY

the three months ended 31 March 2019, respectively, resulting in a decrease of net profit by such amount during the corresponding period. Please refer to the section headed “Risk Factors — Risks Relating to Our Company Structure — The Contractual Arrangements between Suzhou Eagle and Suzhou FriendTimes may subject our Group to increased income tax due to the different income tax rates applicable to Suzhou Eagle and Suzhou FriendTimes, which may adversely affect our results of operations” for details of the risks associated with it.

OUR SHAREHOLDERS

Controlling Shareholders

As at the Latest Practicable Date, Mr. Jiang, through his control over a trust and a number of offshore holding companies, will be entitled to control the exercise of voting rights of approximately 82.87% of the issued share capital of our Company. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, Mr. Jiang, his trust entity Gorgeous Sunshine, and his offshore holding companies, Eternal Heart, Ling Long, Lucky Fish, Future Wisdom, Warm Sunshine, Agile Eagle, Purple Dream and Purple Crystal, will be directly and indirectly interested in approximately 70.44% of the issued share capital of our Company. Accordingly, Mr. Jiang, Gorgeous Sunshine, Eternal Heart, Ling Long, Lucky Fish, Future Wisdom, Warm Sunshine, Agile Eagle, Purple Dream and Purple Crystal, are our Controlling Shareholders.

For the background of Mr. Jiang, please refer to the section headed “Directors and Senior Management”.

Pre-IPO Investments

In January 2016, Suzhou FriendTimes introduced a number of pre-IPO investors including SEC Electric, Nanjing Liheng, Mr. Wang Jianyu, Shanghai Luopu, Mr. Lin Zhirong and Mr. Zhang Min. Each of them entered into a share subscription agreement with Suzhou FriendTimes and invested a total of RMB100.0 million in Suzhou FriendTimes, representing in aggregate 12.50% of our issued share capital as at the Latest Practicable Date. On 21 June 2016, one of the pre-IPO investors, Shanghai Luopu transferred its shares in Suzhou FriendTimes to its general partner Shanghai Keluopu, which further transferred such shares to Suzhou Luoyuan on 29 May 2018. Shanghai Keluopu is also the general partner of Suzhou Luoyuan.

For details, please refer to the section headed “History, Reorganisation and Corporate Structure — Pre-IPO Investments”.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set out the consolidated financial information of our Group during the Track Record Period as extracted from, and should be read in conjunction with, the Accountants’ Report in Appendix I of this prospectus.

Summary of Consolidated Statements of Comprehensive Income

The following table sets forth selected items of our consolidated statements of comprehensive income during the Track Record Period:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	(in thousands of RMB)				
Revenue	568,802	700,247	1,464,290	274,685	393,538
Gross profit	358,262	432,274	918,290	172,160	252,240
Profit before taxation	89,490	143,229	361,284	28,115	96,811
Profit for the year/period	80,688	117,903	336,703	24,607	86,647

Our revenue during the Track Record Period were in increasing trend due to the successful launch of several popular female-oriented games, in particular the successful launch of *Royal Chaos* (熹妃Q傳) in September 2017 and *Rise of Queendom* (宮廷計手遊) in March 2018, which led to the significant increase in revenue in 2018 and the three months ended 31 March 2019. Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Revenue” for detailed analysis of our revenue.

Our gross profit during the Track Record Period were in an increasing trend and our gross profit margin remained stable at 63.0%, 61.7%, 62.7% and 64.1% in 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively, as a result of the parallel increase in our revenue and cost of sales. Please refer to the section headed “Financial Information — Period to Period Comparison of Results of Operations” for further details.

SUMMARY

Net Current Assets and Net Assets

The following table sets forth our current assets, current liabilities, net current assets and net assets as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>(in thousands of RMB)</i>			
Current assets	316,631	433,038	623,151	595,742
Current liabilities	78,242	112,370	148,541	154,735
Net current assets	238,389	320,668	474,610	441,007
Net assets	258,805	355,759	573,482	557,861

Our net assets decreased by RMB15.6 million, from RMB573.5 million as at 31 December 2018 to RMB557.9 million as at 31 March 2019. Such decrease was mainly due to a decrease in our cash and cash equivalents by RMB157.9 million primarily resulting from the payment of dividends amounted to RMB86.1 million during the three months ended 31 March 2019. The effect was partially offset by (i) an increase in our trade and other receivables by RMB92.8 million; and (ii) an increase in our financial assets measured at fair value through profit or loss by RMB41.4 million.

Summary of Consolidated Cash Flow Statements

The following table sets forth selected cash flow data for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>(in thousands of RMB)</i>				
	<i>(unaudited)</i>				
Operating profit before changes in working capital	128,130	151,741	365,976	38,119	98,807
Net cash generated from/(used in) operating activities	103,165	119,703	344,046	(2,830)	19,573
Net cash generated from/(used in) investing activities	8,335	(15,880)	(54,978)	(6,604)	(89,193)
Net cash generated from/(used in) financing activities	96,438	(22,156)	(123,577)	(771)	(86,998)

The net cash used in investing activities for the three months ended 31 March 2019 primarily included (i) our payment for purchase of property, plant and equipment, intangible assets and other non-current assets of RMB20.3 million mainly as a result of the construction of our new office building and purchase of servers, computers, testing equipment and softwares; (ii) payment for investment in wealth management products and structured deposits of RMB50.0 million issued by licensed banks in the PRC; and (iii) investment in TV-series-based financial instrument of RMB20.0 million. The net cash used in investing activities in 2018 primarily included our payment for purchase of property, plant and equipment, intangible assets and other non-current assets of RMB61.3 million mainly as a result of the construction of our new office building. The net cash used in investing activities in 2017 primarily included (i) the purchase of servers, computers, testing equipment and softwares, (ii) our payment for purchase of land use rights for our new office building in Suzhou, and (iii) our payment for investment in 30.16% of the equity interest of Jingxiang Times.

The net cash used in financing activities for the three months ended 31 March 2019, in 2018 and 2017 primarily included our dividend payment in the amount of RMB86.1 million for the three months ended 31 March 2019, RMB118.8 million in 2018 and RMB20.7 million in 2017. The net cash generated in financing activities in 2016 was primarily due to the pre-IPO investment in the amount of RMB100.0 million.

Please refer to the section headed “Financial Information — Liquidity and Capital Resources — Cash Flow Analysis” for detailed analysis of our cash flow.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as at the dates and for the periods indicated:

	As at 31 December/ for the year ended 31 December			As at 31 March/ for the three months ended 31 March
	2016	2017	2018	2019
Current ratio ⁽¹⁾	4.0	3.9	4.2	3.9
Return on equity ⁽²⁾	31.4%	33.2%	58.7%	63.0%
Return on total assets ⁽³⁾	23.3%	24.8%	45.7%	48.5%
Gross profit margin ⁽⁴⁾	63.0%	61.7%	62.7%	64.1%
Net profit margin ⁽⁵⁾	14.2%	16.8%	23.0%	22.0%

SUMMARY

Notes:

- (1) Total current assets divided by total current liabilities as at each relevant period end.
- (2) For each of the three years ended 31 December 2018, return of equity is calculated by dividing profit for the year attributable to the equity shareholders of our Company by total equity attributable to the equity shareholders of the Company as at each relevant year end and multiplying by 100%. For the three months ended 31 March 2019, return of equity is calculated by dividing profit for the period attributable to the equity shareholders of our Company by total equity attributable to the equity shareholders of our Company as at the period end and multiplying 100% and 365/90.
- (3) For each of the three years ended 31 December 2018, return of total assets is calculated by dividing profit for the year attributable to the equity shareholders of our Company by total assets as at each relevant year end and multiplying by 100%. For the three months ended 31 March 2019, return of total assets is calculated by dividing profit for the period by total assets as at the period end and multiplying 100% and 365/90.
- (4) Gross profit for the year/period divided by revenue for the year/period and multiplied by 100%.
- (5) Profit for the year/period divided by revenue for the year/period and multiplied by 100%.

Our return on equity increased from 33.2% for the year ended 31 December 2017 to 58.7% as at 31 December 2018 primarily due to our profit for the year increased at a higher rate than our total equity. Our return on equity further increased to 63.0% for the three months ended 31 March 2019 primarily due to an increase in our profit for the period as well as a decrease in our equity as a result of the declaration of dividend of RMB102.3 million during the same period. Our return on total assets increased from 24.8% as at 31 December 2017 to 45.7% as at 31 December 2018 primarily due to our profit for the year increased at a higher rate than our total asset. Our return on total assets increased from 45.7% for the year ended 31 December 2018 to 48.5% for the three months ended 31 March 2019, which was generally in line with the increase in our return of equity for the same period.

Our net profit margin increased significantly from 16.8% in 2017 to 23.0% in 2018 primarily as a result of (i) the good performance of our games, in particular, *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊), that had led to a significant increase in revenue in 2018, resulting in a lower ratio of research and development expense and general and administrative expense as a percentage to our total revenue and (ii) the decrease in our income tax expenses in 2018 as discussed in the section headed “Financial Information — Period to Period Comparison of Results of Operations — Period Ended 31 December 2018 Compared to Period Ended 31 December 2017 — Income Tax Expenses”.

Please refer to the section headed “Financial Information — Key Financial Ratios” for detailed analysis of our key financial ratios.

DIVIDENDS

We currently do not have any pre-determined dividend pay-out ratio. During the Track Record Period, we declared dividends in an aggregate amount of nil, RMB20.7 million, RMB118.8 million and RMB102.3 million, respectively, for the year ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019 to our then shareholders. You should note that historical dividend distributions are not indicative of our future dividend distribution policy. The payment and the amount of any future dividends will be at the discretion of our Board and will also depend on various factors that our Board deems relevant such as our results of operation, cash flow, capital requirements, general financial conditions, contractual restrictions, future prospects and other relevant factors, and will be subject to our Articles and the Cayman Companies Law, as well as the approval of our Shareholders.

OFFER STATISTICS

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

	Based on an Offer Price of HK\$1.37 per Offer Share, after a Downward Offer Price Adjustment of 10%	Based on minimum indicative Offer Price of HK\$1.52	Based on maximum indicative Offer Price of HK\$1.96
Market capitalisation of our Shares ⁽¹⁾	HK\$3,014 million	HK\$3,344 million	HK\$4,312 million
Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company ⁽²⁾⁽³⁾	HK\$0.47	HK\$0.49	HK\$0.56

Notes:

- (1) The calculation of market capitalisation is based on the 2,200,000,000 Shares expected to be in issue immediately upon completion of the Capitalisation Issue and the Global Offering and on the assumption that the Over-allotment Option is not exercised.

SUMMARY

- (2) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 March 2019. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to our Company and on the basis that a total of 2,200,000,000 Shares were in issue (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalisation Issue) assuming that the Global Offering and the Capitalisation Issue had been completed on 31 March 2019 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option.
- (3) See “Appendix II — Unaudited Pro Forma Financial Information — A. Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets” to this prospectus regarding the assumptions made and the calculation method.

LISTING EXPENSES

The total estimated listing expenses (including underwriting commissions but excluding any discretionary incentive fee which may be payable by us) in relation to the Global Offering (based on the midpoint of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised) are approximately RMB48.9 million. During the Track Record Period, we incurred actual listing expenses of RMB17.0 million, of which RMB7.2 million and RMB9.8 million were charged to our consolidated statement of profit or loss for the year ended 31 December 2018 and for the three months ended 31 March 2019, respectively. We expect to incur further listing expenses of approximately RMB31.9 million, of which RMB12.4 million will be charged to our consolidated statement of profit or loss for the period beginning 1 April 2019 and ending 31 December 2019 and RMB19.5 million is expected to be charged against equity upon successful Listing under the relevant accounting guidelines for the period beginning 1 April 2019 and ending 31 December 2019.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$519.9 million, after deduction of underwriting commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the purposes and in the amounts set out below:

- approximately 30.0% of our estimated net proceeds, or HK\$155.9 million (equivalent to approximately RMB140.4 million), will be used to further expand and enhance our game portfolio and the research and development of our core proprietary technologies;
- approximately 35.0% of our estimated net proceeds, or HK\$182.0 million (equivalent to approximately RMB163.8 million), will be used to fund our advertising, marketing and promotion campaigns to strengthen our competitive position in the PRC as well as various important overseas markets;
- approximately 15.0% of our estimated net proceeds, or HK\$78.0 million (equivalent to approximately RMB70.2 million), will be used to strengthen our IP portfolio and enrich related contents offerings by creating our own original IPs and/or buying-out or investing in high quality IPs to enhance our market position and market influence of our IPs and games, extend the lifecycle of our IPs and our IP-related games and maximise the commercial value and potentials of our IPs;
- approximately 10.0% of our estimated net proceeds, or HK\$52.0 million (equivalent to approximately RMB46.8 million), will be used to fund our strategic acquisition of both upstream and downstream game-related businesses to strengthen our IP creation capability and expand our IP portfolio, expand our game offerings and enhance our research and development efficiency; and
- approximately 10.0% of our estimated net proceeds, or HK\$52.0 million (equivalent to approximately RMB46.8 million), will be used for working capital and general corporate purposes.

Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for more information.

LEGAL PROCEEDINGS AND COMPLIANCE

Our Directors confirm that, as at the Latest Practicable Date, there had been no litigation or arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group’s financial condition or results of operations.

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RECENT DEVELOPMENT

Based on our unaudited management accounts for the seven months ended 31 July 2018 and 2019, our revenue for the seven months ended 31 July 2019 increased moderately when compared with the corresponding period in 2018. Our gross profit margin for the seven months ended 31 July 2019 remained stable when compared with the corresponding period in 2018. Our revenue for the four months ended 31 July 2019 increased moderately compared with the corresponding period in 2018, primarily due to (i) the increase in revenue generated from our signature game, the simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手遊), which was launched in March 2018; (ii) the launch of the Korean version of *Rise of Queendom* (宮廷計手遊) in January 2019; (iii) the launch of the Japanese version of our signature game, *Royal Chaos* (熹妃Q傳), in March 2019, which has been recommended by Google Play; and (iv) the launch of the Korean version of *Royal Chaos* (熹妃Q傳) in July 2018. Our gross profit margin for the four months ended 31 July 2019 remained stable compared with the corresponding period in 2018.

Our average DAUs and MAUs for the seven months ended 31 July 2019 were approximately 635,500 and 3.2 million, respectively, which had slightly increased from our average DAUs of 615,300 and average MAUs of 3.0 million for the three months ended 31 March 2019. Such moderate increase was in line with our advertising, marketing and promotion campaigns along with our launch of new games. The gross billing for the seven months ended 31 July 2019 increased moderately when compared with the corresponding period in 2018. The gross billing for the four months ended 31 July 2019 increased moderately when compared with the corresponding period in 2018 primarily due to the same reasons for the increase in revenue for the same period as stated above.

Subsequent to our Track Record Period and up to the Latest Practicable Date, we officially launched (i) *Dynasty of Kingdoms* (帝王雄心), *Pantheon's War* (諸神幻想), *Project: Heartbeat* (心跳計劃) and *Yokai Kitchen* (精靈食肆) in the PRC, and (ii) *Fate of the Empress* (浮生為卿歌), *Story: Cyborg Fantasy* (化芯物語) and *Yokai Kitchen* (精靈食肆) in the oversea markets. In particular, *Fate of the Empress* (浮生為卿歌) and *Yokai Kitchen* (精靈食肆) are expected to become our new signature games.

Fate of the Empress (浮生為卿歌) is an ancient Chinese style female-oriented game, which was developed from a novel composed by our in-house novel composing team. This is our largest scale game in terms of research and development expenses incurred prior to its initial launch in Malaysia, Hong Kong, Macau and Taiwan and we had devoted over 15 months in its research and development prior to launching its simplified Chinese (Overseas) version in May 2019. As at the Latest Practicable Date, we had over 100 employees involved in the research and development and optimising of this game. *Fate of the Empress* (浮生為卿歌) is also a story-based RPG game which has an extensive and complicated game play structure with an aim to deeply engage our players. It has incorporated 3D features and physically based rendering technology for more exquisite and splendid effects, and has incorporated real-time weather rendering system (即時天氣系統) to make the world in the game more realistic. Within the short time frame it was launched in Hong Kong, Macau and Taiwan, the traditional Chinese language version was promoted and recommended by Apple's App Store and Google Play on their platforms under the "new recommended games" category and achieved a highest ranking of no. 2 on 1 July 2019 in the free game board for iPhone or Apple's App Store in Taiwan. We have obtained the publication number for this game on 26 July 2019 and we expect to launch the simplified Chinese (PRC) version of the game in the second half of 2019.

Another game which is expected to be our new signature game is *Yokai Kitchen* (精靈食肆). It is a game developed from a game idea selected from our staff participating in our in-house competition in 2017. *Yokai Kitchen* (精靈食肆) is a female-oriented mobile game which features a fantasy theme incorporating creative elements such as supernatural creatures, cooking and restaurant management simulation. This is our second largest scale game in terms of research and development expenses incurred prior to its initial launch of the English/simplified Chinese (Overseas) version in June 2019 in Malaysia and Singapore which we had devoted over 13 months in its research and development. We also launched the Korean and traditional Chinese versions of the game in July 2019. Upon obtaining the publication number for *Yokai Kitchen* (精靈食肆) on 26 July 2019, we have also launched the simplified Chinese (PRC) version of the game in August 2019 without filing such game with MOCT, given (i) the MOCT no longer assumes the responsibility for the administration of online games industry according to the Notice on Adjusting the Scope of Examination and Approval regarding the Internet Cultural Operation Licence to Further Regulate the Approval Work (《關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》) and the Online Game Measures which stipulates the requirement of online filing with the MOCT was abolished by the MOCT on 10 July 2019 and (ii) as of the Latest Practicable Date, no PRC laws and regulations have been officially promulgated regarding whether the responsibility of the MOCT for supervising online games will be undertaken by another governmental department. As advised by our PRC Legal Advisers, subject to point (ii) above, as long as there is no

SUMMARY

governmental authority requiring similar online filing requirement or new supervision requirements for the distribution and operation of online games, filing the game with MOCT is not required before the launch of the simplified Chinese (PRC) version of this game and it will not constitute any non-compliance. Thus, our Directors believe that, as at the Latest Practicable Date, online filing requirement with the MOCT for the distribution and operation of online games will not have any material adverse impact on our operation. The game has incorporated 3D features and augmented reality technology (a technology that adding a digital image on the players' view of the real world) to enhance the reality of in-game experience. The traditional Chinese version was promoted and recommended by Apple's App Store on its platform and the Korean version was promoted and recommended by Google Play on its platform. Our Directors believe that, according to their extensive experience in the operation of female-oriented mobile games, these two games will become our new signature games and its performance will be comparable to or even surpass that of our existing signature games.

As at the Latest Practicable Date, we have received the publication numbers for *Fate of the Empress* (浮生為卿歌) and *Yokai Kitchen* (精靈食肆) and we have received preliminary approvals from the NAPP at the provincial level for the simplified Chinese (PRC) version of one of our existing mobile games, *Story: Cyborg Fantasy* (化芯物語), and the simplified Chinese (PRC) version of three of our newly developed mobile games, namely, *Fate: The Loved Journey* (此生無白), *Majesty & Conquest* (王冠與征服) and *Wizardlord* (魔法交鋒). Subject to us obtaining the publication numbers from the NAPP at the national level for these games, we will also be ready to launch them in the PRC. We believe the launch of these games would expand and enrich our game portfolio and could widen our player base.

We expect that, at the early growth stage of these new games, a vast number of new players will be attracted to try to play our new games and they may be attracted to spend a small amount of money to purchase virtual items on the games at the beginning, which may lead to a wider player base and a lower overall average ARPPU.

As at the Latest Practicable Date, our existing game portfolio included 12 games with a total of 33 different language versions that were in operations.

RECENT CHANGE IN REGULATORY AND MARKET ENVIRONMENT

As at the Latest Practicable Date, according to PRC laws and regulations on online games, the official launch of mobile games in the PRC is subject to game registration and issuance of game publication numbers by the NAPP. According to Frost & Sullivan, the NAPP at the national level suspended approval of game registration and issuance of publication numbers for online games from March 2018 and resumed to issue game publication numbers by batches periodically since December 2018.

Upon the resumption of the issuance of game publication numbers by the NAPP in December 2018, game publication numbers have been issued periodically. According to the website of the SAPPRFT, since December 2018 till the Latest Practicable Date, the NAPP has issued over 1,000 game publication numbers. On 19 April 2019, the updated Service Guidance for the Approval of Publishing Domestic Online Games was published on the official website of the SAPPRFT.

However, as the regulatory authorities have received a large amount of game publication number applications which are to be reviewed, it may take some time for all of the existing game publication number applications to obtain the game publication numbers.

Please refer to the section headed "Business — Recent Change in Regulatory Environment" for more information.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there had been no material adverse change in our financial or trading position or prospects since 31 March 2019, being the date of our latest audited financial statements, and up to the date of this prospectus.

DEFINITIONS

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

“2015 Draft FIL”	Draft Foreign Investment Law (《中華人民共和國外國投資法 (草案徵求意見稿)》) published by MOFCOM in January 2015
“2017 Catalogue”	Guidance Catalogue of Industries for Foreign Investment (2017 Revision)* (外商投資產業指導目錄(2017年修訂))
“2018 Draft FIL”	Draft Foreign Investment Law (《中華人民共和國外商投資法 (草案徵求意見稿)》) published by the Standing Committee of the National People’s Congress in December 2018
“2018 Negative List”	Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018)* (外商投資准入特別管理措施(負面清單) (2018年版))
“2019 Catalogue”	The Catalogue of Industries in which Foreign Investment is Encouraged (2019 Revision) (鼓勵外商投資產業目錄(2019年版))
“2019 Negative List”	Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (外商投資准入特別管理措施(負面清單)(2019年版))
“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 15 March 2019 and will become effective on 1 January 2020
“Accountants’ Report”	the report of the Reporting Accountants dated 24 September 2019, the text of which is set out in Appendix I of this prospectus
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Agile Eagle”	Agile Eagle Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and wholly-owned by Mr. Jiang, and one of our Controlling Shareholders
“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)

DEFINITIONS

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of our Company (as amended from time to time), conditionally adopted on 11 September 2019 with effect from the Listing Date, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 1,818,340,000 Shares to be made upon the capitalisation of part of the sum standing to the credit of the share premium account of our Company referred to in the section headed “Statutory and General Information — A. Further information about our Group — 4. Written resolutions of the shareholders passed on 11 September 2019” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“Cayman Registrar”	the Registrar of Companies of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Cheeryoo”	Suzhou Cheeryoo Network Technology Co., Ltd. (蘇州沁遊網絡科技有限公司), a company established under the laws of the PRC with limited liability on 11 January 2018 and wholly-owned by Suzhou FriendTimes, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Circular 13”	Circular of 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 on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Return Investment Conducted by Domestic Residents through Overseas Special Purpose Vehicle* (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “the Company”	FriendTimes Inc., an exempted company incorporated under the laws of the Cayman Islands with limited liability on 16 November 2018
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Agreements”	the series of contractual agreements entered into among Suzhou Eagle, Suzhou FriendTimes and the Registered Shareholders, details of which are described in the section headed “Contractual Arrangements” in this prospectus

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of this prospectus, refers to the controlling shareholders of our Company, being Mr. Jiang, Gorgeous Sunshine, Eternal Heart, Ling Long, Lucky Fish, Future Wisdom, Warm Sunshine, Agile Eagle, Purple Dream and Purple Crystal
“Co-lead Managers”	collectively, Ever-Long Securities Company Limited, HTF Securities Limited, Joincap Securities Limited, Tanrich Asia-Pac Securities Limited and Futu Securities International (Hong Kong) Limited
“Crop Pioneer”	Crop Pioneer Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and owned by Yang Fan (楊帆), Chen Wentao (陳文燾), Wang Yi (王一) and Yan Ping (嚴萍), all of whom are partners of Suzhou Luoyuan
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“David Epoch”	David Epoch Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and wholly-owned by Magic David
“Downward Offer Price Adjustment”	an adjustment that has the effect of setting the final Offer Price up to 10% below the bottom end of the indicative Offer Price range
“Director(s)”	director(s) of our Company
“EIT”	enterprise income tax
“EIT Law”	the Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法)
“Equity Pledge Agreement”	the equity pledge agreement entered into among Suzhou Eagle, Suzhou FriendTimes and the Registered Shareholders dated 20 February 2019
“Eternal Heart”	Eternal Heart Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and wholly-owned by Gorgeous Sunshine, and one of our Controlling Shareholders
“EU”	European Union

DEFINITIONS

“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement entered into between Suzhou Eagle and Suzhou FriendTimes dated 20 February 2019
“Exclusive Option Agreement”	the exclusive option agreement entered into among Suzhou Eagle, Suzhou FriendTimes and the Registered Shareholders dated 20 February 2019
“Framework Loan Agreement”	the framework loan agreement entered into between Suzhou Eagle and Suzhou FriendTimes dated 6 March 2019
“Friend Century”	Friend Century Limited, a company incorporated under the laws of Hong Kong with limited liability on 7 December 2018 which is wholly-owned by Friend World and is our subsidiary
“Friend Times Korea”	Friend Times Korea Co., Ltd., a company established under the laws of South Korea with limited liability on 22 December 2015 which is wholly-owned by Friend World and is our subsidiary
“Friend World”	Friend World Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 26 November 2018 and is wholly-owned by our Company
“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 female-oriented mobile game market in the PRC, as referred to in the section headed “Industry Overview” in this prospectus
“Future Wisdom”	Future Wisdom Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and wholly-owned by Mr. Jiang, and one of our Controlling Shareholders
“GameFriend”	Suzhou GameFriend Network Technology Co., Ltd. (蘇州好玩友網絡科技有限公司), a company established under the laws of the PRC with limited liability on 9 April 2014 and wholly-owned by Suzhou FriendTimes, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“GAPP”	The General Administration of Press and Publication (新聞出版總署)

DEFINITIONS

“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 28 September 2009
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Gorgeous Sunshine”	Gorgeous Sunshine Holding Limited, a company incorporated under the laws of the BVI with limited liability on 9 January 2019, the holding vehicle of a discretionary trust established by Mr. Jiang as the settlor and wholly-owned by TMF (Cayman) Ltd. as the trustee, and one of our Controlling Shareholders
“Green Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company, our subsidiaries and our 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 and Operating Entities, as if such subsidiaries and Operating Entities were subsidiaries of our Company at the relevant time
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form Service Provider designated by our Company, as specified on the designated website of www.hkeipo.hk
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“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
“Hong Kong Offer Shares”	the 33,000,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 23 September 2019, relating to the Hong Kong Public Offering, entered into by, among others, the Sole Representative, the Hong Kong Underwriters and our Company, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this prospectus
“ICP Licence”	the value-added telecommunications business operating licence* (增值電信業務經營許可證) for internet information service
“Implementation Programme on Prevention of Juveniles Myopia”	Implementation Programme on Comprehensive Prevention and Control of Juveniles Myopia* (綜合防控兒童青少年近視實施方案)
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of us, our subsidiaries, our Operating Entities or any of their respective associates
“Interim and Ex Post Supervision Notice”	Notice of the MOC on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Supervision* (文化部關於規範網絡遊戲運營加強事中事後監管工作的通知)

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“International Offer Shares”	the 297,000,000 Shares being initially offered by us for subscription or purchase under the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option, subject to reallocation
“International Offering”	the conditional placing of the International Offer Shares to institutional, professional and other investors as set out in the section headed “Structure of the Global Offering” in this prospectus
“International Sanctions”	Sanctions-related laws and regulations issued by the United States, the European Union, the United Nations or Australia
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, our Company, the Sole Representative and the International Underwriters on the Price Determination Date as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering”
“Internet Cultural Operation Licence”	the internet cultural operation licence (網絡文化經營許可證) for operating internet cultural business
“Internet Publishing Service Licence”	the internet publishing service licence (網絡出版服務許可證) for publishing on the internet
“Jiang Family Trust”	a discretionary trust established by Mr. Jiang (as the settlor and protector) and TMF (Cayman) Ltd. (as the trustee) for the benefit of Mr. Jiang
“Jingxiang Times”	Suzhou Jingxiang Times Network Technology Co., Ltd. (蘇州競享時代網絡科技有限公司), a company established under the laws of the PRC with limited liability on 29 March 2017 which is held as to 30.16% by Suzhou FriendTimes, not accounted for as our subsidiary
“Joint Bookrunners”	collectively, Guotai Junan Securities (Hong Kong) Limited, CMB International Capital Limited, ABCI Capital Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited
“Joint Global Coordinators”	Guotai Junan Securities (Hong Kong) Limited and CMB International Capital Limited

DEFINITIONS

“Joint Lead Managers”	collectively, Guotai Junan Securities (Hong Kong) Limited, CMB International Capital Limited, ABCI Securities Company Limited, Haitong International Securities Company Limited and Huatai Financial Holdings (Hong Kong) Limited
“Joy Box”	Joy Box Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and wholly-owned by Joy Cloud
“Joy Cloud”	Joy Cloud Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and wholly-owned by Song Huan (宋歡) who is one of the Registered Shareholders
“JTW Investment”	JTW Investment Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and owned by Wu Yadong (吳亞東), Xu Jianfeng (徐劍峰), Wang Hui (王暉), Ji Long (紀龍) and Xu Zhenbiao (徐振彪), all of whom are partners of Nanjing Liheng
“KRW”	South Korean Won, the lawful currency of South Korea
“Latest Practicable Date”	16 September 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“LIN ZHIRONG Holdings”	LIN ZHIRONG Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and wholly-owned by Lin Zhirong (林直榮) who is one of the Registered Shareholders
“Ling Long”	Ling Long Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and wholly-owned by Gorgeous Sunshine, and one of our Controlling Shareholders
“Listing”	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about 8 October 2019 on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Lucky Fish”	Lucky Fish Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and wholly-owned by Gorgeous Sunshine, and one of our Controlling Shareholders
“M&A Rules”	the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定)
“Magic David”	Magic David Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and wholly-owned by Song Dawei (宋大偉) who is one of the Registered Shareholders
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on 11 September 2019 with effect from the Listing Date, as amended from time to time
“MIIT” or “MII”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), and its predecessor was known as the Ministry of Information Industry of the PRC (中華人民共和國信息產業部)
“MOC” or “MOCT”	Ministry of Culture of the PRC (中華人民共和國文化部) (since March 2018 known as the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部))
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外經濟貿易部)
“MPS”	Ministry of Public Security of the PRC (中華人民共和國公安部)
“Mr. Jiang”	Mr. Jiang Xiaohuang (蔣孝黃), our founder, chairman, executive Director, chief executive officer, one of our Controlling Shareholders and one of the Registered Shareholders

DEFINITIONS

“Nanjing Liheng”	Nanjing Liheng Venture Capital Investment Enterprise (LLP) (南京利恒創業投資企業 (有限合夥), and one of the Registered Shareholders
“NAPP”	The National Administration of Press and Publication (National Copyright Bureau) under the Propaganda Department of the Central Committee of the CPC (中國共產黨中央委員會宣傳部(國家新聞出版署)), the authority in charge of online game registration and publication number issuance since March 2018
“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)
“NRTA”	National Radio and Television Administration of the PRC (國家廣播電視總局)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) and subject to any Downward Offer Price Adjustment
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
“Online Game Measures”	the Interim Measures for the Administration of Online Games* (網絡遊戲管理暫行辦法)
“Operating Entity(ies)”	Suzhou FriendTimes, GameFriend, Purple Blaze, Cheeryoo and Purple Wing, the financial results of which have been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements
“Over-allotment Option”	the option expected to be granted by us to the International Underwriters, exercisable by the Sole Representative (on behalf of the International Underwriters), pursuant to which we may be required to allot and issue up to an aggregate of 49,500,000 Shares at the Offer Price to cover over-allocations in the International Offering, if any
“PBOC”	People’s Bank of China (中國人民銀行)

DEFINITIONS

“Price Determination Date”	the date, expected to be on or about 27 September 2019, on which the Offer Price will be determined and, in any event, not later than 30 September 2019
“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”	Tian Yuan Law Firm, our legal advisers as to PRC laws
“Purple Blaze”	Suzhou Purple Blaze Network Technology Co., Ltd. (蘇州紫焰網絡科技有限公司), a company established under the laws of the PRC with limited liability on 23 March 2017 and wholly-owned by Suzhou FriendTimes, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Purple Crystal”	Purple Crystal Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 8 November 2018 and wholly-owned by Purple Dream, and one of our Controlling Shareholders
“Purple Dream”	Purple Dream Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and owned by Agile Eagle, Magic David, Joy Cloud, Xu Lin (徐林), Wu Jie (吳杰), Sun Bo (孫波), Zhang Jiming (張繼明), Zhang Yi (張義), Li Weijie (李偉杰), Wu Jian (吳健) and Zou Lisheng (鄒黎盛), and one of our Controlling Shareholders
“Purple Wing”	Shanghai Purple Wing Network Technology Co., Ltd. (上海紫翊網絡科技有限公司), a company established under the laws of the PRC with limited liability on 5 February 2018 and wholly-owned by Suzhou FriendTimes, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Registered Individual Shareholders”	Mr. Jiang, Song Dawei (宋大偉), Song Huan (宋歡), Wang Jianyu (王建裕), Lin Zhirong (林直榮) and Zhang Min (張敏), as individual shareholders of Suzhou FriendTimes
“Registered Shareholders”	Mr. Jiang, Suzhou Zixin, SEC Electric, Nanjing Liheng, Song Dawei (宋大偉), Song Huan (宋歡), Wang Jianyu (王建裕), Suzhou Luoyuan, Lin Zhirong (林直榮) and Zhang Min (張敏), as the registered shareholders of Suzhou FriendTimes
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Reorganisation”	the reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History, Reorganisation and Corporate Structure” in this prospectus
“Reporting Accountants”	KPMG
“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 for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) (since March 2018 known as the State Administration for Market Regulation (國家市場監督管理總局))
“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control of the U.S. Department of the Treasury or other restricted parties lists maintained by the United States, the European Union, the United Nations or Australia
“SAPPRFT”	State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局), formerly known as the GAPP, the SARFT and since March 2018 was reformed and now known as the NRTA, while the responsibility of the SAPPRFT for the approval of online game registrations and issuance of game publication numbers has been transferred to the NAPP
“SARFT”	State Administration of Radio, Film and Television of the PRC (中華人民共和國國家廣播電影電視總局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SEC Electric”	SEC Electric Machinery Co., Ltd. (中電電機股份有限公司), a company listed on the main board of the Shanghai Stock Exchange (stock code: 603988.SH), and one of the Registered Shareholders
“SEC Electric SPV”	SEC Electric Machinery Limited (艾斯伊西(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on 10 January 2019 and wholly-owned by SEC Electric
“SFC”	Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shanghai Keluopu”	Shanghai Keluopu Asset Management Centre (LLP) (上海科洛普資產管理中心(有限合夥)), the general partner of Shanghai Luopu and Suzhou Luoyuan, a former shareholder of Suzhou FriendTimes
“Shanghai Luopu”	Shanghai Luopu Investment Centre (LLP) (上海珞璞投資中心(有限合夥)), a former shareholder of Suzhou FriendTimes
“Share(s)”	ordinary share(s) in the capital of our Company with nominal value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Shares
“Sole Representative”	Guotai Junan Securities (Hong Kong) Limited
“Sole Sponsor”	Guotai Junan Capital Limited, a licenced corporation registered under the SFO permitted to carry on Type 6 (advising on corporate finance) regulated activities
“South Korea”	Republic of Korea
“Stabilising Manager”	Guotai Junan Securities (Hong Kong) Limited
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilising Manager (or its affiliates acting on its behalf) and Warm Sunshine, pursuant to which Warm Sunshine will agree to lend up to 49,500,000 Shares to the Stabilising Manager on terms set forth therein
“subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Sunyoo”	Hangzhou Sunyoo Network Technology Co., Ltd (杭州順遊網絡科技有限公司), a company established under the laws of the PRC with limited liability on 3 June 2014 which was owned as to 70.0% by Suzhou FriendTimes and we disposed of such 70.0% interest on 25 December 2018
“Suzhou Bojoy”	Suzhou Bojoy Information Technology Co., Ltd. (蘇州寶將信息科技有限公司), the predecessor of Suzhou FriendTimes

DEFINITIONS

“Suzhou Eagle”	Suzhou Eagle Network Technology Co., Ltd. (蘇州億歌網絡科技有限公司), a WFOE established under the laws of the PRC with limited liability on 24 January 2019 which is wholly-owned by Friend Century and is our subsidiary
“Suzhou FriendTimes”	Suzhou FriendTimes Technology Inc. (蘇州玩友時代科技股份有限公司), a company established under the laws of the PRC with limited liability on 11 May 2010, and the holding company of other Operating Entities, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Suzhou Leji”	Suzhou Leji Digital Technology Co., Ltd. (蘇州樂基數字科技有限公司), a company established under the laws of the PRC with limited liability on 13 November 2013 which was owned as to 10.0% by Suzhou FriendTimes and we disposed of such 10.0% equity interests on 28 December 2018
“Suzhou Luoyuan”	Suzhou Luoyuan Investment Centre (LLP) (蘇州珞源投資中心(有限合夥)), and one of the Registered Shareholder
“Suzhou Zixin”	Suzhou Zixin Technology Investment Management Enterprise (LLP) (蘇州紫鑫科技投資管理企業(有限合夥)), a former employee share incentive platform of Suzhou FriendTimes prior to the incorporation of Purple Crystal to serve as the employee share incentive platform of our Company and held as to 82.6% by Mr. Jiang and 17.4% by certain employees of our Group, and one of the Registered Shareholders
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Track Record Period”	the period comprising three financial years of our Company ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S. dollars” or “US\$”	U.S. dollars, the lawful currency of the United States of America
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“VAT”	value added tax

DEFINITIONS

“VEM GmbH”	VEM GmbH Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and wholly-owned by Wang Jianyu (王建裕), one of the Registered Shareholders
“VIE” or “VIEs”	variable interest entity or variable interest entities
“Voting Rights Proxy Agreement and Powers of Attorney”	the voting rights proxy agreement and powers of attorney entered into among Suzhou FriendTimes, the Registered Shareholders and Suzhou Eagle dated 20 February 2019
“Warm Sunshine”	Warm Sunshine Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 1 November 2018 and wholly-owned by Future Wisdom, and one of our Controlling Shareholders
“WFOE”	wholly foreign owned entity
“Wish Interactive”	Wish Interactive Technology Limited (心願互動科技有限公司), a company incorporated under the laws of Hong Kong with limited liability on 19 May 2015, which is wholly-owned by Friend World and is our subsidiary
“Withdrawal Mechanism”	a mechanism which requires the Company, among other things, to (a) issue a supplemental prospectus as a result of material changes in the information in the prospectus; (b) extend the offer period and to allow potential investors, if they so desire, to confirm their applications using an opt-in approach i.e. requiring investors to positively confirm their applications for shares despite the change
“Wuhan Yunjing”	Wuhan Yunjing Network Technology Co., Ltd. (武漢雲競網絡科技有限公司), a company established under the laws of the PRC with limited liability on 7 June 2016 which was wholly-owned by Jingxiang Times and was voluntarily dissolved through de-registration on 1 January 2019
“Zhangmin Holdings”	Zhangmin Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 23 October 2018 and wholly-owned by Zhang Min (張敏) who is one of the Registered Shareholders
“%”	per cent

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

DEFINITIONS

Certain amounts and percentage figures included in this prospectus 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.

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

GLOSSARY OF TECHNICAL TERMS

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

“active users”	in any given period, (1) active users of a particular game refers to all registered users of such game that have entered the game at least once in such period; and (2) active users of a particular type or all of our games refers to the simple sum of the active users of each game of such type or all of our games, as applicable, in such period and a registered user that entered two or more games in such period is counted as two or more active users in such period
“Alipay”	a third-party mobile and online payment platform
“Android”	an operating system developed and maintained by Google Inc. which is used in touchscreen technology including smartphones and tablets
“App Store”	online application store
“ARPPU”	average revenue per paying player, which represents the game revenue for the period divided by the average of the monthly paying users in such period; see “paying player” below
“cost per action”	an online advertising pricing model where the advertising fee is determined based on qualifying actions, such as sales or registrations
“cost per click”	an online advertising pricing model where the advertising fee is determined based on the number of times the advertisement is clicked
“cost per day”	an online advertising pricing model where the advertising fee is determined based on the number of days the advertisement is delivered
“cost per thousand impression”	an online advertising pricing model where the advertising fee is determined based on the number of impressions achieved by the advertisement
“cost per time”	an online advertising pricing model where the advertising fee is determined based on the length of the advertisement delivered at an agreed and scheduled time slot

GLOSSARY OF TECHNICAL TERMS

“DAU”	daily active user; in any given period, refers to an existing gameplay role that has entered and played any of the online games offered and operated by our Group on any device 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
“download”	to transfer (data or programmes) from a server or host computer to one’s own computer or device
“electronic sport”	a form of game competition using video game capability
“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
“H5”	a markup language used for structuring and presenting content on the World Wide Web, which is the fifth and current major version of the HTML standard
“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
“MAU”	monthly active user; in any given period, refers to an existing gameplay role that has entered and played any of the online games offered and operated by our Group on any device 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
“MMORPGs”	massively multiple online role-play games, a combination of role-playing games and massively multiplayer online games in which a very large number of players interact with one another within a virtual world

GLOSSARY OF TECHNICAL TERMS

“mobile game”	a game that is downloaded and played on mobile devices
“Mobile Hardcore Alliance”	a mobile internet value-added service organisation composed of manufacturers of smartphone, which are OPPO, vivo, Coolpad, Gionee, Lenovo, Huawei and Meizu
“online games”	video games that are played over some form of computer or mobile network, including primarily client games, web games and mobile games
“paying player”	in any given period, refers to a player who pays money to purchase the in-game virtual items, including virtual tokens and other virtual items, offered by our Group in our online games at least once; a player who makes more than one purchase in such period is counted once only
“PC”	personal computer
“PBR”	physically based rendering
“registered player”	a player becomes a registered player when such player (i) enters any of our Group’s web-based games the first time, or (ii) has downloaded any of our Group’s mobile games onto any mobile device and enters such game on such mobile device the first time
“RPGs”	role-playing games, which refer to games in which players assume the roles of characters in an evolving fictional setting or world
“server”	a computer system that provides services to other computing systems over a computer network
“SLG”	simulation game that is generally designed to closely simulate real world activities
“TCG/CCG”	CCG (collective card game), also known as TCG (trading card game), is a type of game in which players acquire cards into a personal collection from which they create customized decks of cards and challenge other players in matches by crafting customized decks that play to synergies of card combinations
“virtual items”	items, avatars, skills, privileges or other in-game consumables, features or functionalities we offer to users to help them extend their play, enhance or personalise their game environments and accelerate their progress in our games

GLOSSARY OF TECHNICAL TERMS

“virtual reality” or “VR”

a technology which creates a virtual environment through utilising software and hardware of computers and brings users alternative audiovisual experience

“web games”

games that are played in a web browser on PC without downloading any client base or application

FORWARD-LOOKING STATEMENTS

This prospectus 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 prospectus, 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 materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this prospectus. 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 PRC;
- changes to the regulatory environment, policies, operating conditions and general outlook in the industries and markets in which we operate;
- the actions of and developments affecting our major customers and suppliers;
- 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; and
- certain statements included in the sections headed “Risk Factors”, “Industry Overview”, “Regulatory Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” in this prospectus 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 materialise 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 prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, 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 realised. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as at the date of this prospectus. 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 prospectus and, in particular, the risks and uncertainties described below before making any investment in the Offer Shares. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market price of the Offer Shares could decline significantly due to any of these risks and uncertainties, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business, (ii) risks relating to the industry, (iii) risks relating to our company structure, (iv) risks relating to conducting business in the PRC and (v) risks relating to the Global Offering. 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

A small number of games have contributed a substantial majority of our revenue. Failure to maintain the continuous success of these games could materially and adversely affect our business and results of operations.

During the Track Record Period, we derived a significant majority of our revenue from a small number of major games, namely, *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳), *Rise of Queenom* (宮廷計手遊) and *Fate: Royal Revenge* (京門風月). These four games in aggregate contributed 93.4%, 97.0%, 99.5% and 99.5% of our total revenue in 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. We also have certain large scale mobile games in the pipeline. We expect that our existing and future signature games will continue or be expected to generate the majority of our revenue in the near future. Should there be (i) any decline in the number of players of these games, (ii) any failure by us to upgrade, enhance or optimise these games in a timely manner or at all, (iii) any lasting or prolonged server interruption due to network failures or other reasons, or (iv) any other adverse developments specific to these games, our business, financial condition and results of operations could be materially and adversely affected.

Also, our games are subject to limited lifecycle. Although we have been spending efforts to extend their lifecycle, we cannot assure you that our games can be operated in line with our expected lifecycle given that our players may lose interest in these games over time as a result of the changing market trend or their interests and preferences. If our limited number of major 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.

If we fail to launch successful new games to retain existing players and attract new players, our business and growth may be materially and adversely affected.

Our growth depends on our ability to retain existing players, bring in new players and develop non-paying players into paying players. This requires us to continuously launch new games and regularly release version updates and expansion packs for existing games to maintain and expand our player base. In launching new games, we must predict and accommodate changes in player interests and preferences, and the evolving competitive landscape of the mobile game industry. We must also seek to

RISK FACTORS

effectively market new games and game upgrades to strengthen geographic penetration. Lastly, we must continue to upgrade our technology and infrastructure to minimise downtime and maintain our system stability of our games.

As at the Latest Practicable Date, our pipeline included five new mobile games with different language versions, 16 new language versions of existing games and five H5 games. However, these pipeline games only represent our current plans and expectations. We cannot assure you that we will officially launch these games or that these games, if officially launched, will be commercially successful. Further, among the five new mobile games in the pipeline, three of them are female-oriented mobile games and the remaining two are non-female-oriented games. As we have been strategically focusing on mobile games targeting female players in the PRC since our inception in 2010, we may not have as extensive experience and expertise in developing, publishing and operating non-female-oriented games. You should not use the success of our existing games as an indication of the future commercial success of any of our pipeline games. There are many factors that could adversely affect the popularity of our new games, and if our new games are not commercially successful, our business prospects and results of operations would be materially and adversely affected and we may not be able to recover the costs and expenses of our game development, publishing and operation, which can be significant.

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

Moreover, the timing of official game launch has a significant impact on the performance and popularity of a game. We cannot assure you that we will be able to officially launch new games as scheduled or at all. A number of factors, including technical difficulties, insufficient human, marketing or other resources or acceptance of or interest in the new games among game players during the testing phase and adverse developments in our relationship with our business partners, could result in delays in the official launch or even prevent us from officially launching our new games. If we fail to officially launch new games according to the contemplated timetable or at all, we may disappoint the game player base, fail to meet the targets for our anticipated financial and operating results or lose our market position to our competitors. 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 players to our games, and our marketing channels, co-publishers and distribution platforms may commit fewer resources to market and promote our games. Our business, financial condition and results of operation may be harmed if any of the foregoing occurs.

We rely on a small portion of our total players for almost all of our revenue from games, and may not be able to monetise our players effectively.

Consistent with industry norms, only a small portion of our registered players and active players are paying players who contributed almost all of our revenue from games. In 2016, 2017 and 2018, the three months ended 31 March 2019 and the seven months ended 31 July 2019, our average monthly paying players were approximately 186,600, 340,600, 323,500, 234,700 and 234,900, respectively, representing only approximately 7.1%, 8.1%, 8.1%, 7.8% and 7.4%, respectively, of the average MAUs for the same periods. As a result, the numbers of our cumulative registered players and active players do

RISK FACTORS

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 players, to increase the number of paying players and to drive their in-game purchases.

The spending of players in our games is discretionary and our players can be sensitive to the price, restricting our ability to convert non-paying players to paying players. To stimulate in-game spending, we need to continue to launch new games or new features and functions for existing games to drive player interest. We must also provide easy, fast and safe payment solutions to our players to facilitate in-game purchases so that they are not discouraged or inconvenienced by online payment processing procedures. There is no assurance that the third-parties' payment systems will operate consistently in an efficient way or that our competitors will not invest more resources to design better systems that are more attractive to our players. This may affect the monetisation of our players which in turn affects our revenues and profit margin.

Further, although we had generally recorded an increasing trend of our monthly ARPPU from RMB201.4 in 2017 to RMB395.4 in 2018 and further to RMB544.9 for the seven months ended 31 July 2019, there is no assurance that we can continue to increase our monetization of our players or at all. If we are unable to successfully monetize our players which in turn affects our monthly ARPPU, our financial condition and business prospects could be materially and adversely affected.

Substantially all of our revenue from games come from sales of our in-game virtual items. If this business model ceases to be commercially viable, our results of operations and business prospects could be materially and adversely affected.

As all of our games are free-to-play, our revenue was primarily generated from the sale of in-game virtual items. By allowing players to start the gameplay without initial costs, this free-to-play business model enables us to quickly attract new players 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 players to play our games and, more importantly, whether we can successfully introduce new and popular virtual items, encourage more non-paying players to purchase virtual items and more playing players to increase their in-game spending.

Although we put efforts into marketing and pricing our in-game virtual items to optimise player monetisation, 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. In addition, our free-to-play business model may cease to be commercially viable. We cannot guarantee that a sufficiently broad base of players 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, since we have adopted the existing free-to-play model since our inception and we have limited experience of the adjustment. As a result, our results of operations, financial condition and business prospects could be materially and adversely affected.

Moreover, players 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. In order to increase players' purchases of our in-game virtual items, we launch various in-game promotional sales from time to time. However, such activities, if offered too

RISK FACTORS

frequently, may affect paying players' willingness to purchase regularly-priced virtual items, which will adversely affect our revenue and profitability. If we fail to manage our game economies properly, players may be less likely to purchase in-game virtual items and our business may suffer.

We may face increasingly intense competition which makes it difficult to evaluate our business and prospects.

The mobile game industry is highly competitive, characterised by the frequent introduction of new products and services, short product lifecycles, evolving industry standard, repaid adoption of technological and product advancements, as well as price sensitivity on the part of players. The growth of the mobile game industry and the demand and market acceptance of our games are subject to a high degree of uncertainty.

The mobile game industry consists of a large number of game developers and publishers. According to Frost & Sullivan, in 2018, the top 10 market players in China's mobile game industry collectively held a market share of 83.4% and the top two players dominated the market with their aggregate market share of 67.0% as measured by revenue. We compete with these industry players primarily on a number of factors, including player base, game portfolio, financial resources, brand awareness and reputation. Other large-scale China-based mobile game developers and publishers may have larger player base, greater operating experience and more 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 some of our competitors, we may have less recognised brand name. This may put us at a competitive disadvantage in attracting players when competing with other game operators that have greater brand recognition.

The mobile game industry's relatively low entry barriers result in easy access by new market players and increasing competition. In recent years, numerous competitors in China have entered or transitioned into the mobile game industry. 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. This may result in more difficulties for us to retain existing players and attract new players. As competition intensifies, we may have to offer more incentives to our players as well as to industry participants with which we cooperate, such as third-party game developers, distribution platforms, payment channels and game publishers, which could adversely affect our profitability. If we fail to compete cost-effectively or at all, our market share could decline and our results of operations could be materially and adversely affected. All of these will make it difficult to evaluate our business and prospect due to a level of uncertainty.

If we fail to anticipate or successfully adapt our games to new trends, our business prospects and results of operations could be materially and adversely affected.

China's mobile game industry is evolving rapidly. We constantly need to adapt to new industry trends, including changes in player preferences, new game content, distribution models, new technologies and new governmental policies and regulations. We evaluate these changes as they emerge and strive to adapt our business and operations in order to maintain and strengthen our position in the industry, and our failure to do so may materially and adversely affect our business, financial condition and results of operations.

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The mobile game industry is subject to rapid changes in technology. We constantly need to anticipate the emergence of new technologies and to assess their market acceptance. For example, several major industry players are creating games that incorporate virtual and/or augmented realities to 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 product and infrastructure development to keep up with the pace of technological advancements. However, game development is inherently uncertain, and our significant investment in technology may not generate anticipated benefits. If we fall behind in adopting new technologies or standards, our existing games may lose popularity, and our newly developed games may not be well received by our players. In addition, we may incur significant cost overruns in game testing, optimisation and publishing, which would have an adverse impact on our results of operations and profitability.

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 players. Other forms of entertainment may emerge and become popular at the expense of mobile games. Although mobile games are becoming increasingly popular in China, there is no assurance that they will continue to sustain their popularity. Any decline in the growth of the mobile game industry in China or in the popularity of mobile games in general, or our games in particular, would harm our business and prospects.

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

We utilise various third-party game distribution platforms, including primarily major online application marketplaces, such as Apple's App Store, Google Play and Mobile Hardcore Alliance, to distribute our games. A number of these third-party game distribution platforms constituted our five largest suppliers during the Track Record Period. The purchase amount from our five largest suppliers accounted for 53.6%, 62.1%, 64.4% and 60.6% of the total purchase amounts with our suppliers. These platforms help record purchase, collect payments from players and settle payments of our share of revenue generated from our games during the Track Record Period. These game distribution platforms have strong bargaining power in dealing with game developers like us. We are subject to their standard service terms and conditions with regard to the promotion, distribution and payment methods for our games. Our business may be materially and adversely affected if these game distribution platforms discontinue or limit our access to their platforms, fail to effectively promote our games or otherwise fulfil their contractual obligations, establish more favourable relationships with one or more of our competitors, or do not obtain or maintain the licences needed to distribute our games.

Disputes with our game distribution platforms, such as disputes relating to game 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 game distribution platform 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 affected. Any failure to maintain a stable business relationship with a sufficient number of popular platforms could cause the number of our game downloads to decrease, which would have a material adverse effect on our business, financial condition and results of operations.

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

Laws and regulations or governmental agencies may limit the access to these platforms. In recent years, there has been rising concerns on negative social impact of various online platforms, including gaming platforms, on players, especially young players. The enactment of laws and regulations may limit access to these distribution platforms and governmental authorities may conduct regular supervision on related activities. Our access to these platforms may be blocked if these platforms operate in a way contravening the applicable laws and regulations or if the governmental authorities identify potential issues and order temporary or longer suspension of these platforms.

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

We rely on major third-party payment channels such as Alipay and WeChat Pay to facilitate and collect players' payment of in-game purchases of virtual items. We are subject to various risks and uncertainties associated with these third-party online payment channels. Any scheduled or unscheduled interruption in the ability of our players to use these and other third-party payment channel systems could adversely affect our payment collection, and in turn, our revenue. We also rely on the stability of such payment transmissions to ensure the uninterrupted payment service available to our players.

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

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

Any payment delays or defaults from third-party distribution platforms and payment channels may adversely affect our cash flow or financial results.

We receive sales proceeds collected from our players through third-party game publishers, third-party distribution platforms and third-party payment channels. We generally grant credit terms ranging from 15 to 45 days after we issue the relevant invoices to these third-party platforms and payment channels, but may grant longer settlement terms to certain game distribution partners. As at 31

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December 2016, 2017, 2018 and 31 March 2019, our net trade receivables amounted to RMB58.8 million, RMB98.4 million, RMB108.8 million and RMB170.3 million, respectively. As at 31 December 2016, 2017, 2018 and 31 March 2019, our trade receivable aged more than three months amounted to RMB0.7 million, RMB0.6 million, RMB0.5 million and RMB2.0 million, respectively, representing 1.2%, 0.6%, 0.4% and 1.1% of our trade receivables, respectively. Please see the section headed “Financial Information — Liquidity and Capital Resources — Trade and Other Receivables — Trade receivables” for more details.

Our business operations may be subject to risk of payment deferral or default from our business partners. We are vulnerable to collection risks if one or more of these third-party payment channels fail to fulfil their obligations to us, including the obligation to remit our share of revenue in a timely manner. In addition, if paying players apply for payment refund with the third-party payment channels, or if our relationship with any of our major payment channels deteriorates or terminates, or if any of them experience a decrease in their business generally or an increase in non-payment from players, we may not be able to fully recover the outstanding amounts due from our business partners, if at all, or that our business partners will settle the amounts in a timely manner. If such settlements are not made in full or in a timely manner, or if we need to find new payment channels to replace any of our current major payment channels, our business, financial conditions and results of operations will be adversely affected.

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

Our Group was formed in May 2010 to start the game development, publishing and operation business. We further expand our footprint to the overseas markets in 2011 through licencing arrangements with third-party publishers. During the Track Record Period, game revenue generated from the PRC markets amounted to RMB462.2 million, RMB586.4 million, RMB1,187.8 million and RMB292.1 million, respectively, while revenue generated from the overseas markets amounted to RMB105.9 million, RMB113.0 million, RMB276.3 million and RMB101.4 million, respectively, in 2016, 2017 and 2018 and the three months ended 31 March 2019. The rapid increase in our revenue generated from both the PRC and overseas markets together contributed to the growth of our total revenue from games during the Track Record Period.

Our history of operations and track record growth, particularly in the overseas markets is limited. Therefore, our historical growth should not be considered indicative of our future performance as the revenue contribution from our games may not be sustainable. A majority of the games we developed and published were female-oriented mobile games. However, we cannot assure that this genre of games will maintain popularity among players or we will be able to continuously identify engaging novels or other materials as the back stories for our games.

Also, we face various risks and uncertainties as a mobile-centric game company. For example, we may not be able to continuously identify, develop, licence and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effectively manner, or at all. In addition, each mobile device manufacturer or mobile platform provider may establish unique technological requirements or restrictive terms and conditions on their devices or platforms for game developers. Our multi-device or multi-platform game development technologies might fail to keep pace with the evolving mobile devices and platforms, especially immediately after such devices and platforms are launched or upgraded. We may also need to allocate significant resources for the creation, support and maintenance of our games for them to function as intended on new mobile devices and platforms.

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Furthermore, we may not be able to upgrade and increase the option of payment methods and systems based on the mobile platforms, geographies and other factors. As a result, monetisation of our games might be negatively affected.

Given these risks and uncertainties, it is difficult to evaluate whether we will continue to succeed in implementing our strategy relating to the mobile-centric business. You should consider our future prospects in light of the risks and uncertainties experienced by early-stage companies in evolving industries. Our growth prospect might suffer from the potential failure or delay in our efforts to implement our strategy for mobile devices and platforms.

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

Our game development, publishing and operations are data driven, and we rely on our data collection and analytics capabilities to continue to develop our games, improve user experience, and eventually optimise player monetisation. We routinely collect and store in-game player behavioural data for all of our players utilising our proprietary data collection and analysis system. Capturing accurate data is subject to various limitations, as is true with many internet companies. In addition, our ability to verify such data is limited. It is possible that our data may be inaccurate due to technical errors, security breaches, hacking incidents, or refusal by the game publishers to share any such data with us. Therefore, we might fail to gather or retain data timely, or ensure the quality of data, which would yield inaccurate or misleading analytical results.

We assess our business performance utilising a set of key performance indicators, including cumulative registered players, average DAUs, average MAUs, average monthly paying players and monthly ARPPU. We cannot assure you that we will be able to capture accurate player data and information in the future. While data analytics has proven beneficial to business, we might incorrectly assess our key performance indicators and in turn make inappropriate operational and strategic decisions, even with high-quality data and superb data analytic methodology. If any of the foregoing occurs, our business, financial condition, results of operation and prospects may be materially and adversely affected.

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

We have been focusing primarily on female-oriented games during the Track Record Period. We plan to launch high-quality games in other genres to enrich our game portfolio and expand our operations in more overseas markets. In addition, we plan to strengthen our game social platform as well as our capabilities to utilise and commercialise game IPs. However, we cannot guarantee that we will be able to attract and hire key game development, publishing and operation personnel so our plan may not be successful, or we may not be able to develop commercially viable games that will gain sufficient popularity, player interest and player retention.

Moreover, we plan to dedicate a significant part of the net proceeds from the Global Offering to pursue our business strategies. Failure to implement our business strategies could prevent us from recouping our investment costs, hinder our ability to optimise our games to enhance player monetisation,

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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.

As we expand to new geographical markets, we are challenged with risks and uncertainties, which could materially and adversely affect our growth prospects.

An important component of our overseas expansion strategy is to localise our games for the players in those markets. We expect to continue to increase our game offerings in more language versions. Our ability to expand our business and attract players in new overseas markets requires considerable management attention and resources and is subject to the particular challenges of conducting business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. Our global strategy may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- identifying appropriate overseas markets;
- recruiting and retaining talented and capable management and employees with relevant overseas experience;
- challenges caused by distance, language and cultural differences;
- customising games and other offerings that appeal to the tastes and preferences of players in overseas markets;
- competition from local game developers with significant market share in those markets and with a better understanding of player preferences;
- 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 practises and protects us from fraud;
- credit risk and higher levels of payment fraud;
- currency exchange rate fluctuations;
- adapting to local business practises;
- protectionist laws and business practises that favour local businesses in some countries;
- political, economic and social instability; and
- higher costs associated with doing business internationally.

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

We may not be successful in effectively promoting our brand, and any negative publicity may harm both the brand of our Company and the specific games we publish.

Our “Friend Times” brand has gained recognition among players and help us to build the reputation of a game developer with particular success in female-oriented games. 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.

In addition, any negative publicity or dispute in relation to us regarding our brand, games and services, company or management, regardless of its veracity, could harm the image of our Company and the games we publish, which in turn may reduce the number of active players 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.

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 in that they ensure smooth game functioning and uninterrupted player 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 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 player base. Furthermore, our infrastructure is also vulnerable to damages from fires, floods, earthquakes, power loss and telecommunication failures. Any network interruption or inadequacy that causes interruptions to our games or failure to maintain the network and server or solve such problems in a timely manner could reduce our players’ satisfaction, which in turn will adversely affect our reputation, player 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 known for 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 players attempt to access it or navigation through a game is slower than they expect, players may stop playing the game and may be less likely to return to the game as often, if at all.

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Furthermore, our business will be materially and adversely affected by any potential security breach caused by hackings, which involve efforts to gain unauthorised access to our 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 occurs, players' confidence in the effectiveness of our security measures could be harmed.

The performance and reliability of the telecommunications networks and internet infrastructure in China will affect our operations and growth.

With our headquarters and major operations based in China, we rely on wireless and landline telecommunications networks in China to conduct central management of player 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 player can connect to the internet. These international gateways may not support the demand necessary for the continued growth in internet traffic by players 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 players 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, results of operations and prospects.

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

Our games are subject to frequent improvement and updates, and may contain errors, bugs, flaws or corrupted data that reveal only after the updated applications are accessed by players, particularly as we launch new games and rapidly release new features to existing games under tight time constraints. From time to time, our players 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 players, harm our reputation, cause our players to stop playing our games, divert our resources and delay market acceptance of our games, the occurrence of any of which could result in legal liability to us or harm our operating results.

Any restriction on access to major distribution platforms, such as Google Play, or the internet generally could lead to the loss or slower growth of our player base.

Our players need to access the internet, in particular, major game distribution platforms such as Google Play and Apple's App Store, to download our games for gameplay. The PRC government has already blocked access to Google Play in China. Companies and governmental agencies could block access or may adopt policies to restrict access to game distribution platforms, our websites, other social platforms or the internet generally for reasons such as security or confidentiality concerns or regulatory

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reasons, or they may otherwise adopt policies restricting players from playing our games. Any restriction on access to distribution platforms or the internet in general could lead to the loss or slower growth of our player base and as a result of which our business could be adversely affected.

The trade war between the U.S. and the PRC may 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 manufacturers which utilise major game distribution platforms such as Google Play. 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 manufacturers which would limit the users of those mobile phones to access those distribution platforms. Specifically, Huawei was added to the U.S. Department of Commerce's Bureau of Industry and Security Entity List in May 2019 which restricted the cooperation between Google and Huawei. As a result, certain users of Huawei's mobile phones may not have access to Google Play due to such restriction. Google Play is currently not available in the PRC, which is our main market that had accounted for over 70% of our total revenue during each period of the Track Record Period. During each period of the Track Record Period, our total overseas revenue generated from Google Play accounted for less than 10% of our total revenue. Further, our Directors believe that our overseas revenue generated from users of Huawei's mobile phones did not contribute a majority portion of our overseas revenue generated from Google Play. Nonetheless, as some of our game players would download our games through the game distribution platforms on PRC mobile phones, if the trade war continues to intensify, further restriction of access to the distribution platforms on those PRC mobile phones may result in loss or slower growth of our player base and as a result of which our financial position, results of operation and expansion plans could be affected.

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

We have established game policies against unauthorised and inappropriate player behaviours. Under such policies, we do not allow players to sell or transfer virtual items, among other things. Virtual items offered in our games have no monetary value outside of our games. Nonetheless, some of our players or third parties may sell or purchase our virtual items through unauthorised third parties in exchange for real money or other real-world properties. To our knowledge, these unauthorised transactions are usually arranged through third-party channels or platforms and the virtual items offered may have been obtained through unauthorised means, such as through cheating or from scamming our players with fake offers of virtual items or other in-game benefits. We generate no revenue from these unauthorised transactions and do not permit, or facilitate in any manner, these unauthorised transactions. We have game policies in place which reserve our right to impose sanctions, such as to suspend, terminate or cancel a player account if we find abnormal transactions or activities in the account.

Notwithstanding our measures and efforts, we do not have effective control over these unauthorised transactions. Any such unauthorised purchase and sale could impede our revenue and profit growth by (i) decreasing revenue from authorised transactions, (ii) creating downward pressure on the prices we charge players for our virtual items, (iii) increasing costs we incur to develop

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technological measures to curtail unauthorised transactions, and (iv) increasing customer service costs to respond to dissatisfied players. In addition, transactions through unauthorised third-party channels may involve fraud that is beyond our control, and we may face potential claims from our players in connection with their losses resulting from third parties' fraudulent activities. Such claims, regardless of merit, may harm our reputation, divert our management's attention and cause additional expenses in defending against these claims.

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

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

In 2015, we launched our player community application *Game Friend* (好玩友) to create an online community for our existing players and potential players to communicate with each other and find the best gaming strategies and promotional activities. Our players are able to engage in highly personalised conversations when they use this application. However, we are not able to verify the comments made by our players in our *Game Friend* (好玩友) application. Therefore, it is possible that certain players may engage in illegal, obscene or incendiary conversations that may result in a negative impact among other players. Although we screen certain words according to the lists provided by the relevant government authorities, we cannot assure you that all the sensitive information contained in our players' or members' conversations can be identified. In serious cases, certain such information or content may be deemed unlawful under the laws and regulations in the locations where the games are played, and government authorities may require us to discontinue or restrict certain features or services that would have led, or may lead, to such events. We may incur significant costs in investigating and defending ourselves if we find ourselves subject to penalties or claims based on the nature or content of the information improperly displayed, which may materially and adversely affect our reputation, operations and business.

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

The boundless nature of internet-based business generally allows access to our games by players from all over the world, and we do not restrict access from any specific jurisdiction unless the local regulators so require. We also generally require the third-party game publishers we cooperate with to comply with local laws when they enter into and operate in any local markets. For our games offered in the PRC market, as required by the relevant laws and regulations in China, we require all players to provide their PRC identification numbers when register the player accounts, and we normally require players to represent that they must not be barred from receiving our services under the local laws before accepting our services. To date, we are not aware of any regulatory regime, nor have we received any notice from local regulators or major distribution platforms, which requires us to restrict access to or take down our games in any specific jurisdiction. Although we do not believe that the mere fact that our games are accessible in a particular jurisdiction necessarily follows that we conduct business in that

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jurisdiction and are subject to the local laws and regulations, we cannot assure you that the local regulators will not hold a contrary view. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services from the local players may subject us to regulatory risk, including monetary penalty or injunctions, which may adversely affect our business operations.

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

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

Due to the nature of our business as a game developer, publisher and operator, we are subject to legal proceedings and claims relating to the IP rights of third parties from time to time in the ordinary course of our business. For example, we had been involved in a litigation in relation to the unauthorised commercial use of an image whose copyright was owned by the plaintiff and we had settled with the plaintiff by paying the plaintiff an one-off compensation in the amount of RMB80,000 pursuant to the settlement arrangement. We had also been involved in litigations in relation to the breach of copyright for the use of certain software with a plaintiff and we had settled the cases with the plaintiff in December 2018 and had paid the plaintiff an one-off settlement amount of RMB0.4 million. We may continue to be subject to other legal proceedings and claims from time to time relating to the IP rights of third parties in the ordinary course of our business.

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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 IP rights, subject to fines and penalties, or be required to modify, optimise or cease operating the games, or satisfy indemnification obligations that we have with some of our players, 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 include in our products from third parties, our exposure to infringement actions may increase because we must rely upon these third parties to verify the origin and ownership of such technology. This exposure to liability could result in disruptions in our business that could materially and adversely affect our results of operations.

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 development team. To the extent these employees are involved in the development of content or technology similar to ours at their former employers, we may become subject to claims that these employees or we have appropriated 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 have a material adverse effect on our business and reputation.

Unauthorised 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 IP rights, as well as those of our game development partners, 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 IP rights to protect our IP rights. For our proprietary games, we register software in China for copyright protection and take various measures to protect our source codes, including confidentiality agreements. However, we may fail to protect the IP rights related to our games. Any failure to register 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. Any failure to protect the IP rights owned by our game developer partners will also subject us to severe consequences, including loss of game distributorships IP licences and/or payment of damages.

In order to protect our technology and know-how, we rely on confidentiality provisions in relevant agreements with our employees, licensees, independent contractors and other advisers. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorised disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties. The validity, enforceability and scope of protection of intellectual property in internet-related industries are uncertain and still evolving. In particular, the laws and enforcement procedures in China, Southeast Asia, and certain other countries and regions where our games are accessible to local players do not protect IP rights to the same extent as the laws and

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enforcement procedures of other countries do. Policing unauthorised use of proprietary technology is difficult and expensive. Any steps we have taken to prevent the misappropriation of our proprietary technology may be inadequate. Despite our efforts to protect our IP rights, other game developers may copy our ideas and designs, and other third parties may infringe on our IP rights. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, which may have a material adverse effect on our financial condition and results of operations.

Any termination of, or changes to, the preferential tax treatment and government grants that we have enjoyed could adversely affect our profitability.

We enjoyed certain preferential tax treatment and government grants in relation to our operations during the Track Record Period. Please refer to the section headed “Financial Information — Significant Factors Affecting Our Results of Operations — Preferential tax treatment” for more information. During the Track Record Period, the tax effect of the preferential tax treatment amounted to RMB13.1 million, RMB19.8 million, RMB57.2 million and RMB16.6 million in 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. During the Track Record Period, we received government grants of RMB6.7 million, RMB17.3 million, RMB22.8 million and RMB1.1 million in 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively.

We intend to apply for renewal of the preferential tax treatment we enjoyed prior to the expiration of their respective accreditations as well as the government grants to the extent available; however, we must continue to meet the relevant PRC legal requirements in order to maintain the qualification and eligibility. There is no assurance that we could continue to be able to meet the requirements to be entitled to preferential tax treatment and government grants or that the preferential EIT rates that we currently enjoy will not otherwise be challenged, altered or discontinued. Any change, suspension or termination of these preferential tax treatment and government grants to us could adversely affect our financial condition, results of operations and cash flows.

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

As at the Latest Practicable Date, we leased eight properties for use as offices and employee residence. The landlord had not filed the lease agreements for any of our leased properties with the local housing administration authorities as required under PRC law. As advised by our PRC Legal Advisers, the non-registration of lease agreements does not affect the validity of such lease agreements. However, we might be ordered to rectify this non-compliance by the competent authorities and if we fail to rectify within the prescribed period, a penalty of RMB1,000 to RMB10,000 per lease agreement may be imposed on us as a result of such non-filing. The estimated total amount of penalty for our failure to rectify our lease agreements is approximately RMB10,000 to RMB100,000.

Also, during the Track Record Period and as at the Latest Practicable Date, the actual use of two of the leased properties is inconsistent with the use registered on the Shanghai Real Estate Register (上海市不動產登記簿). As advised by our PRC Legal Advisers, the use of such leased properties may be required to rectify within a time limit. Further, the land on which such properties erected is allocated land (劃撥土地). As advised by our PRC Legal Advisers, allocated land and buildings erected on allocated land shall not be transferred, leased or pledged without the prior consent of the relevant competent authorities. The competent authorities may confiscate the proceeds from the leasing of the properties and imposed fines on the lessor if such properties are leased without their consent. Although

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we are not subject to the aforementioned penalties as a lessee to the properties, the relevant lease agreements may be deemed to be in breach of the law and therefore be void. In the event that the lessor is required by the competent authorities to return such properties or if the relevant lease agreements are deemed to be void, we, as the lessee of such properties, may not be able to continue to use the property and will need to find alternative locations 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.

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

We have been, and will continue to be, heavily dependent on the continued efforts of our senior management team and other key employees for our success. In particular, we rely on the expertise and experience of Mr. Jiang, Mr. Xu Lin, Mr. Wu Jie and Mr. Sun Bo, all being our executive Directors, who together with other members of our senior management team, Ms. Li Ya, our chief financial officer, and Mr. Liu Gongyou, our joint company secretary, have formulated our strategies and been instrumental to our achievements to date. The loss of our senior management members or several of our other key employees could impair our ability to operate and impede the execution of our business strategy. We may not be able to replace such persons within a reasonable period of time or with another person of equivalent expertise and experience, in which case our business may be severely disrupted and our financial condition may be impaired.

In addition, our continued success will also depend on our ability to attract and retain qualified administrative, supervisory and management personnel to manage our existing operations and future growth. Qualified and talented individuals are scarce and in high demand and, as a result, competition for these individuals from other online game companies is intense. We may not be able to successfully attract, assimilate or retain the personnel that we may require. In addition, we may need to offer superior compensation and other benefits in order to attract and retain key personnel in the future, and we therefore cannot assure you that we will have the resources to fully achieve our staffing needs. In connection with any acquisition we may pursue in the future, our ability to retain the existing personnel we select will have a significant effect on our success in these expansion efforts. Our failure to attract and retain qualified personnel could have a negative impact on our ability to maintain our competitive position and to grow our business.

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

Chinese insurance companies offer limited business insurance products to online game companies. We do not have any business liability or disruption insurance to cover our operations in China or overseas, including losses relating to our systems and business interruption, which, based on public information available to us relating to China-based online game companies, is consistent with customary industry practise 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.

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Our determination of the player relationship period for our games exposes us to uncertainties with respect to revenue recognition.

Our determination of the player 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 player data of the relevant game. However, we may not always have sufficient data to determine the player relationship period, such as in the case of a newly launched game. As the average player relationship period for any game can change over time, our estimates are also subject to re-evaluation on a quarterly basis. Our determination of the player relationship period requires us to make significant estimates and assumptions. Such estimates and assumptions involve 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 recognise revenue from in-game sales of virtual items than our initial estimated player 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.

We are subject to risk of recoverability of deferred tax assets.

We had deferred tax assets of RMB7.2 million, RMB7.8 million, RMB13.3 million and RMB8.6 million as at 31 December 2016, 2017 and 2018 and 31 March 2019, respectively. While the deferred tax assets may enable our Group to reduce future tax payment, our deferred tax assets may also pose risk to our Group as its recoverability is dependent on our Group's ability to generate future taxable profit. There is no assurance that the deferred tax assets can be recovered. In the case that the value of the deferred tax assets has changed, our Group may have to write-down the deferred tax assets, which may significantly affect our financial condition.

We may have potential tax liabilities including new or additional taxes.

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 digitalisation of the economy. In broad terms, many of these policy proposals and regulations, if implemented, potentially seek to impose new or different forms of taxation on either profits, or revenues, earned by highly digitalised businesses from customers in jurisdictions in which an entity does not have operation, such as a permanent establishment. These policy discussions are being led by the Organisation for Economic Cooperation and Development and are commonly referred to as the Base Erosion and Profit Shifting project (“**BEPS 2.0**”). While these policy discussions are ongoing, 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. There are also proposals around the imposition of a global minimum taxation and measures to counter anti-base erosion payments. In addition to this, there are two further policy developments which may impact on our potential tax liabilities in the future. The first is the proposal by certain countries to introduce digital services taxes, or equivalent which broadly seek to tax the revenues of highly digitalised businesses from activities relating to advertising or data. The second is the introduction of new VAT, goods and services tax, sales and use taxes, or similar indirect tax obligations on the provision of digital services to customers in the jurisdiction in which the customer is located.

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In respect of each of these developments, the regulations in each jurisdiction may differ in fundamental respects, including the timing of their implementation, whether they impose tax obligations on profits or revenues, whether they give relief for loss-making entities, and any de minimis exclusions for businesses with either a global turnover, or a local turnover in that jurisdiction below a certain threshold. We may also become subject to new or additional taxes in the future which may have a material adverse impact on our financial condition, results of operations and prospects.

We are subject to risks relating to our investments in other companies and financial instruments.

We have in the past and may in the future invest in other businesses and financial instruments. During the Track Record Period, we made minority investments in two companies namely, Jingxiang Times and Suzhou Leji, which were engaged in organising e-sports online events and the mobile game development, respectively. Our investment in Jingxiang Times and Suzhou Leji were recorded as our investment in an associate and as our financial assets measured at fair value through profit or loss in our financial statements, respectively. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our investments in an associate were nil, RMB4.0 million, RMB3.2 million and RMB3.2 million, respectively. Our carrying value of our investments in an associate may be affected by a number of factors such as share of results, impairment, dilution issuance of equity securities. In 2016, 2017 and 2018 and the three months ended 31 March 2019, our share of loss from an associate were nil, RMB1.0 million, RMB0.8 million and RMB70,000, respectively.

As at 31 December 2016, 2017 and 2018, our interest in Suzhou Leji included in our financial assets measured at fair value through profit or loss were RMB3.5 million, RMB0.8 million and nil, respectively. In 2016, 2017 and 2018, losses of changes in the fair value of our investment in Suzhou Leji included in changes in fair value of financial assets measured at fair value through profit or loss were RMB5.5 million, RMB2.7 million and nil respectively. Our investment in Suzhou Leji was disposed in December 2018.

Further, in 2019, we entered into a TV-series production investment agreement with an independent third-party licensed production house for co-financing the production of a TV-series. For further details of our investment in the TV-series, please refer to the section headed “Financial Information — Liquidity and Capital Resources — Financial Assets Measured at Fair Value Through Profit or Loss — TV-series-based financial instrument”.

Our investments could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing potential new strategic alliances, any of which may materially and adversely affect our results of operations. We may have little ability to control or monitor the actions of such investee companies and to the extent such investees suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with them. As such, our investments may not be successful as expected. For example, we have disposed our investments in Suzhou Leji in December 2018 as its performance did not meet our expectation.

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Our associates are private companies and there has been no public market for their equity securities. As such, our equity interests in such investee companies may not be as liquid as other investment products. In particular, we cannot assure you that we will receive cash flow from such investments until dividends from such investee companies are declared and paid or until the investee company pays us our investments in accordance with the relevant contract.

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

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, business strategies, expansion plan, election of directors and other significant corporate actions. Immediately following the completion of the Capitalisation Issue and the Global Offering and assuming the Over-allotment Option is not exercised, our Controlling Shareholders will, in aggregate, hold 1,549,762,500 Shares representing approximately 70.44% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change of control in our Company or other corporation actions that are otherwise approved by our other Shareholders, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, actions or make decisions that conflict with the best interests of our other Shareholders.

RISKS RELATING TO THE INDUSTRY

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

As detailed in the sections headed “Regulatory Overview — Regulations on Online Games — Online Games Publication” and “Regulatory Overview — Regulations on Online Games — Online Games Operations”, the official launch of mobile games in the PRC is subject to game registration with the NAPP and issuance of game publication numbers by the NAPP. However, according to Frost & Sullivan, the NAPP at the national level suspended approval of game registration and issuance of publication numbers for online games from March to December 2018. Please refer to the section headed “Business — Recent Change in Regulatory Environment” for more information.

The NAPP resumed game registration and issued game publication numbers for a first batch of games with effective date of 19 December 2018. However, as the regulatory authorities have received a large number of game registration applications which are to be reviewed, it may take some time for all of the existing game registration applications to complete the process and obtain the game publication numbers. Therefore, there is great uncertainty as to when we will be able to complete the game registration and obtain the game publication number for our pipeline games under application and other pipeline games or we may not be able to complete the game registration and obtain the game publication number at all, 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.

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Further, we cannot assure that the game registration process may not be suspended, changed or affected by other changes in the regulatory environment in the future, which may materially and adversely affect our results of operation and financial condition.

Moreover, according to the Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game Publishing Services (國家新聞出版廣電總局辦公廳關於移動遊戲出版服務管理的通知) issued by the SAPPRFT in May 2016, which became effective in July 2016 (the “**Mobile Game Notice**”), updates or enhancements of existing games do not need application for game publication numbers provided that such updates or enhancements do not constitute explicit changes in view of the SAPPRFT and the original name of such game remains exactly the same. Our current development strategy and game pipelines also include enhancements of several of our existing signature games on condition that the above requirements are satisfied. These enhancements included variations, upgrades, additional functions and effects, and new programming language for playing. However, we cannot assure you that regulators will not take a stricter view on updates and enhancements in the future, which may result in extra work and costs for us to file or renew application for such updates and enhancements and may delay our timetable to launch the updates and enhancements, which in turn may adversely affect our results of operations.

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

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

We are required to obtain the ICP Licences for provision of value-added telecommunications services, Internet Cultural Operation Licences for the operation of online games, and Internet Publishing Service Licences for publishing online games, all of which are essential to the operation of our business in China. These are licences subject to regular government review or renewal. Although we did not have incidents of material non-compliance with respect to the aforementioned licences during the Track Record Period. However, we cannot assure you that we can successfully update or renew the licences required for our business in a timely manner or that these licences are sufficient to conduct all of our present or future business.

We generally require our third-party game publishers to obtain, renew or retain necessary licences, permits or approvals for publishing and operating our games in overseas markets under our agreements with most third-party publishers. Under such arrangements, we are primarily responsible for offering game contents and related technical support and our game publishers are primarily responsible for marketing, publishing and distributing the games within their authorised distribution territories. However, there are instances where we have not included such provisions requiring the third-party game publishers to obtain, renew or retain necessary licences, permits or approvals for publishing and operating our games in their respective authorised overseas markets in the relevant licensing agreements.

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We cannot assure you that our game publisher partners have obtained, renewed or maintained or will be able to obtain, renew or maintain the requisite licences and approvals for publishing and operating our games in overseas markets.

The regulatory environment applicable to our business in China 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. As advised by our PRC Legal Advisers, in May 2019, the MOCT released the Notice on Adjusting Examination and Approval Scope, which specifies that the MOCT no longer assumes the responsibility for the administration of the online games industry. However, it is still unclear as to whether such supervision responsibility will be transferred to another governmental department or whether such governmental department will raise similar or new supervision requirements for the distribution and operation of online games. Therefore, considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. For example, China's government has been escalating restrictive regulations on the content of online games, particularly restricting online games from containing factors such as pornography and violence. However, many of such regulations, such as the depiction of pornography and violence, are ambiguous, still evolving and could be interpreted in ways that could harm our business or expose us to liability. We cannot assure you that we or our game publisher partners will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. If we or our game publisher partners fail to obtain, renew or maintain any of the required licences or approvals or make the necessary filings, we may be subject to various penalties, such as imposition of fines, discontinuation or restriction of our operations, and confiscation of the revenue illegally obtained. In addition, we cannot assure you that we will be able to continue to comply with applicable laws when operating our existing offices in Hong Kong and South Korea or when we set up new offices in other overseas markets. 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 player privacy, 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 such as ours conducting business through the internet and mobile devices. 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 licences, 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 oversight, such as reporting to 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.

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

In April 2007, several governmental authorities, including the GAPP and the MOE, jointly issued the Anti-addiction Notice, which is annexed to the Standards Regarding the Development of Anti-addiction System on Online Games (網絡遊戲防沉迷系統開發標準) and the Proposal Regarding the Authentication of Real Names for Anti-addiction System on Online Games (網絡遊戲防沉迷系統實名認證方案). According to the Anti-addiction Notice, an anti-fatigue system monitoring the playing time and minimum age of online game players is required to be installed in all existing online games since July 16, 2007, as well as in all online games to be operated in China. All of our mobile games offered in China are embedded with the anti-fatigue system prior to their release. The Anti-addiction Notice is followed by the Notice Regarding Launching Anti-addiction Real Name Authentication on Online Games (the “**Real Name Authentication Notice**”) (關於啟動網絡遊戲防沉迷實名驗證工作的通知), which was jointly issued by the GAPP, the MOE and other government authorities and became effective in July 2011. According to the Real Name Authentication Notice, all the companies that operate online games must institute anti-addiction real-name authentication, including identifying registration information of their players and timely reporting the identification information of the players pursuant to the proceeding prescribed by government regulations, and strictly inputting the players who are proved to provide false identification information into the anti-addiction system on online games. The Notice Regarding In-depth Development of Anti-addiction Real Names Authentication on Online Games (關於深入開展網絡遊戲防沉迷實名驗證工作的通知) was issued by the SAPPRFT in July 2014, became effective in October 2014. According to such notice, the application for publication of an online game will be rejected unless the applicant company completes the procedure of anti-addiction real-name authentication. Additionally, according to the Mobile Game Notice, which became effective in July 2016, mobile games are subject to the Real Name Authentication Notice unless the mobile game to be published, among other things, does not concern themes such as politics, military, nations and religions, belongs to the class of casual puzzle domestic mobile games without plots or with simple plots and is not authorised by overseas copyright owners.

On 19 April 2019, the updated Service Guidance for the Approval of Publishing Domestic Online Games was published on the official website of the SAPPRFT (the “**2019 Guidance**”). The 2019 Guidance specifies the necessary application documents to be submitted for applying for publishing domestic new online games, which includes a detailed description document of the specific operation mechanism of the anti-addiction compliance system (the “**Anti-addiction System Document**”). However, the 2019 Guidance further clarifies that mobile online games are not required to submit the Anti-addiction System Document, but only need to provide certain description.

We cannot assure you that our anti-fatigue system will be regarded as sufficient by relevant government authorities in China. Failure to comply with the requirements under the foregoing Notices may subject us to penalties, including without limitation suspension or restriction of our games to be operated by ourselves, rejection to or suspension of the application for approval of our games in China.

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Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from or linked to our 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 violations of PRC laws from being distributed through the internet. The MIIT and other competent government authorities have promulgated regulations that prohibit games from being distributed through the internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise state security or secrets. 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 players or for content we distribute that is deemed inappropriate. We may be required to delete content that violates PRC laws and report content that we suspect may violate PRC laws, which may reduce our player base, the amount of time our games are played or the purchases of virtual items in our games.

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

The regulatory environment of the mobile gaming industry is evolving rapidly. On 30 August 2018, eight PRC regulatory authorities at national government level, including the NATR and the MOE, released the Implementation Programme on Prevention of Juveniles 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 Programme 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. As at the Latest Practicable Date, no detailed implementation rule has been issued to enforce the Implementation Programme on Prevention of Juveniles Myopia regarding the online games and therefore its impact on our future business operations and financial performance remains unclear and unforeseeable. Our Directors consider that it is impracticable to forecast the expected quota on the number of online games approved for publication per year as well as the measures that will be required to be taken to restrict juveniles' playing time of our games pursuant to the then effective detailed implementation rules in the future.

Although it is unclear and unforeseeable when and how the Implementation Programme on Prevention of Juveniles Myopia will be enforced, risks exist that (i) its enforcement could impact our ability to launch and publish new games going forward, and require us to spend more time and costs in preparing and receiving the approvals necessary to launch our games; and (ii) its enforcement could discourage juveniles from playing our games due to restriction of playing time, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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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 could be materially and adversely affected.

Our business requires us to use and store in-game player behavioural data and gameplay data to analyse and improve the performance of existing games and develop new games. We may be subject to domestic and international laws relating to 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, Amendment (IX) to the Criminal Law of PRC (中華人民共和國刑法修正案(九)), effective in November 2015, has added the Crime of Infringing on Citizens' Personal Information to the Criminal Law of PRC (中華人民共和國刑法), which signifies the PRC governmental authorities' resolution to further protect personal information. According to the Amendment (IX) to the Criminal Law of PRC, illegally obtaining or selling/providing the citizens' personal information shall be sentenced to a maximum fixed-term imprisonment of seven years and/or a fine. In addition, the General Data Protection Regulation of the European Union (the "GDPR") came into force with direct effect across the European Union on 25 May 2018. The GDPR involves new provisions and enhanced rights on data protection and has extra-territorial application. Any usage of personal identifiable data (for example, access to users' contacts, provision of cookies or the use of analytic tools and targeted or behavioural advertising) is subject to a strict regime of data protection rules. The maximum fine under the GDPR is up to 4% of annual global turnover or Euro20 million, whichever is greater. Our future expansion into selected target markets in Europe (such as Germany and France) will subject us to the aforesaid regulation. For South Korea, the Act on Promotion of Information and Communications Network Utilization and Information Protection, Etc. (the "IT Network Act"), among others, requires providers of information and communications services to protect consumer information maintained by the provider. Using or receiving personal information beyond the scope notified to the user or as set forth in the relevant contract or providing private information to a third party may be punishable by imprisonment of up to five years or a penalty of up to KRW50 million pursuant to the IT Network Act. South Korea was our major overseas market for the year ended 31 December 2018 and the three months ended 31 March 2019.

Data privacy protection laws are rapidly evolving and likely will continue to do so for the foreseeable future. The U.S. government, including the Federal Trade Commission and the Department of Commerce, continues to review the need for greater regulation over the collection of personal information and information about user behavior on the internet and on mobile devices and the European Union has continuously enhanced its data protection legal framework. Failure to comply with the relevant legal requirements may increase our costs and subject us to expensive government investigations and fines.

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In addition, we are primarily dependent upon third-party distribution platforms and game publishers to solicit, collect and provide us with information regarding our players 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 players' information at risk and could in turn adversely affect our business. While our administrative systems have developed rapidly, during our earlier history our practises relating to IP, 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 players or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorised release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our players to lose trust in us, which could have a material adverse effect on our business.

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 players share with us for data analytics. Therefore, our business could be harmed by any significant change to applicable laws, regulations, policies or industry practises regarding the use or disclosure of data our players share with us, or regarding the manner in which the express or implied consent of players 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 players voluntarily share with us.

RISKS RELATING TO OUR COMPANY STRUCTURE

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

Current PRC laws and regulations place certain restrictions or prohibitions on foreign investment in and ownership of entities that engage in a number of business activities, including the value-added telecommunications services, internet publishing business and internet cultural business, such as mobile game publishing and operating and provision of internet information. In particular, under the 2019 Negative List, our game operation business falls into the value-added telecommunications services business which is considered "restricted" and the internet cultural services business which is considered "prohibited". Moreover, our game publishing business falls into the internet publishing business which is also considered "prohibited".

We are a company incorporated in the Cayman Islands and our wholly-owned PRC subsidiary, Suzhou Eagle, is considered as a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct our business in China through our VIE, Suzhou FriendTimes and its subsidiaries. Although we do not have any equity interest in Suzhou FriendTimes, we are able to exercise effective control over Suzhou FriendTimes and receive substantially all of the economic benefits of its operations through the Contractual Arrangements with Suzhou FriendTimes and its equity holders. Please refer to the section headed "Contractual Arrangements" for more information.

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However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. 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 licences to operate our business, or the Contractual Arrangements are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, 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;
- imposing fines and/or confiscating any of our income generated from the operation under the Contractual Arrangements;
- revoking the business licences and/or operating licences of our VIE;
- discontinuing or imposing restrictions or onerous conditions on the business operations of our VIE;
- imposing conditions or requirements with which we or our VIE 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 licences or relocate our businesses, staff and assets;
- restricting or prohibiting our use of the proceeds from the Global Offering or other of our financing activities to finance the business and operations of our VIE and its respective subsidiaries; 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 VIE and its subsidiaries or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of our VIE and its subsidiaries into our consolidated financial statements in accordance with HKFRSs, thus adversely affect our results of operation.

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

Due to PRC's restrictions or prohibition on foreign investment in online game operation business, we control, through the Contractual Arrangements rather than equity ownership, our Operating Entities in China and the holders of some of the key licences required to operate our online game business in China. Please refer to the section headed "Contractual Arrangements" for more information.

However, the Contractual Arrangements still may not be as effective in exercising control over the Operating Entity as equity ownership. For example, our Operating Entity and its shareholders could breach or fail to perform their obligations under the Contractual Arrangements. If we had direct ownership of our Operating Entity, we would be able to exercise our rights as a shareholder to effect changes in its board of directors, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management and operational level. Under the Contractual Arrangements, we would need to rely on rights of Suzhou Eagle under the power of attorney to effect such changes, or designate new shareholders for the Operating Entity.

If Suzhou FriendTimes or its shareholders breached their obligations under the Contractual Arrangements or if we lose the effective control over Suzhou FriendTimes for any reason, we would need to bring a claim against them under the terms of the Contractual Arrangements. The Contractual Arrangements are governed by the PRC law and provide that any dispute arising from these arrangements will be submitted to the Suzhou Arbitration Commission (the "SAC"), for arbitration, the ruling of which will be final and binding. Furthermore, personal liabilities of the shareholders of Suzhou FriendTimes may also subject the equity interest they hold in Suzhou FriendTimes 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 Suzhou FriendTimes.

If Suzhou FriendTimes or any of its shareholders fails to perform its respective obligations under the Contractual Arrangements, and we are unable to enforce the Contractual Arrangements, or suffer significant delay or other obstacles in the process of enforcing the Contractual Arrangements, our business and operations could be severely disrupted, which could materially adversely affect our results of operations.

The equity holders of our Operating Entity may have conflicts of interest with us, which may materially and adversely affect our business.

Mr. Jiang, who is one of our Controlling Shareholders, an executive Director, the chairman of the Board and the chief executive officer of our Company, is also one of the Registered Shareholders of Suzhou FriendTimes. In particular, Mr. Jiang holds 70.14% equity interest in Suzhou FriendTimes and is one of the directors of Suzhou FriendTimes. Conflicts of interest between their dual roles in our Company and in Suzhou FriendTimes may arise.

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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 the Operating Entity to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive economic benefits from the Operating Entity. If we cannot resolve any conflicts of interest or disputes between us and these shareholders of the Operating Entity, 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 the Operating Entity and its 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 results of operations and damage our reputation.

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

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the SAC 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 Suzhou FriendTimes, injunctive relief and/or winding up of Suzhou FriendTimes. 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 Suzhou FriendTimes in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in Suzhou FriendTimes in favour of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against Suzhou FriendTimes as interim remedies to preserve the assets or shares in favour of any aggrieved party. Our PRC Legal Advisers are also of the view that, even though the Contractual Arrangements provide that courts in Hong Kong, the Cayman Islands and courts in other countries with jurisdiction may grant and/or enforce interim remedies or in support of 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. As a result, in the event that Suzhou FriendTimes or any of its shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Suzhou FriendTimes and conduct our business could be materially and adversely affected.

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

Suzhou FriendTimes holds certain assets that are important to our business operations. Our Contractual Arrangements with Suzhou FriendTimes and its shareholders contain terms that specifically obligate its shareholders to ensure the valid existence of Suzhou FriendTimes and that Suzhou FriendTimes may not be voluntarily liquidated. However, in the event the shareholders breach this obligation and voluntarily liquidate Suzhou FriendTimes, or Suzhou FriendTimes 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 Suzhou FriendTimes undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

The Contractual Arrangements between Suzhou Eagle and Suzhou FriendTimes may subject our Group to increased income tax due to the different income tax rates applicable to Suzhou Eagle and Suzhou FriendTimes, which may adversely affect our results of operations.

Under the Contractual Arrangements, Suzhou FriendTimes is required to pay to Suzhou Eagle service fees that equal to the profit of Suzhou FriendTimes, after offsetting the prior-year loss (if any), deducting statutory reserves, necessary costs and expenditures of operations and tax of Suzhou FriendTimes in any given year, and Suzhou Eagle has the right to adjust the level and/or amount of the service fees based on the actual service scope and with reference to the operating conditions and expansion needs of Suzhou FriendTimes. Such service fee payments to Suzhou Eagle reduce Suzhou FriendTimes's taxable income and correspondingly increase the taxable income of Suzhou Eagle, which, due to the different income tax rates applicable to Suzhou Eagle and Suzhou FriendTimes, have affected and may continue to affect our results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

We have benefited from a series of preferential tax treatment, which have contributed significantly to our results of operations during the Track Record Period. However, Suzhou Eagle is currently subject to the regular income tax of 25% and has yet to apply for and does not currently enjoy preferential tax treatment.

Due to the higher income tax rate applicable to Suzhou Eagle than Suzhou FriendTimes after the Contractual Arrangements are in place since 20 February 2019, if Suzhou FriendTimes transfers its before-tax profits to Suzhou Eagle, such transfer may result in increased income tax expenses for our Group on a consolidated basis, which may materially and adversely affect our results of operations, particularly, our net profit and net profit margin. For illustrative purpose, if we had been operating under the Contractual Arrangements during the Track Record Period and that Suzhou Eagle was not able to enjoy any preferential tax treatment, and, for the sake of prudence, assuming the consultancy and technical service fee paid by Suzhou FriendTimes to Suzhou Eagle under the Contractual Arrangements is not accepted by the tax authority as tax deductible on the part of Suzhou FriendTimes, we would have incurred additional income tax expenses of approximately RMB20.2 million, RMB29.5 million,

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RMB84.2 million and RMB21.7 million for each of the year ended 31 December 2016, 2017, 2018 and the three months ended 31 March 2019, respectively, resulting in a decrease of net profit by such amount during the corresponding period.

The Contractual Arrangements entered into among Suzhou Eagle and Suzhou FriendTimes and the Registered Shareholders may be subject to scrutiny by the PRC tax authorities and any transfer pricing adjustment or any finding that we or Suzhou FriendTimes owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under the Contractual Arrangements among Suzhou Eagle and Suzhou FriendTimes and the Registered Shareholders, Suzhou FriendTimes will transfer substantially all of its profit to Suzhou Eagle (after offsetting the prior-year loss (if any), deducting statutory reserves, necessary costs and expenditures of operations and tax of Suzhou FriendTimes in any given year), which will substantially reduce Suzhou FriendTimes'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 Suzhou Eagle by Suzhou FriendTimes 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 Suzhou FriendTimes 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 Suzhou FriendTimes, which could in turn increase Suzhou FriendTimes'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 Suzhou FriendTimes for any unpaid taxes. Our consolidated net income may be materially adversely affected if Suzhou FriendTimes'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 Suzhou FriendTimes may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

By virtue of our Contractual Arrangements, Suzhou Eagle has the exclusive right to purchase all or any part of the equity interests in Suzhou FriendTimes from the Registered Shareholders for free or at nominal consideration, unless the relevant governmental authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Suzhou Eagle also has the exclusive right to purchase all or any part of the assets in Suzhou FriendTimes for free or at nominal consideration, unless the relevant governmental authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount.

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Moreover, where the purchase price is required by the relevant governmental authorities to be an amount other than an agreed price, Suzhou FriendTimes or the respective shareholders shall return the amount of purchase price they have received to Suzhou Eagle. If such a refund takes place, the competent tax authority may require Suzhou Eagle to pay enterprise income tax for such refund as its income, in which case Suzhou Eagle may be subject to a substantial amount of tax.

Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 FIL, the status of the 2015 Draft FIL and how they may impact the viability of our current corporate structure, corporate governance and business operations.

2015 Draft FIL

The MOFCOM published the 2015 Draft FIL in January 2015 for public review and comments aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The 2015 Draft FIL embodies an expected PRC regulatory trend to rationalise its foreign investment regulatory regime in line with prevailing international practise and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. While MOFCOM solicited comments on the 2015 Draft FIL in early 2015, substantial uncertainties exist with respect to its status. The 2015 Draft FIL, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the 2015 Draft FIL expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise (“**FIE**”). The 2015 Draft FIL specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor, provided that the entity is “controlled” by PRC entities and/or citizens. In this connection, “foreign investors” refers to the following subjects making investments within the PRC: (i) natural persons without PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; and (iv) international organisations. Domestic enterprise under the control of the subjects as mentioned in the preceding sentence are deemed foreign investors. “Control” is broadly defined in the draft law to cover the following categories: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of properties, voting rights or other similar rights of the subject entity; (ii) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting rights or other similar rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders’ meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations.

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Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a “Catalogue of Special Administrative Measures”, which is classified into the Catalogue of Prohibitions and the Catalogue of Restrictions, to be separately issued by the State Council later. Foreign investors are not allowed to invest in any sector set forth in the Catalogue of Prohibitions. However, unless the FIE is engaged in the any sector listed in the Catalogue of Restrictions or Catalogue of Prohibitions, which calls for market entry clearance by the MOFCOM, prior approval from governmental authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

Impact of the 2015 Draft FIL on VIE and our Group

The VIE structure has been adopted by many PRC-based companies, including us, to obtain necessary licences and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. Under the 2015 Draft FIL, VIEs that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. Therefore, for any company with a VIE structure in an industry category that is on the Catalogue of Restrictions or Catalogue of Prohibitions, the VIE structure may be deemed a domestic investment only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the VIEs will be treated as FIEs and any operation in the industry category on the Catalogue of Restrictions or Catalogue of Prohibitions without market entry clearance may be considered as illegal.

In addition, the 2015 Draft FIL does not indicate what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC entities and/or citizens. Moreover, it is uncertain whether the mobile game industry, in which our Operating Entities operate, will be subject to the foreign investment restrictions or prohibitions set forth in the “Catalogue of Prohibitions or Catalogue of Restrictions” to be issued.

2019 FIL

On 23 December 2018, the 7th meeting of the 13th Standing Committee of the National People’s Congress reviewed the 2018 Draft FIL, which was promulgated by the National People’s Congress on its official website on 26 December 2018 to seek public comments. The public commenting period was closed on 24 February 2019. On 15 March 2019, the 2019 FIL was finally adopted by the second session of the 13th National People’s Congress and will become effective on 1 January 2020. The 2019 FIL, when becomes effective on 1 January 2020, will replace the Law on Sino-foreign Equity Joint Ventures, the Law on Sino-foreign Contractual Joint Ventures and the Law on Foreign-capital Enterprises to become the legal foundation for foreign investment in the PRC.

The 2019 FIL does not mention concepts including “de facto control” and “controlling through contractual arrangements”, nor did it specify the regulation on controlling through contractual arrangements. Furthermore, the 2019 FIL does not specifically stipulate rules on the industry in which we operate.

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Notwithstanding the above, the 2019 FIL stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council”. Therefore, there are possibilities that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment and our Contractual Arrangements will be regarded as foreign investment. If that is the case, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are subject to uncertainties.

Measures taken by our Group to ensure compliance with 2019 FIL may not be effective

To ensure compliance with the 2019 FIL which will become effective on 1 January 2020 and to make sure the Contractual Arrangements remain a domestic investment so that our Group can maintain control over our Operating Entities and receive all economic benefits derived from our Operating Entities, Mr. Jiang shall give an undertaking to our Company to ensure compliance with the 2019 FIL by our Group. For details of the measures, see “Contractual Arrangements — Potential Measures to Maintain Control over and Receive Economic Benefits from Our Operating Entities” in this prospectus. However, there may be difficulties in the enforcement of such undertaking if Mr. Jiang, our ultimate Controlling Shareholder, fails to maintain his Chinese citizenship or loses his control over our Company, causing our Company to become controlled by non-PRC entities.

Potential consequences for our Group

If any future laws, administrative regulations or provisions issued by the State Council stipulates contractual arrangement as a way of foreign investment, our Contractual Arrangements may be regarded as invalid and illegal. As a result, we will not be able to operate our online game business through the Contractual Arrangements and will lose our rights to receive the economic benefits from our Operating Entities, such that the financial results of these entities would no longer be consolidated into our financial results and we will have to derecognise their assets and liabilities according to the relevant accounting standards and we may even be required to dispose our online game business under the Contractual Arrangements. In such case, the Hong Kong Stock Exchange may also consider us to be no longer suitable for listing and delist our shares. Please refer to the section headed “Contractual Arrangements — Potential Impact to our Company in the Scenario that the Contractual Arrangements are not Treated as a Domestic Investment” for further details.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

We are primarily targeting China's mobile game market and conducting a substantial part of our operations in the PRC. Accordingly, our business, financial condition, results of operations and prospects are, to a significant extent, subject to the economic, political and social conditions as well as government policies of the PRC. The PRC economy are different from the economies of other developed countries in many perspectives, including the amount and degree of the PRC government involvement and control, the level and control of capital investment and the overall level of development. The PRC economy has been affected by the economic reform and is transitioning to a more market-oriented economy. PRC government has implemented measure 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 the PRC economic growth. We cannot predict whether changes in the PRC's economic, political, social and legal conditions and policies will have any adverse effect on our business, financial condition, results of operations and prospects. It could be negative impact on our business and financial condition when any measures implemented by the PRC government intended to slow down certain segments of the economy, in particular the mobile applications industry, which could decrease our players' expense on our offerings and slowdown the expanding of our player base.

Uncertainties and change in relation to the PRC legal system could adversely affect our business and operations.

We are a company incorporated under the laws of the Cayman. 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. The laws and regulations governing general economic matters and forms of foreign investment are promulgated. These laws and regulations are subject to constant reviews, and their interpretation and enforcement makes uncertainties that could limit the legal protections available to us.

In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. Because of it, 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. There 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 and results of operations. We cannot predict future developments in the PRC legal system. We

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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.

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 online games, players may acquire and accumulate virtual assets, such as special equipment, player experience grades and other features of their avatars. Such virtual assets can be important to players and have monetary value. In practise, virtual assets can be lost for various reasons, such as through unauthorised use of the game account of one player by other players and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. Under the General Provisions of Civil Law* (民法總則), effective in October 2017, data and virtual assets are listed as civil rights protected by laws and must be protected according to specific rules governing such matters. 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 mobile games such as us would have any liability to players or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. In case of a loss of virtual assets, we may be sued by our players and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We have not been involved in any virtual assets related law suits. However, we cannot assure you that such law suits will not be brought against us in the future.

Based on several judgements by PRC courts regarding the liabilities of game operators for loss of virtual assets by players, the courts have generally required the game operators to provide well-developed security systems to protect such virtual assets owned by players 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 players' 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 licencing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. With regard to the mobile game industry in China, various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the SAIC, the NAPP, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the internet and online game industries. There exist potential inconsistencies and ambiguities in the regulations promulgated by different government authorities. Our game publisher partners are 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 or 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.

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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 mobile game businesses. If these new laws, regulations or policies are promulgated, additional licences may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licences required under these new laws and regulations, we could be subject to penalties and our business operations could be disrupted.

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

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

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

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. Also, all of our payments with Apple, including payments incurred in China, are settled in U.S. dollar even though it is not the local currency. However, the proceeds of the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rate between the RMB and the Hong Kong dollar or the U.S. dollar may affect the value of our proceeds of the Global Offering and result to incur foreign exchange losses and adversely affect the value of, and any dividends issued by our PRC subsidiaries. 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. During the Track Record Period, we had incurred net exchange loss of RMB10.5 million in 2017 and RMB5.7 million for the three months ended 31 March 2019 due to the appreciation of RMB against U.S. dollar during 2017 and 2019.

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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 Renminbi 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 players in countries and regions outside China, who make in-game purchases in foreign currencies through third-party payment channels. Therefore, we bear foreign exchange risk from various currency exposures which may affect our results of operation.

There are limited hedging instruments available in China for reduction of our exposure to exchange rate fluctuations. 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 dividend payments on 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 China that have the licences 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 Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, 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 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, operating results and financial condition, may be materially and adversely affected.

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

As an offshore holding company, we rely in part on dividends from our PRC subsidiaries for our cash requirements, dividends payments and other distributions to our Shareholders, and to service any debt that we may incur and pay our operating expenses. The payment of dividends by entities organised in China is subject to limitations. In particular, PRC regulations permit our subsidiaries to pay dividends only out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, our PRC subsidiaries are required each year to set aside at least 10.0% of its annual after-tax profits (as determined under PRC accounting standards) into its statutory reserve fund until the aggregate amount of that reserve reaches 50.0% of such entity's registered capital. These reserves are not distributable as cash dividends.

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

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 10.0% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment or place of business if the relevant income 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 Individual Income Tax Law* (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 20.0% and gains from PRC sources realised by such investors on the transfer of shares are generally subject to 20.0% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

Due to our business operations conducted in several jurisdiction, 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 purpose, 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 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

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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.

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

Our Company was incorporated under the laws of the Cayman Islands and indirectly hold interests in a Hong Kong-incorporated subsidiary, which in turn directly or indirectly hold interests in our PRC subsidiaries. Pursuant to the 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 10.0% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Under an arrangement between China and Hong Kong, effective in January 2007, such dividend withholding tax rate is reduced to 5.0% for dividends paid by a PRC company to a Hong Kong-resident enterprise if such Hong Kong entity is a "beneficial owner" and such entity directly owns at least 25.0% of the equity interest of the PRC company. 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* (國家稅務總局關於收稅協定中“受益所有人”有關問題的公告), which became effective in April 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 our Hong Kong subsidiary fails to submit required documents for enjoying 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 our Hong Kong subsidiary will be subject to withholding tax at the rate of 10.0%.

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

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known as Bulletin 45, effective in September 2011 and amended on 1 June 2015, 1 October 2016 and 15 June 2018 to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises.” Bulletin 45 provides for, among other matters, procedures for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises that are registered outside China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general.

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

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

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

The SAT released the Announcement on Several Issues concerning the Corporate Income Tax on the Indirect Transfers of Properties by Non-resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “SAT Notice 7”), which became effective on 3 February 2015. Under the SAT Notice 7, if a non-resident enterprise indirectly transfer its property like shares in a resident enterprise without a reasonable commercial purpose in order to avoid its income tax obligations, this indirect transfer shall be redefined and be regarded as direct transfer of the aforementioned property. “Indirect transfer of Chinese taxable assets” means the transaction which produces a result identical or substantially similar to the direct transfer of Chinese taxable assets by a non-resident enterprise through transfer of equities and other similar rights and interests of an overseas enterprise that directly or indirectly holds Chinese taxable assets (excluding Chinese resident enterprises registered outside China), including the circumstances under which the overseas enterprise’s shareholders change due to the restructuring of the non-resident enterprise (thereafter refers as “indirect transaction”). Accordingly, the transferee of indirect transaction shall be deemed as a withholding agent with the obligation to withhold and remit the enterprise income tax to the competent PRC tax authorities. Factors that may be taken into consideration when determining whether there is a “reasonable commercial purpose” include, among other factors, the economic essence of the transferred shares, the economic essence of the assets held by the overseas holding company, the taxability of the transaction in offshore jurisdictions, and economic essence and duration of the offshore structure, the relevant tax treaties or arrangements. The SAT Notice 7 also sets out safe harbours for the “reasonable commercial purpose” test.

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There is little guidance and practical experience regarding the application of the related SAT Notices. For example, while the term “indirectly transfer” is not defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions.

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

PRC regulations over loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by 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 counterpart and register with the SAIC 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 subsidiaries 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 subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of the Global Offering to fund our operations in China may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

Any failure by the Shareholders or beneficial owners of our Shares who are PRC residents to comply with certain PRC foreign exchange regulations relating to offshore investment activities by such PRC residents could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.

The SAFE has promulgated the Circular 37, which was effective on 4 July 2014. 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, or an 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 13 February 2015, the SAFE promulgated the Circular 13 which was

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effective on 1 June 2015. 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, the Registered Individual Shareholders, who are our beneficial owners and PRC resident, 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 relevant requirements could subject these shareholders of our Company to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

We may be unable to complete a business combination transaction efficiently or on favourable terms due to complicated merger and acquisition regulations and certain other PRC regulations.

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE, jointly issued the M&A Rules, which became effective on September 8, 2006 and was amended in June 2009. The M&A Rules, governing the approval process by which foreign investors merger with PRC business entities and or acquire PRC assets and/or equity interests in PRC business entities, require the PRC parties to make a series of applications and supplemental applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Accordingly, due to the M&A Rules, our ability to engage in cross-border business combination transactions has become significantly more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

The M&A Rules allow PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and other relevant government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The M&A Rules also prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets in order to prevent disguised transfer of capital from China to foreign countries, and in certain structures, among others, in the structures where foreign investors merger with Chinese enterprises and establish foreign-invested enterprises, require that considerations must be paid within defined periods, generally not in excess of a year after the business licence of the foreign-invested enterprise has been issued. In addition, the M&A Rules also limit our ability to negotiate various terms of the acquisition, including aspects of the initial consideration,

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contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities to evade obligations under the M&A Rules are prohibited.

Moreover, the Anti-Monopoly Law of the People's Republic of China* (中國人民共和國反壟斷法), effective from August 1, 2008, and relevant implementation rules require that the MOC be notified in advance of any of concentrations of undertaking if certain turnover thresholds are triggered. Besides, Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知), issued on February 3, 2011 and became effective on March 3, 2011, 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 proxy or contractual control arrangement.

Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on legal and/or financial terms that satisfy our investors and protect our Shareholders' economic interests.

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 employee equity incentive plans after it becomes an overseas listed company upon the completion of the Global Offering. 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 listed 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 listed 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 proceeds 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 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.

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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 legal process or to enforce any judgements obtained from non-PRC courts against us and our management.

Substantially all of our assets and the assets of 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 those persons inside China or enforce against us or those persons in China any judgements obtained from non-PRC courts.

On 14 July 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 is revised on 3 July 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 18 January 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 with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in China of judgements of a court in any of these jurisdictions may be difficult or impossible.

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Inflation in China could negatively affect our profitability and growth.

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

Our business operations may be adversely affected by natural disasters, acts of God and occurrence of any public health problem.

Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. An outbreak of any widespread public health problem, such as severe acute respiratory syndrome (also known as SARS), avian influenza, H1N1 influenza or MERS, if protracted and uncontrolled, especially in the cities where we have operations, may result in material disruptions to our game development business, which in turn may adversely affect our financial condition and results of operations.

RISKS RELATING TO GLOBAL OFFERING

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

Before the Global Offering, there was no public market for your Shares. The initial offer price range of our Shares was the result of negotiations between the Sole Representative (on behalf of the Underwriters) and us, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. While we have applied to have our Shares listed on the Hong Kong Stock Exchange, there is no guarantee that the Global Offering will result in an active, liquid public trading market for our Shares. The liquidity, trading 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 trading price of our Shares.

The Offer Price may not be indicative of prices that will prevail in the trading market since there will be a gap of several days between pricing and trading of our Shares.

The Offer Price of our Share is expected to be determined on the Price Determination Date. Because our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five business days after the Price Determination Date. Investors may not be able to sell or deal in our Shares during the period between pricing and trading of the Shares. Therefore, investors are subject to the risk that the initial trading price of our Shares may be lower than the Offer Price as a result of adverse market conditions or other adverse development, that could occur between the time of sale and the time trading begins.

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Possible setting of the Offer Price after making a Downward Offer Price Adjustment.

We have the flexibility to make a Downward Offer Price Adjustment to set the final Offer Price at up to 10% below the bottom end of the indicative Offer Price range per Offer Share. It is therefore possible that the final Offer Price will be set at HK\$1.37 per Offer Share upon the making of a full Downward Offer Price Adjustment. In such a situation, the Global Offering will proceed and the Withdrawal Mechanism will not apply. If the final Offer Price is set at HK\$1.37 per Offer Share, the net proceeds we will receive from the Global Offering will be reduced by HK\$118.4 million and such reduced proceeds will be used as described in “Future Plans and Use of Proceeds — Use of Proceeds”.

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

The future sale of a significant number of our Shares in the public market after the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Please refer to the section headed “Underwriting — Underwriting Arrangements and Expenses” in the prospectus 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 price of our Shares to decline which could adversely affect our future ability to raise capital.

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

We plan to use the net proceeds from the Global Offering in a number of ways. Please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus for further details. However, our management will have discretion as to the actual application of our net proceeds. Our management may spend the net proceeds from the Global Offering 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 net proceeds from this Global Offering.

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

We cannot assure you when and in what form dividends will be paid on our Shares after the Global Offering. The declaration and distribution of dividends is at the discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including 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 refer to the section headed “Financial Information — Dividends” in this prospectus 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 trading market for our Shares may be affected by research reports about us or our business published by the industry or securities analysts. The market price of our Shares would possibly decline if one or more analysts who cover us downgrade our Shares or publish negative opinions about us regardless of the accuracy of the information. We may lose visibility in the financial markets if one or more of these analysts cease coverage of us or fail to regularly publish reports on us, which could cause the market price or trading volume of our Shares to decline.

Certain facts, forecasts and statistic contained in this prospectus are derived from various publicly available official sources and may not be reliable.

Certain facts, forecasts and other statistics contained in this prospectus relating to various countries and regions and the mobile 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, we cannot guarantee the quality or reliability of such source materials.

The information has not been prepared or independently verified by us, the Sole Sponsor, the Underwriters or any other party (other than Frost & Sullivan) involved in the Global Offering 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 China. Accordingly, the industry information and statistics contained herein may not be accurate and should not be unduly relied upon for your investment.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

MANAGEMENT PRESENCE IN HONG KONG

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

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

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

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

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

JOINT COMPANY SECRETARY

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

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

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

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

See “Directors and Senior Management” in the prospectus for further information regarding the qualification of Mr. Liu and Ms. Fung.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering", and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" and in the relevant Application Forms.

UNDERWRITING

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

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

The Offer Price is expected to be fixed by the Sole Representative (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or about Friday, 27 September 2019 and, in any event, not later than Monday, 30 September 2019 (unless otherwise determined by the Sole Representative (on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed between the Sole Representative and our Company on or before Monday, 30 September 2019, the Global Offering will not become unconditional and will lapse immediately.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offer and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

DOWNWARD OFFER PRICE ADJUSTMENT

We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Shares. The ability to make a Downward Offer Price Adjustment does not affect our obligation to issue a supplemental prospectus and to offer investors a right to withdraw their applications if there is a material change in circumstances not disclosed in the prospectus.

If it is intended to set the final Offer Price at more than 10% below the bottom end of the indicative Offer Price range, the Withdrawal Mechanism will be applied if the Global Offering is to proceed.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

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

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

OVER-ALLOTMENT OPTION AND STABILISATION

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Tuesday, 8 October 2019. The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares will be 6820.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

REGISTER OF MEMBERS AND STAMP DUTY

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

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

PROFESSIONAL TAX ADVICE RECOMMENDED

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

EXCHANGE RATES

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

HK\$1.0000 : RMB0.90

US\$1.0000 : RMB7.05

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Jiang Xiaohuang (蔣孝黃)	Room 0804, Building No. 04 Jincheng Zhixing No. 58 Qihong Road Suzhou Industrial Park, Suzhou Jiangsu Province PRC	Chinese
Xu Lin (徐林)	Room 104, Building No. 10 Central View City No. 88 Jiuhua Road Suzhou Industrial Park, Suzhou Jiangsu Province PRC	Chinese
Sun Bo (孫波)	Room 212, Building No. 6 Hongshuwan Garden No. 1283 Xingwu Road Taihu New Town (Songling Town) Wu Jiang District, Suzhou Jiangsu Province PRC	Chinese
Wu Jie (吳傑)	No. 96 White Tower West Road, Suzhou Jiangsu Province PRC	Chinese
<i>Independent Non-executive Directors</i>		
Zhu Wei (祝偉)	Room 10-1203, Jiaduoli Garden Suzhou, Jiangsu Province PRC	Chinese
Tang Haiyan (唐海燕)	Room 502, Building No. 6 Yinxingyuan, No. 289 Jinmen Road Suzhou, Jiangsu Province PRC	Chinese
Zhang Jinsong (張勁松)	Room 1001, Unit 1, Building No. 11 Donghu Linyu Garden, Suzhou Jiangsu Province PRC	Chinese

See “Directors and Senior Management” in this prospectus for further information regarding our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Guotai Junan Capital Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Joint Global Coordinators

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

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

Joint Bookrunners

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

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

ABCI Capital Limited
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

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

Huatai Financial Holdings (Hong Kong) Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

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

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

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

Huatai Financial Holdings (Hong Kong) Limited
62/F, The Center
99 Queen's Road Central
Hong Kong

Co-lead Managers

Ever-Long Securities Company Limited
Room 1101–1102 & 1111–1112, Wing On Centre
111 Connaught Road Central, Sheung Wan
Hong Kong

HTF Securities Limited
Unit 1807, 18/F., Officer Tower, Convention Plaza
1 Harbour Road, Wan Chai
Hong Kong

Joicap Securities Limited
Suite 606, 6/F
One Pacific Place, 88 Queensway
Hong Kong

Tanrich Asia-Pac Securities Limited
Suite 801, 8/F., Central Plaza
18 Harbour Road, Wanchai
Hong Kong

Futu Securities International (Hong Kong) Limited
Unit C1–2, 13/F, United Centre
No.95 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to our Company

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

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

As to South Korea law:
Bae, Kim & Lee LLC
133 Teheran-ro, Gangnam-gu
Seoul, 06133
South Korea

As to Cayman Islands law:
Campbells
Floor 35, Room 3507
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Legal advisers to the Sole Sponsor and the Underwriters

As to Hong Kong law:
DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District, Beijing
China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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Reporting Accountants and Auditor	KPMG <i>Certified Public Accountants</i> 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Industry consultant	Frost & Sullivan (Beijing) Inc. Shanghai Branch Co. 1018, Tower B 500 Yunjin Road Shanghai China
Receiving bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Islands	Campbells Corporate Services Limited Floor 4, Willow House, Cricket Square Grand Cayman KY1-9010 Cayman Islands
Principal place of business in the PRC	Building 18, Scientific Park of Suhua No. 208 Tongyuan Road, Suzhou Industrial Park Jiangsu Province PRC
Principal place of business in Hong Kong	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company website	www.friendtimes.net <i>(The information on the website does not form part of this prospectus)</i>
Joint company secretaries	Mr. Liu Gongyou (劉功友) Room 301, Building No. 13 District No. 1, Baoci South Village Changshu City, Suzhou Jiangsu Province, PRC Ms. Fung Wai Sum (馮慧森) (ACIS, ACS) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Authorised representatives	Mr. Jiang Xiaohuang (蔣孝黃) Room 0804, Building No. 04 Jincheng Zhixing No. 58 Qihong Road Suzhou Industrial Park, Suzhou Jiangsu Province PRC Ms. Fung Wai Sum (馮慧森) (ACIS, ACS) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

CORPORATE INFORMATION

Audit committee	Mr. Zhu Wei (祝偉) (<i>Chairman</i>) Mr. Zhang Jinsong (張勁松) Ms. Tang Haiyan (唐海燕)
Remuneration committee	Mr. Zhang Jinsong (張勁松) (<i>Chairman</i>) Mr. Zhu Wei (祝偉) Mr. Jiang (蔣孝黃)
Nomination committee	Mr. Jiang (蔣孝黃) (<i>Chairman</i>) Mr. Zhang Jinsong (張勁松) Mr. Zhu Wei (祝偉)
Principal share registrar and transfer office	Campbells Corporate Services Limited Floor 4, Willow House, Cricket Square Grand Cayman KY1-9010 Cayman Islands
Hong Kong Branch Share Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Compliance adviser	Guotai Junan Capital Limited 27/F., Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Principal banks	China Construction Bank Suzhou Branch Jianyuan Building, No. 18 Suzhou Avenue Suzhou Industrial Park, Suzhou Jiangsu Province PRC The Hongkong and Shanghai Banking Corporation Limited 6/F, 88 Gloucester Road, Wan Chai Hong Kong

INDUSTRY OVERVIEW

This section contains information which is derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Representative, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriter, or any of their affiliates or advisers, nor any other party involved in the Global Offering and no representation is given as to its accuracy (other than Frost & Sullivan). The Directors believe, after taking reasonable care, that there have been no material adverse changes in the market information since the date of issue of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on, the mobile game market in the PRC for the period from 2013 to 2023. We paid Frost & Sullivan a fee of RMB550,000, which we believe reflects market rates for reports of this type.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of the female-oriented mobile game market in the PRC for the prospective investors. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the female-oriented mobile game market with the geographical focus in the PRC. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period from 2019 to 2023. In addition, Frost & Sullivan has developed its forecast on the bases and assumptions that (i) the economy in the PRC is likely to maintain stable growth in the next decade; (ii) the country and regions' social, economic and political environment is likely to remain stable in the forecast period; and (iii) the female-oriented mobile game market in the PRC is expected to grow based on the key industry drivers including rising consumption willingness, multiple purchasing channels, etc.

ABOUT FROST & SULLIVAN

Founded in 1961, Frost & Sullivan has 49 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practises advising, training, client research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990s. Frost & Sullivan has four offices in Hong Kong and direct access to the knowledgeable experts and market participants in the mobile game market. Its industry consultants have on average more than three years of experience.

OVERVIEW OF MOBILE GAME MARKET

Introduction

Mobile games refer to the games that can be downloaded and installed on mobile phones and tablets. Driven by the 4th Generation (4G) mobile communication technology and development of smartphone, the number of mobile internet users in the PRC experienced rocketing development and increased from 500.1 million in 2013 to 817.0 million in 2018, representing a CAGR of 10.3%. In line with the development of number of mobile internet users, the penetration rate of mobile internet users within the internet users in the PRC also increased from 81.0% in 2013 to 98.6% in 2018. With the increasing penetration rate of the mobile internet in the PRC, the mobile games have become a key part of online entertainment activities.

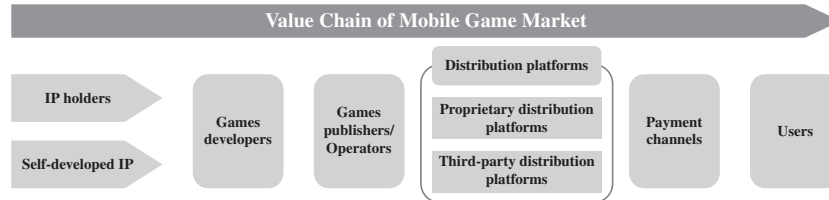
Industry value chain analysis

Generally, there are four different types of participants engaged in the whole value chain of the game market aside from users: game developers, game publishers/operators, distribution platforms and payment channels.

- **Game developers:** Game developers may self-develop new games or develop mobile games based on IP resources from IP holders. IP can come from diversified sources, such as online literature, movies, music, anime, cartoons and so forth. The responsibilities of game developers include development and designing of the game content, the pre-launch testing, the ongoing post-launch calibration of games to the provision of technical support for players and so forth.

INDUSTRY OVERVIEW

- **Game publishers/operators:** Publishers and operators are mainly responsible for the marketing, promotion and operation of games. It is likely that some publishers are equipped with capabilities of game development.
- **Distribution platforms:** Game publishers or operators could publish their games through their proprietary distribution platforms or through third-party platforms which include mobile carriers, online application stores, game portals, all of whom are in charge of the sales and distributions of the games to end users.
- **Payment channels:** Payment channels are mainly online third-party payment services providers such as Alipay, Wechat pay, Apple pay and others.

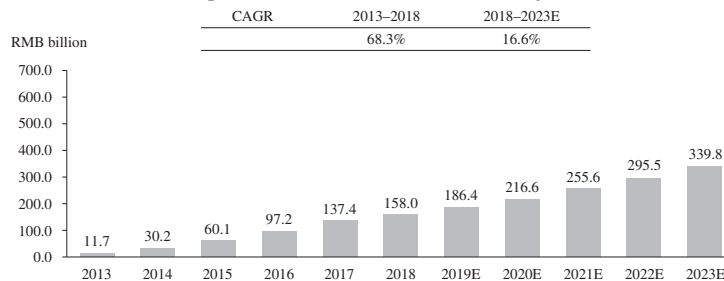


Source: Frost & Sullivan

Market size of mobile game market in the PRC

With increasing disposable income sustained by the stable macroeconomic environment in the PRC, people are conceiving stronger desire to spare more money and time on entertainment activities. Meanwhile, the popularity of electronic devices enables and facilitates users to access the mobile digital games during their leisure time. The size of the mobile game market in the PRC had achieved noticeable growth from RMB11.7 billion in 2013 to RMB158.0 billion in 2018 at a CAGR of 68.3% as a result of the more affordability of mobile phones and the rapid development in network infrastructure that increased the network speed. Besides, the abundant games genre ranging from RPG, SLG to market segments such as female-oriented games developed by game operators continue to enrich the mobile game market, attracting more users that are benefited from demographical dividend which means people range from the age of 15 to 60 take a large proportion of overall population, and therefore stimulates the market as well. However, following the significant growth of the PRC mobile market driven by, among other, affordability of mobile phone and improved network speed, with the readily advanced network infrastructure and, the gradually diminishing demographical dividend the future growth of mobile game market in the PRC has entered into a stable growth stage and the development tends to be more rational and sustainable. The market is estimated to grow to RMB339.8 billion in 2023, representing a CAGR of 16.6% from 2018.

Market size of mobile game market in the PRC, by revenue, 2013–2023E



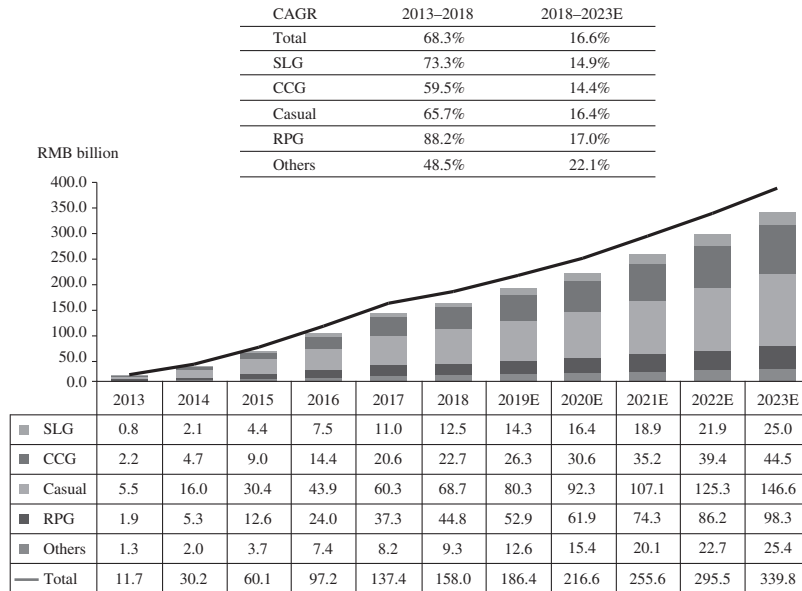
Source: Frost & Sullivan

Market size and competitive landscape of different game genres in the PRC

All the game genres of mobile games experienced a strong growth in the past five years. The SLG games and RPG games enjoyed most growth during that period, and the market share of RPG games will keep growing as it is the most popular genre in the PRC. Business simulation mobile games and love simulation mobile games are two segments of SLG games that generated revenue of RMB4.6 billion and RMB2.5 billion in 2018 respectively. As one kind of casual games, the market size of music games was RMB1.7 billion in 2018, accounted for about 1.1% of total mobile game market. As for MMORPGs games, the segment of RPG games, they contributed to around 21.0% of total mobile game market, with a revenue of RMB33.2 billion in 2018.

INDUSTRY OVERVIEW

Market size breakdown by mobile game genre in the PRC, by revenue, 2013–2023E



After years of rapid growth, the competitive landscape of certain game genres in the PRC are as follows:

- **RPGs:** RPGs refers to role-playing games in which users assume the roles of characters in an evolving fictional setting or world. RPG game accounted for 29.7% of the total mobile game market in the PRC in 2018. By April 2019, RPG mobile games accounted for a large proportion of the total number of mobile game products that obtained game publication numbers since the resumption of issuance of game publication numbers by the NAPP in December 2018. The market of RPG mobile game in the PRC is relatively concentrated.
- **MMORPGs:** MMORPGs is the abbreviation for massively multiplayer online-role-playing games. Generally, MMORPGs is inserted with tools to facilitate communication among game players. A majority of MMORPGs mobile games are adapted from PC games or famous IPs in order to attract more game players. The market of MMORPG mobile game was concentrated in 2018 with certain games from large competitors gained great popularity in 2018.
- **SLG:** SLG refers to simulation game that is generally designed to closely simulate real world activities. In 2018, the segment of SLG mobile game was considered concentrated and was dominated by the two largest mobile game market players in the PRC.
- **Management/Business simulation:** Business simulation mobile games is a subdivision of SLG focusing on players operating their own business. At present, business simulation mobile game market in the PRC is in a serious homogenization of competition and most top ranked business simulation mobile games are developed by foreign mobile game developers.
- **Love simulation:** Love simulation mobile games refer to a type of mobile game that mobile game users play a virtual character to date, usually choosing from among several characters, and to achieve a romantic relationship. Competition in the simulation mobile game market is intensifying with increasing number of market players hoping tap great growth potential of the market.
- **TCG/CCG:** Collective card game, also known as TCG (trading card game), is a type of game in which players acquire cards into a personal collection from which they create customized decks of cards and challenge other players in matches by crafting customized decks that play to synergies of card combinations. In 2018, the CCG market was relatively concentrated with leading mobile companies occupied most of the market,
- **Music game:** Music game is a genre of mobile game that gameplay is oriented around the player's interactions with a musical score or individual songs. Under the background of fast-growing causal games in the mobile game market in the PRC, the size of music game market rise accordingly. The music game market in 2018 was relatively fragmented with approximately 2,000 products appeared on Apple's app store.

INDUSTRY OVERVIEW

Paying ratio and annual ARPPU of mobile game market in the PRC

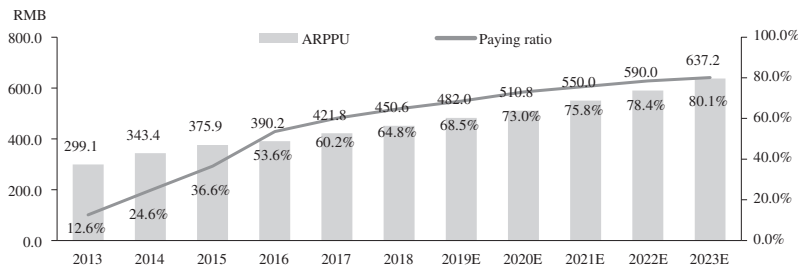
Annual ARPPU (Average revenue per paying user) reflects the paying capability of paying users for mobile games in a year. As players in the market are actively improving quality of mobile games via various measures such as content refinement and integration with different genres to increase users' paying willingness, annual ARPPU of mobile game market in the PRC would increase from RMB450.6 in 2018 to RMB637.2 in 2023 at a CAGR of 8.5%, demonstrating strong growth potential. The estimated CAGR is based on users' formation of paying habit for games and such estimated CAGR is sustained by the growing disposable income in the PRC which grew at a CAGR of 9.0% from 2013 to 2018 and is expected to maintain uptrend in the foreseeable future. Besides, with limited demographic dividend in the future, game operators are currently working on improving monetisation ability of games by improving game quality, adding more in-game functions, setting in-game reward advertising, establishing game communities and taking other measures to stimulate users' willingness to pay for games.

Paying ratio of mobile game experienced a booster at a CAGR of 38.8% over the period from 2013 to 2018 with such number growing from 12.6% in 2013 to 64.8% in 2018, which was mainly due to people's rising disposable income and increasing number of mobile games. As the mobile game market is moving towards content refinement, it could be expected that the improving game quality and attractiveness would strengthen users' willingness to pay in the future.

As compared to casual games, midcore to hardcore games usually have strong monetization ability featuring a relatively lower MAU but a higher ARPPU. It is typical for a mobile game that is reaching the later stages of its life cycle to recognize a decrease in MAU and DAU, while experiencing an increase in ARPPU as remaining players tend to be more loyal and spend more.

Paying ratio and annual ARPPU of mobile game market in the PRC, 2013–2023E

	CAGR	2013–2018	2018–2023E
ARPPU		8.5%	7.2%
Paying ratio		38.8%	4.3%



Source: Frost & Sullivan

Note:

1. Annual paying ratio equals annual number of mobile game paying user divided by number of annually active mobile game users.
2. Annual ARPPU refers to revenue generated by mobile games market divided by number of annually paying users in one year. Number of annually paying users refer to accumulated number of paying users in one year.

Life cycle of games

A type of mobile game (including midcore and hardcore online games) would experience three stages in terms of the life cycle, namely early growth stage, stable and mature stage and recession stage. After a game is launched, the number of game users including DAU, MAU, the game's ARPPU and revenue generated from such game tend to increase relatively fast as a result of the comprehensive marketing and promotion campaigns at the beginning stage, which falls within the early growth stage. In the stable and mature stage, the game has gained its player base and market share, therefore, the revenue generated from the game tend to be stable. However, the game's DAU and MAU may stay stable or even decrease, which is mainly due to the loss of casual users with time passing. During the stable and mature stage, the game's ARPPU usually keep rising mainly because (i) game developers will continuously launch version upgrades with new contents and gameplays, and (ii) the game has cultivated a group of loyal users who are willing to pay for the game. And then in the recession stage, gamed developers cease to put effort to upgrade the game and the game may be faced with loss of active users as some users may be attached by other new games (i.e. lower DAU and MAU) and loss interest in this game and start to pay less (i.e. lower ARPPU), therefore, there are not enough new players to supplement the player base, the number of players and revenue generated from the game tend to decrease. Any temporary decrease in the number of users or revenue, even a significant one, does not necessarily mean that a game has started its recession stage.

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The promotion and marketing expenses of a game will also fluctuate along with the progression of its lifecycle. Typically, at the early growth stage, the promotion and advertising expenses of a game tend to be increasing 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 players within a relatively short period of time. At the stable and mature stage, the overall promotion and advertising expenses of a game tend to be stable and lower than the early growth stage as we maintain regular promotion and marketing efforts for a game. It is a common understanding that a game is considered as having entered into recession stage when it significantly lost popularity and has become no longer profitable. In recession stage, the developer may cease to put effort in marketing, promotion and development as any further efforts and expenses incurred are not expected to bring in justifiable income. It is typical for a mobile game to have a relatively lower average DAUs, average MAUs and monthly paying players when it reaches stable and mature stage compared to its early growth stage and its ARPPU would be relatively higher in the stable and mature stage than early growth stage, which is primarily due to the greater spending of the keener players.

As compared to casual games, midcore to hardcore games usually have strong monetisation ability featuring a relative lower MAU but a higher ARPPU.

Market Drivers

- **Diversified demands from different users:** Male players used to dominate the user base of mobile games. However, with the development of different game genre especially those games that cater for the taste of female players, the percentage of female users in mobile games increased dramatically in the past two years. In addition, the penetration rate of smartphone keeps rising in view of the affordability that is sustained by advanced technologies, leading to the growing number of young users. Besides, for middle-aged and elderly users, mobile games that can fill up their leisure time also become attractive. Thus, demands from users of different groups would give impetus to the mobile game market.
- **Formation of paying habits:** Sustained by rising disposable income per capita in the PRC and increased purchasing power, consumers in the PRC have been demonstrating growing willingness to pay for entertainment activities, in particular online entertainment activities, such as mobile games. For instance, the mobile game market has accumulated a large number of loyal game users which could be reflected by the fact that paying ratio of mobile game has reached 64.8% in 2018 while annual ARPPU has reached RMB450.6 in the same year. It becomes another driving force for the mobile game market.
- **Lower cost in accessing internet:** During recent years, the Chinese government has been endeavoured to expand internet coverage, to improve internet speed and to lower communication cost across the nation by establishing a series of internet and communication infrastructure including 4G stations. Through efforts jointly made by the government and the three telecommunication operators in the PRC, units charged for broadband and mobile communication have witnessed a 90% and 83.5% decrease, respectively, from 2015 to 2017, while traffic consumption by mobile internet realised a year-over-year growth rate of 162.7% between 2016 and 2017, which enables people to access game applications with higher speed internet and lower cost, thereby driving the mobile game market accordingly.

Future Trends

- **Content remains to be the major focus:** As the consumption habits of users in the Chinese mobile game market keep upgrading during recent years, users begin to pay growing attention to the quality of game content including gameplay and function setting, interface design and so forth. In others words, game products that focus on innovative and high quality content have always been popular among users. Meanwhile, in order to expand user base and to further increase user stickiness to certain games, game operators will maintain their focus on product innovation to stay competitiveness in the market. Hence, it tends to become a trend that with the maturity of mobile game market, those boutique mobile games with high quality tend to attract large amount of users and have high user retention, thus demonstrating strong market presence in terms of monetisation.
- **Huge potential in overseas market:** Market players in the Chinese mobile game market intend to explore more market potential in overseas market in the near future to further enhance their profitability and to build up their international brand image. With years of game operation experience and mature R&D capabilities cultivated in domestic market, Chinese mobile game developers and operators are showing increasing interest in overseas regions such as Southeast Asia countries where their game market are still in the initial stage and are growing at a rapid pace. Developed regions such as South Korea, Singapore, Japan, Europe and the United States are also attractive markets for game operators to bring games with Chinese characteristics as the users in those markets have mature consumption habit and higher average spending on mobile games.

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ANALYSIS OF OVERSEAS MOBILE GAME MARKETS

Summary of overseas mobile game markets

For developed regions such as the United States, Japan, South Korea, Taiwan, Hong Kong and Singapore, their respective mobile game market is estimated to maintain stable growth in the foreseeable future. Major competitive focus of market players in those regions would pay attention to further increase the paying willingness of game users so as to improve their profitability and to strengthen market reputation. For developed regions such as the United States, Japan and South Korea, the mobile game market in the respective market has experienced a long development of history and is trending to enter into mature stage. The average disposable income per capita of Japan and South Korea are much higher than that of the PRC. Thus, the expected future CAGR for the growth of mobile game market in those regions will maintain at a relatively lower level based on the mature user paying habit, the sound internet and macroeconomic environment there. For other developed regions such as Hong Kong, Taiwan and Singapore, mobile game market there would achieve a higher CAGR in the foreseeable future, driven by multiple payment methods available in those regions which allows users to pay for games or get recharged in a more efficient way. Besides, the influx of overseas game to these markets which further diversified the market in terms of game genre, and therefore expected to attract more users, is another factor that tends to support the further growth of mobile game market there.

Apart from the PRC who has witnessed rapid development in the mobile game market during recent years, other emerging economies in Asia such as Vietnam and Thailand have also embraced strong momentum in terms of revenue generated by the mobile game market over the period from 2013 to 2018, which was upheld by the improving infrastructure, growing penetration of smart phones and rising disposable income in those regions. For Southeast Asian countries such as Vietnam who may have shared similar culture, history, religion with the PRC, people there have high acceptance of games with Chinese characteristics, which has brought opportunities to Chinese mobile game developers. Under such condition, Chinese mobile game developers who have realised the potentially huge market in those regions are currently exploring business opportunities via publishing games to those countries or by cooperating with local mobile or telecom operators to help market and promote games. From 2018 to 2023, the growth rate of mobile game market in Vietnam is expected to be higher than that of Thailand due to the demographical dividend that Vietnam enjoys, indicating that more people will be attracted to mobile games and thereby be monetised.

For certain markets where Chinese game developers and publishers have not yet poured in, such as Germany, France and the Middle East, their mobile game market are supported by mature internet infrastructure and high willingness to pay by users. The mobile game market in Germany and France were among the top five in terms of revenue in Europe in 2018. Currently, popular mobile game genres in these two countries are mainly SLG and certain kinds of casual games such as matching puzzle games while it is not easy for new game developers to compete with existing game developers in these markets with similar games without new further innovation. New market comers who can introduce mobile games featuring with historical and national characteristics to these two countries will be able to fill up the exiting blank market segments and as a strategy for Chinese game developers to penetrate and explore such markets. The number of female mobile game users in Germany and France growing from 4.7 million and 3.0 million in 2013, respectively, to 14.4 million and 9.1 million in 2018, respectively which represented a CAGR of 25.1% and 24.8%, respectively. The size of mobile game market in the Middle East exceeded USD1.2 billion in 2018. The development of the market is mainly driven by growing user base of female users (who tend to have more leisure time at home) and young users (as young generation aged under 30 years old take up more than 70% of the total population in the Middle East). Since young generation tend to show strong curiosity for new things including new game genre such as ancient Chinese style, it is a strategy for Chinese game developers to introduce ancient Chinese style mobile games to and explore potential opportunities in such market.

**Market size of overseas mobile game markets
by revenue (in millions of USD, except for percentage), 2013–2018, 2023E**

Country/Region	2013	2014	2015	2016	2017	2018	2023E	CAGR 2013–2018	CAGR 2018–2023E
Developed regions									
The United States	4,374.6	5,062.0	5,964.1	7,109.8	7,893.4	9,030.0	12,957.1	15.6%	7.5%
Japan	3,779.3	4,353.0	5,083.9	5,853.2	6,615.0	7,361.5	10,080.0	14.3%	6.5%
South Korea	2,094.9	2,622.0	3,136.0	3,897.1	4,392.0	4,831.2	6,902.3	18.2%	7.4%
Taiwan	145.8	361.8	525.8	642.8	727.8	837.0	1,383.1	41.8%	10.6%
Hong Kong	66.3	90.0	114.6	127.8	150.0	171.0	285.7	20.9%	10.8%
Singapore	66.8	92.0	120.6	160.6	200.1	235.3	358.9	28.6%	8.8%
Germany	253.7	317.1	387.8	469.3	557.0	645.1	947.8	20.5%	8.0%
France	474.5	583.6	700.3	826.4	962.3	1,116.3	1,628.4	18.7%	7.8%
Developing regions									
Vietnam	63.5	99.5	136.7	168.5	205.1	236.6	447.7	30.1%	13.6%
Thailand	104.5	147.7	186.2	214.1	242.4	266.6	414.2	20.6%	9.2%
Middle East	226.0	361.6	556.9	751.8	981.1	1,220.0	2,450.0	40.1%	15.0%

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Number of female mobile game users in Germany and France (in millions), 2013–2018

Country	2013	2014	2015	2016	2017	2018
Germany	4.7	6.4	8.3	10.3	12.4	14.4
France	3.0	4.0	5.1	6.3	7.7	9.1

Source: Frost & Sullivan

Monetization capability and paying habit of overseas mobile game markets

Compare with mobile game market in the PRC, market in developed regions such as the Japan and South Korea tend to have higher monetization capability than the PRC market with higher ARPPU. The average annual ARPPU in Japan and South Korea was US\$279.0 and US\$286.2 in 2018, respectively. As a result of such maturing market in Japan and South Korea, mobile game players have gradually formed good paying habits thus have higher willingness to pay for the games. Moreover, Japan and Korea have similar culture and history with the PRC, people there have high acceptance of games with Chinese characteristics, which has brought opportunities to ancient Chinese style female-oriented mobile games.

The United States mobile game market has a relatively long development of history and players there have formed mature paying habit. Number of female mobile game players accounted for over 50% of total mobile game market in the U.S. in 2018. Female-oriented mobile games, especially interactive mobile games that based on popular TV play appeal to young women are gaining popularity in the market. Female players in the U.S. have formed good paying habits in the mobile game market.

Future Trends

- **The United States:** Instant games such as H5 games, would become a major trend for the mobile game market in the United States, as one of the most popular social media platform in the United States, Facebook, acted as an early mover, who opened access to third party game developers in March 2018 followed by Google who also launched its instant games.
- **South Korea:** As the market becomes increasingly intensive, game operators will keep conducting effective marketing strategies in the future by expanding advertising channels and diversifying advertisement forms with the purpose for the achievement of the largest customer acquisition.
- **Japan:** Asian publishers especially those from the PRC are exploring the mobile game market in Japan, it is expected that Asian publishers are gaining much knowledge about how to attract Japanese users, i.e., the setting of illustration and voice of game roles. Thus, with persistent efforts, Asian players may embrace expanding market presence in Japan in the future.
- **Singapore:** As the most developed country in Southeast Asia, Singapore is equipped with sound mobile telecommunication infrastructure that has laid a solid foundation for the rapid development of the mobile game market, and a penetration rate of credit card higher than 50% that brings convenience for users to pay for games. Under such condition, overseas game publishers have been kept exploring the market. For instance, one of the leading Chinese game operators has been partnered with a local game developer to exploit Singapore market. It is expected that game publishers from the PRC will keep expanding their share in Singapore, bringing games that are featured with composite elements such as social, strategy and others to further enhance game players' paying willingness.
- **Vietnam:** RPG is one of the most popular game genres among Vietnam users and such trend is likely to continue in the future. In order to provide game users with better game experience in terms of sense of identification and immersion, game developers would put their emphasis on upgrading game versions, such as update the current 2D version to 3D version, which is considered an effective way to improve user experience and thereby to further enhance their stickiness to games.
- **Thailand:** Thai game market has many hard-core users who stick to hard-core games such as e-sports games. As users are more used to playing games on mobile devices than PCs, game operators in Thailand are attempting to reach more users by extending games to mobile platforms.

OVERVIEW OF FEMALE-ORIENTED MOBILE GAME MARKET IN THE PRC

Introduction

Female-oriented mobile game refers to a specific category of games that are designed for women or suitable for female players. Generally, female players take up a share of over 70% in the total users of female-oriented mobile games. Female-oriented mobile game market in the PRC accounted for 26.0% of the total mobile game market in the PRC in terms of revenue in 2018.

During the past years, the share of female players rose from approximately 25% in 2013 to approximately 50% in 2018. Not only start-up mobile game companies but also big corporations are making effort to design games that will attract and inspire female players. Different from male players, most female players focus on the entertainment and emotional communication of a mobile game. Their purpose of playing games is to kill time and to get emotional satisfaction. Generally speaking, female

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players prefer simulation mobile games, such as pet games, dress up games, and love simulation games. Female players are attracted to mobile games with enchanting story, exquisite picture and harmonious music, while male players pay more attention to gaming methods and enjoy pleasant brought by winning.

Classification

Female-oriented mobile games can be classified into two types, story based games and non-story based games, on the basis of whether a storyline exists to keep the game moving forward:

Story based female-oriented mobile games: Each story based female-oriented mobile game is embedded with a complete storyline to promote the whole process of the game step by step. At present, the story based female-oriented mobile games can be categorised according to different regional culture settings of the games, such as ancient Chinese style (*e.g. Legend of Empress 熹妃傳*). The players of story based female-oriented mobile games demonstrate a higher level of stickiness in terms of longer length of daily playing time and users have more willingness to pay. Story based female-oriented mobile games often presence with more consumption points such as limited props and costumes as well as unlocking branch lines. Therefore, more consumption points contributed to higher ARPPU than non-story based female-oriented mobile games.

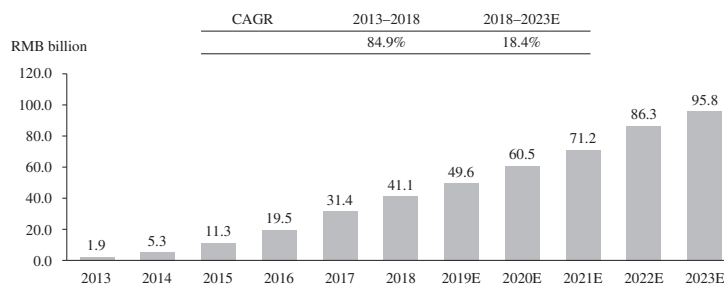
Non-story based female-oriented mobile games: Non-story based female-oriented mobile games are mostly leisure mobile games, such as elimination games (*e.g. Elimination Bingo 寶果消消樂*), stimulation games (*e.g. My Talking Angela 我的安吉拉*), waiting games (*e.g. Travel Frog 旅行青蛙*) and so forth. In general, non-story based female-oriented mobile games have higher DAU or MAU as they are suitable to kill gap-time such as commuting and waiting, and generally have few consumption points.

Market Size Analysis

- *Market size of female-oriented mobile game market in the PRC*

Owning to the increasing female consumption demand forced by continuously rising social status of women and growing number of female mobile players, the market size of female-oriented mobile games in the PRC in terms of revenue grew at a CAGR of 84.9%, rising from RMB1.9 billion in 2013 to RMB41.1 billion in 2018. The female-oriented mobile game market was a relatively new industry in 2013 and demands from players grew rapidly during this phase. Since giants of mobile game companies entered the female-oriented mobile game market, it is projected that the revenue of female-oriented mobile game market in the PRC would maintain the stable growth rate, reaching RMB95.8 billion in 2023, demonstrating a CAGR of 18.4% over the period from 2018 to 2023. Due to the entering of the market into mature stage, the gradually diminishing demographical dividend and higher barriers to entry in the long-term, the female-oriented mobile game market will grow at a relatively slower rate from 2018 to 2023. The market size of the segment of female-oriented mobile game took up a share of 26.0% in 2018 and such share is estimated to increase to 28.2% in 2023.

Market size of female-oriented mobile games in the PRC, by revenue, 2013–2023E



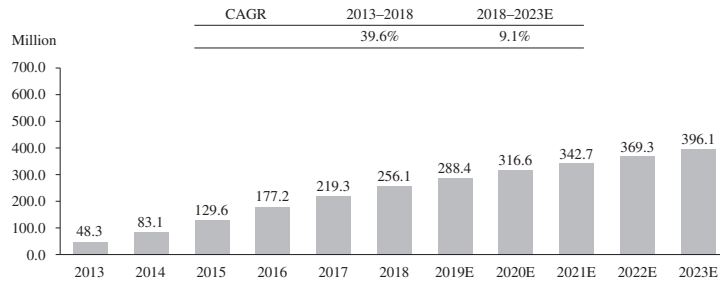
Source: Frost & Sullivan

- *Number of female-oriented mobile game players in the PRC*

The number of female-oriented mobile game players in the PRC increased steadily from 48.3 million in 2013 to approximately 256.1 million in 2018, representing a CAGR of 39.6%, mainly due to the gradual cultivation of mobile games into peoples' lives and the increasing number of female-oriented mobile games launched in recent years. Along with (i) the rapid development of the mobile game market in the PRC and the explosive growth of causal games that are appealing to women; (ii) Chinese females' increased economic capacity and purchasing power; (iii) female players' demand for more emotional satisfaction from playing games, the number of female-oriented mobile game players will grow at a CAGR of 9.1% since 2018 and reach 396.1 million by 2023, and the share of female-oriented mobile game players over total mobile game players in the PRC will increase from 37.7% in 2018 to 38.6% in 2023.

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Number of female-oriented mobile game players in the PRC, 2013–2023E



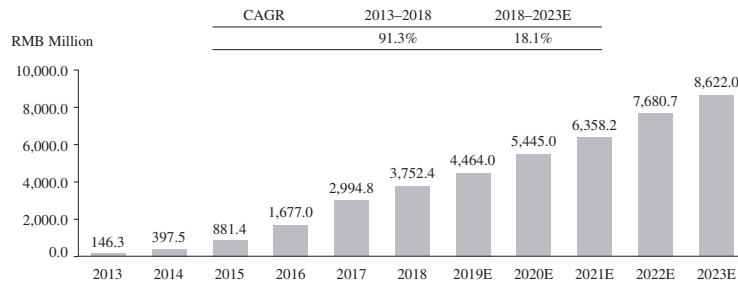
Source: Frost & Sullivan

- **Market size of ancient Chinese style female-oriented mobile game market in the PRC**

Ancient Chinese style female-oriented mobile game is a type of female-oriented mobile game. Such game market in the PRC has been gaining popularity in recent years. The size of ancient Chinese style female-oriented mobile game market in the PRC grew from RMB146.3 million in 2013 to RMB3,752.4 million in 2018 with a CAGR of 91.3%, accounting for approximately 9.2% of the total female-oriented mobile game market in the PRC in terms of revenue in 2018.

With the diversity and innovations in game background and game models, it is estimated that the ancient Chinese style female-oriented mobile game market in the PRC will grow to RMB8,622.0 million in 2023 with a CAGR of 18.1% from 2018 to 2023.

Market size of ancient Chinese style female-oriented mobile games in the PRC, by revenue, 2013–2023E



Source: Frost & Sullivan

Market Drivers

- **Increasing number of female players:** The percentage of female mobile game players in total mobile game players increased from around 25% in 2013 to around 50% in 2018. In addition, as Chinese females' social status has risen steadily over the past decade, their economic capacity and purchasing power increased as well. The increasing number of female players and higher paying ability drove the growth of female-oriented mobile game market in the PRC. It is projected that the increasing trend will continue in the future, thus will further promote the development of female-oriented mobile game market.
- **Further segmentation of female-oriented mobile game genre:** With the increasingly mature structure of female mobile game players and more fragmented features or interests or demands of the female players, further segmentation of female-oriented mobile game genre is likely to be generated. Under such condition, the female-oriented mobile game market in the PRC is likely to embrace further diversification and differentiation of categories, such as love stimulation games, dress up games and rising idol games. Such further segmentation of female-oriented mobile game market would attract more female players and provide more options for female players with different tastes. Therefore, the female-oriented mobile game market is likely to embrace more growth potential.
- **Demands for emotional satisfaction:** Due to increasing single rate, decreasing marriage rate and rising life pressure in the PRC, female players demand for more emotional satisfaction from playing games than male players, which can be better satisfied by female-oriented mobile games through relaxing gaming experience and high level of sociability. For example, love stimulation mobile games are able to provide caring and concerns for female players through establishment of fictional relationship between characters and female players, thus helping them release pressures from life and works. Female-oriented mobile games are usually easy to operate with delicate settings, such as exquisite game picture, thus have been perceived as a good choice to relax for females who are under

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great pressure brought by fast-paced work and life in urban city. Additionally, female-oriented mobile games aim at the establishment of in-game social system, thus players can interact with other game users via instant online chat and bullet-screen comments. The charm of playing games with a group of unacquainted users may keep maintaining female players' interest, which allows them to release stress while realising social connection. As more female players appeal to the emotional satisfaction brought by female-oriented mobile games, the market is expected to be further stimulated in the future.

Market Constraints

- **Increasing cost:** In order to enable game users to get access to mobile games via a variety of channels, female-oriented mobile game companies are dedicated to keeping expanding operating channels by establishing firm corporation relationship with different channel platforms while at the same time by making advertising and promotion plans to increase brand awareness among mobile game users, which however would consume much labour and financial resources. Additionally, production of ACG based female-oriented mobile games is usually correlated with hiring Japanese voice actors, thus generate further cost for development of products.
- **Tightening policies:** An Online Game Ethics Committee has been established in Beijing in 2018 under the guidance of the Publicity Department of the Communist Party of China. The Online Game Ethics Committee is responsible for the evaluation of whether certain games contain controversial ethic problems that affect Chinese teenage players. According to the China Central Television (CCTV), the committee denied licenses to nine games and advised eleven games to make changes to reduce ethical risks. Moreover, the Chinese government issued “Comprehensive Prevention and Control of Myopia in Children and Adolescents Implementation Plan” to control the total number of online games, explore an age-appropriate alert system, and limit the amount of time children spend playing online games. The tightening policies on the mobile game market also limit the expansion of female-oriented mobile game segment.

Opportunities and Threats

Opportunities

- **Utilising and commercialising of game IP:** In the future, female-oriented mobile game market tends to further cross-leverage with other industries via realisation of game IP. Benefiting from the rapid development of mobile game market in the PRC, the value of game IP is increasing as well. As hitting mobile games have accumulated a large user base, it has laid a solid foundation and has formed a certain influence for IP holders to roll out derivatives including its film, animation, literature and other fields. This represents particular potential for female-oriented mobile game operators. Utilising game IP in related industry helps game companies further expand their revenue scale. Meanwhile, mobile game companies are facing an upward trend in user acquisition cost. Game IP related products with their user traffic will help reduce the cost of mobile game companies to acquire users.
- **More integration with social interaction:** Currently, mobile game users have shown increasing passion for playing mobile games not only for self-entertainment but also for social intercourse. As social creatures, mobile game users desire to communicate and interact with others. Thus, opportunities come that female-oriented mobile game market would seek to establish a social system inside their games, which could provide users with such platforms to interact with others or to open more access to social media websites so that users could log in with their social media accounts and share their game performance with others.
- **Sourcing games from third party developers:** It is common for small and medium game developers to rely on other mobile game companies to publish and promote their games, due to limited capital and resources. It is also common for game publishers and operators with operating capabilities to publish and operate games operated by third parties. In order to compete with other market players in sourcing games from third party game developers, it is important for mobile game companies to possess capabilities to improve mobile games pursuant to player demand, effectively promote and market mobile games and acquire user traffic, and provide high-quality player services.

Threats

- **Price sensitivity of female users:** Generally, female users are more sensitive to prices compared with males and are cautious on paying for in-game services such as membership upgrading, game pops and so forth and hence, game operators are likely to face such careful attitude of female users towards game consumption. Moreover, unlike male users who have been major force of mobile games, female users are more cautious when making payments in mobile games. Since the cultivation of paying habit could not be achieved in a short period, it is considered as a challenge that game operators need to overcome in order to improve profitability.

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- **Dynamic user preferences:** How to develop products that are differentiated from other market players and to maintain sustainable product innovation ability with the purpose to retain users and to maintain competitiveness in the market is another challenge that game operators have to deal with in the female-oriented mobile game market. Due to the fact that preferences and aesthetics of female users tend to be influenced by a series of factors such as latest market trend, popular TV series and literature, recommendation from others and so forth, and they may switch to another female-oriented mobile game or other types of mobile games once they find the female-oriented mobile game they are playing is no longer fascinating or does not keep up with the latest market trend, it is of great significance for game operators to keep games continuously attracting users.

Future Trends

- **Expansion to the international market:** In order to gain more market share, the game companies in the PRC are now aiming at expanding their overseas market. Different from markets like Southeast Asia and South Korea, Europe and America have mature mobile game markets as well as higher willingness to pay from mobile game players. Therefore, domestic game companies have started to develop European and American market. Picture and emotion are two core elements in a game for female players in Europe and America. Also, In order to better convey the game content to the female players, story line is significant to enhance the loyalty of users. With the improvement in the quality of female-oriented mobile games and advancement in the localisation of products in the overseas market, the female-oriented mobile games launched abroad will better fulfil the needs of overseas players.
- **Increasing adoption of ACG based content:** As the number of ACG (Animation, Comic and Game) fans have exceeded 250 million in the PRC in 2018, such fan economy is likely to promote the segment of ACG games when the adaption of games has successfully fused popular nijigen elements. Nijigen elements (二次元元素) refer to a series of elements that usually used in anime and manga culture, including worldview setting, character setting and language styles. Since 2016, the ACG based mobile games, such as Onmyoji, Fate/Grand Order and Honkai Impact 3, have managed to draw the attention from the public. Hence, ACG based mobile games have experienced considerable growth. Majority of ACG mobile games in the market aimed at male players and characters in the games are often scantily-clad women. On the contrary, female-oriented mobile games usually create attractive male characters to meet the emotional need of female mobile players. In order to attract more female users and to improve their retention rate, female-oriented mobile games with ACG based content that fits for preferences of female users would be further developed by market players to stimulate female users' willingness to pay.

Entry Barriers

- **Industrial know-how:** As for story-based games, rich experience enables game developers to attract more players and improve players' stickiness. More specifically, ancient Chinese style female-oriented mobile games require developers to have thorough understanding of ancient Chinese history so as to achieve high degree of completion in terms of enchanting story, exquisite picture and harmonious music. Whereas some non-storyline games, such as the dress-up games, are easy to be duplicated with very low cost. Any newly developed game mode or charging mode will be exploited quickly. Thus, only those companies that have comprehensive understanding of demands from female users and sustainable innovation capability can remain competitive in the market.

Moreover, the accumulated deep understanding of female psychology enabled existing game operators to provide better game experience to female players. Compared to male players, female players demonstrate higher expectation for high-quality and attentive in-game services. For instance, female players usually prefer games with professional customer services including one-to-one VIP services, good customer care and special gifts, which thus poses entry barriers on the new entrants who lack or do not have such knowledge.

- **Development capacity:** As the competition intensifies, development capacity has become the core competency for female-oriented mobile game companies. Keep offering female players new games in accordance to their fast changing preferences is a key factor in attracting players. Development of those games requires heavy investment in time, capital and experts. With accumulated market experience and sufficient capital support, scaled mobile game developers possessed with strong R&D team are able to recognise changing markets demands and provide trendy games to further consolidate their market share. On the contrary, new entrants are likely to face limitation in resources and lack of capability in developing new products and upgrading existing products.

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- User base:** When there already exist a number of large female-oriented mobile game companies in the market, their products are deemed to be more credible and popular by mobile game users. Generally speaking, female players tend to be more loyal to mobile games than male players. Existing developers who have already successfully launched female-oriented games are easier to attract new users benefiting from their established brand awareness. They are not only able to attract new users, but are also able to reduce the cost of customer acquisition. Additionally, some popular female-oriented mobile games are readapted from existing IPs such as TV series or online literature which have already obtained popularity among people and accumulated large fans. Thereby, such games tend to attract a large amount of loyal users at the initial stage more easily.

COMPETITIVE LANDSCAPE ANALYSIS

Competitive landscape of female-oriented mobile game market in the PRC

As an emerging segment of mobile game market, female-oriented mobile game market has demonstrated strong growth potential. The fast-growing market has attracted a number of mobile game companies. The aggregated estimated revenue of the top five players attributable to female-oriented mobile games in 2018 was RMB8.4 billion, accounting for an aggregate share of 20.4% of the female-oriented mobile game market in 2018. The Company ranked the third among all competitors and its market share was 2.9% in 2018 measured by revenue from female-oriented mobile games. Due to the moderate entry barrier and the high market attractiveness at the current introduction phase, the competition in female-oriented mobile game market becomes more intense and it is expected to continue in the near future.

Ranking	Company name	Background	Estimated revenue from female- oriented mobile games in the PRC <i>(RMB billion)</i>	Estimated market share <i>(%)</i>
1	Competitor A	A large scale company based in Shenzhen specializes in various Internet-related services, products, entertainment and technology both in the PRC and globally. The Company is also a leading company in mobile game market in the PRC and is listed on the Hong Kong Stock Exchange with a market capitalisation of over HK\$3,000 billion.	3.8	9.2%
2	Competitor B	A mobile game developer and operator and is a private company. The Company possesses with several famous elimination games.	2.1	5.1%
3	The Group		1.2	2.9%
4	Competitor C	A mobile game developer with a focus on female-oriented mobile game including a series of dress-up games and love stimulation game. The Company is a private company.	1.1	2.7%
5	Competitor H	An online game developer and operator and is listed on the Hong Kong Stock Exchange. The game portfolio of the Company includes RPGs, endless running games, matching games and casual competition games with a market capitalisation of over HK\$5 billion.	0.2	0.5%
Top five total			8.4	20.4%
Total			41.1	100.0%

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Top five players in ancient Chinese style female-oriented mobile game market in the PRC

The ancient Chinese style female-oriented mobile game market was relatively concentrated in the PRC in 2018.

The Company ranked the first in ancient Chinese style female-oriented mobile game market in the PRC in 2018 in terms of revenue from ancient Chinese style female-oriented mobile games. In ancient Chinese style female-oriented mobile game market, only few companies in the PRC have the capability of providing high-quality products and obtaining IP from IP holders. Thus, the provision of mobile games with hitting IP and higher quality enables the Company to enhance the revenue and capture a higher market share in ancient Chinese style female-oriented mobile game market in the PRC. The table below sets forth the top five ancient Chinese style female-oriented mobile game companies ranked by revenue in 2018:

Ranking	Company name	Background	Estimated revenue from ancient Chinese style female-oriented mobile games in the PRC <i>(RMB million)</i>	Estimated market share <i>(%)</i>
1	<i>The Group</i>		1,183.1	31.5%
2	Competitor A	A large scale company based in Shenzhen specializes in various Internet-related services, products, entertainment and technology both in the PRC and globally. The Company is also a leading company in mobile game market in the PRC and is listed on the Hong Kong Stock Exchange with a market capitalisation of over HK\$3,000 billion.	108.6	2.9%
3	Competitor E	A mobile game developer and leading publisher of online multiplayer games. Founded in 2008, the Company is listed on the Shenzhen stock Exchange with a market capitalisation of over RMB30 billion.	70.3	1.9%
4	Competitor D	An online game developer and publisher specifically develop mid-core and hard-core games. The Company was founded in 2007 in Beijing and is listed on the Hong Kong Stock Exchange with a market capitalisation of over HK\$200 million.	23.4	0.6%
5	Competitor G	A mobile game publisher based in Beijing. The Company was founded in 2014 and is a private company.	19.1	0.5%
Top five total			1,404.5	37.4%
Total			3,752.4	100.0%

Source: Frost & Sullivan

REGULATIONS ON FOREIGN INVESTMENT

Foreign Investment Industrial Policy

The 2017 Catalogue was jointly promulgated by the NDRC and the MOFCOM on 28 June 2017 and became effective on 28 July 2017. The 2017 Catalogue divides industries into four categories in terms of foreign investment: (i) encouraged projects, (ii) permitted projects, (iii) restricted projects, and (iv) prohibited projects. If the industry in which the investment is to occur falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed.

The 2018 Negative List was promulgated by the NDRC and the MOFCOM on 28 June 2018 and became effective on 28 July 2018. The negative list for access of foreign investment specified in the 2017 Catalogue was repealed simultaneously. If foreign investment falls into areas prescribed in the 2018 Negative List, special administrative measures shall apply. The 2019 Catalogue and the 2019 Negative List, which become effective on 30 July 2019 and replace the 2017 Catalogue and the 2018 Negative List, further reduce restrictions on the foreign investment.

According to the 2019 Negative List and the 2019 Catalogue, the proportion of foreign investments in entities engaged in value-added telecommunications business shall not exceed 50%. The online publishing services business and internet cultural business remains as prohibited areas for foreign investment.

Foreign Investment on Value-added Telecommunications Services

Foreign-invested telecommunication enterprises must comply with the Provisions on the Administration of Foreign-invested Telecommunications Enterprises (2016 Revision) (外商投資電信企業管理規定(2016年修訂)) issued by the State Council on 11 December 2001 and last amended on 6 February 2016, which requires foreign-invested telecommunication enterprises to be established as Sino-foreign equity joint ventures in which the ultimate proportion of capital contribution from foreign investors shall not exceed 50%. In addition, the main foreign investor of a foreign-invested telecommunications enterprise engaging in value-added telecommunications business shall demonstrate a good track record and operation experience in operating value-added telecommunications business. Moreover, the establishment of foreign-invested telecommunications enterprises must obtain approvals from the MIIT and the MOFCOM, or their authorised local counterparts, which retain considerable discretion in granting approvals, for its commencement of value-added telecommunication business in China.

On 13 July 2006, the MII (which is the predecessor of the MIIT) released the Notice on Strengthening the Administration of Foreign Investment in Operation of Value-added Telecommunications Businesses (信息產業部關於加強外商投資經營增值電信業務管理的通知) (the “**MIIT Notice**”), pursuant to which, domestic telecommunications enterprises are prohibited to lease, transfer or sell a telecommunications business operation licence 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 Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunications service operator shall be legally owned by that operator (or its shareholders).

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Foreign Investment in Internet Cultural Business

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

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

The GAPP Online Game Notice jointly issued by the GAPP, the NCA and the National Office of the Combating Pornography and Illegal Publication, took effect on 28 September 2009, provides that foreign investors are prohibited from investing or engaging in online game operations and services in the PRC through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures. Foreign investors are also prohibited from gaining effective control over or participating in the online game operation business of domestic enterprises indirectly by establishing other joint ventures, entering into relevant agreements or providing technical support. The former GAPP and the SAPPRFT which consolidated the relevant responsibilities of the GAPP have not yet made or issued further interpretation, guidance or implementation rules in respect of the application and implementation of the GAPP Online Game Notice.

REGULATIONS ON ONLINE GAMES

Value-added Telecommunication Services

The Telecommunications Regulations of the PRC (中華人民共和國電信條例) (the “**Telecommunications Regulations**”), promulgated by the State Council on 25 September 2000 and last amended on 6 February 2016, provides a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations requires telecommunications services providers to obtain an operating licence prior to the commencement of their operations. The Telecommunications Regulations categorise telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalogue of Telecommunications Business (電信業務分類目錄), attached to the Telecommunications Regulations, which was promulgated by the MII on 25 September 2000 and last amended by the MIIT in June 2019, information services provided via fixed network, mobile network and internet fall within value-added telecommunications services.

The Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the “**Internet Measures**”), which was promulgated by the State Council on 25 September 2000 and amended on 8 January 2011, set out guidelines on the provision of internet information services. The Internet Measures classified internet information services into commercial internet information services and non-commercial internet information services and a commercial operator of internet content provision services must obtain a ICP Licence for the provision of internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications

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Businesses Operating Licencing (電信業務經營許可管理辦法), which was promulgated by the MIIT on 3 July 2017 and became effective on 1 September 2017, further regulates the telecommunications business licencing.

On 28 June 2016, the Cyberspace Administration of China promulgated the Administrative Provisions on Mobile Internet Application 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 became effective on 1 August 2016, to strengthen the regulation of the mobile application information services. Pursuant to the Mobile Application Administrative Provisions, an internet application programme 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 programme provider must not enable functions that can collect a user’s geographical location information, access user’s contact list, activate the camera or recorder of the user’s mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant application programmes, unless it has clearly indicated to the user and obtained the user’s consent on such functions and application programmes.

Regulatory Authorities

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

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

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periodically since December 2018. Beginning in December 2018, the NAPP at the national level started to approve new online games. According to the website of the SAPPRFT, since December 2018 till the Latest Practicable Date, the NAPP has issued over 1,000 game publication numbers.

The MOCT at the national level closed the online filing system for online games since July 2018. In May 2019, the General Office of the MOCT released the Notice on Adjusting the Scope of Examination and Approval regarding the Internet Cultural Operation Licence to Further Regulate the Approval Work (《關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》, the “**Notice on Adjusting Examination and Approval Scope**”), which further specifies that the MOCT no longer assumes the responsibility for the administration of online games industry. On 10 July 2019, the MOCT 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 MOCT on 10 July 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 MOCT no longer requires online games to complete the post-filing procedure; (ii) as of the Latest Practicable Date, no PRC laws and regulations have been officially promulgated regarding whether the responsibility of the MOCT 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 online filing requirement or new supervision requirements for the distribution and operation of online games; and (iii) subject to point (ii) above, as long as there is no governmental authority requiring similar online filing requirement or new supervision requirements for the distribution and operation of online games, the Company could launch new games after obtaining the requisite publication numbers from the NAPP, which will not constitute any non-compliance issues.

Online Game Publication

On 4 February 2016, the SAPPRFT and the MIIT issued the Administrative Measures on Internet Publishing Services (網絡出版服務管理規定) (the “**Internet Publishing Measures**”), which took effect from 10 March 2016. Pursuant to the Internet Publishing Measures, online publications such as games provided to the public through information networks must be approved by the SAPPRFT and obtain an Internet Publishing Service Licence. According to the Internet Publishing Measures, before publishing an online game, an online publishing service provider shall file application with the competent provincial-level publishing administrative department where it is located and the application, if reviewed and approved, shall be submitted to the SAPPRFT for approval.

The Notice Regarding the Administration of Mobile Games Publishing Services (關於移動遊戲出版服務管理的通知), which was issued by the SAPPRFT on 24 May 2016 and took effect from 1 July 2016, provides that game publishing services providers shall be responsible for examining the contents of their games and applying for game publication numbers. To apply for publication of domestically-developed mobile games in the leisure and puzzle category that are not related to political, military, national or religious topics or contents and have no or simple story lines, entities, the service providers shall submit the required documents to competent provincial publishing administrative departments where it is located at least 20 working days prior to the expected date of online publication (public beta). Service providers applying for publication of domestically-developed mobile games that are not

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included in the above-mentioned category and mobile games that are authorised by foreign copyright owners shall go through more stringent procedures, including submitting management accounts for content review and testing account for game anti-indulgence system. The game publishing services providers must set up a specific page to display the information approved by the SAPPRFT, including the copyright owner of the game, publishing service provider, approval number, publication number and others, and shall be responsible for examining and recording daily updates of the game. Concerning those mobile games (including pre-installed mobile games) that have been published and operated online before the implementation of this Notice, other requirements apply to maintain the publication and operation of such games online, relevant approval procedures would have to be implemented by the game publishing service providers in coordination with the provincial publication administrative departments before 1 October 2016 as required by this Notice. On 19 September 2016, the SAPPRFT further circulated the Notice on Extending the Relevant Work Time Limit in the Notice Regarding the Administration of Mobile Games Publishing Services (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) to extend the work time limit from 1 October 2016 to 31 December 2016.

Online Games Operations

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

Pursuant to the Notice of the State Commission Office for Public Sector Reform on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the MOC, SARFT and the GAPP (Zhong Yang Bian Ban Fa [2009] No. 35) (中央機構編製委員會辦公室關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋〉的通知) issued on 7 September 2009, under the centralised management of the MOC, the GAPP is responsible for the examination and approval process of online games prior to online publication. After such publication, the online games will only be administered by the MOC. Moreover, if an online game is launched on the internet without the prior approval of the GAPP, the MOC will be responsible for guiding the cultural market law enforcement team to conduct investigation and punishment.

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The Interim and Ex Post Supervision Notice has become effective since 1 May 2017, which sets out the requirements in relation to the following aspects of online games: (i) clarifying the scope of online game operation; (ii) regulating services for issuance of virtual items of online games; (iii) strengthening the protection of the rights and interests of online game users; (iv) strengthening the interim and ex post supervision of online game operation; and (v) stringent investigation and punishment of illegal operating activities.

On 10 July 2019, the MOCT 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 (文化和旅游部關於廢止〈網絡遊戲管理暫行辦法〉和〈旅游發展規劃管理辦法〉的決定), which specifies that the Online Game Measures was abolished by the MOCT on 10 July 2019.

Content Review

The Internet Measures stipulates that internet information service providers shall not produce, reproduce, distribute or disseminate information that includes the following contents: (i) content that is against the basic principles determined by the State's constitution, (ii) content that impairs national security, divulges State secrets, subverts State sovereignty or jeopardises national unity, (iii) content that damages the reputation and interests of the State, (iv) content that incites ethnic hostility and ethnic discrimination or jeopardises unity among ethnic groups, (v) content that damages State religious policies or that advocates sects or feudal superstitions, (vi) content that disseminates rumours, disturbs the social order or damages social stability, (vii) content that disseminates obscenity, pornography, gambling, violence, homicide and terror, or incites crime, (viii) content that insults or slanders others or that infringes their legal rights and interests, and (ix) other content prohibited by laws or administrative regulations.

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

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

Virtual Currency and Virtual Items

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

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

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

Anti-addiction System and Minor Protection

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

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

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

Pursuant to Notice Regarding Launching Anti-addiction Real Name Authentication on Online Games (關於啟動網絡遊戲防沉迷實名驗證工作的通知) issued by the relevant government authorities on 1 July 2011, online game (excluding mobile game) operators shall submit the identity information of game players to the National Citizen Identity Information Centre, a subordinate public institution of the MPS, for verification since 1 October 2011, in an effort to prevent minors from using an adult’s ID to play online games. On 25 July 2014, the SAPPRFT issued the Notice Regarding In-depth Development of Anti-addiction Real Names Authentication on Online Games (關於深入開展網絡遊戲防沉迷實名驗證工作的通知) and effected on 1 October 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 30 August 2018, eight PRC regulatory authorities at national governmental level, including the National Administration of Press and Publication and the Ministry of Education, released the Implementation Programme on Prevention of Juveniles 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 Programme on Prevention of Juveniles Myopia plans to regulate the number of new online games and restrict the amount of time kids spend playing on electronic devices. As of the Latest Practicable Date, no detailed implementation rule has been issued to enforce the Implementation Programme on Prevention of Juveniles Myopia regarding online games.

Online Game Promotion and Marketing

On 19 March 2015, the MOC issued the Notice on Strengthening the Regulation on Promotional Activities of Online Games (關於加強網絡遊戲宣傳推廣活動監管的通知), emphasising that the promotional activities of online games shall be regulated and requiring that online game operators shall conduct lawful marketing and be self-conscious of resisting illegal and non-compliant behaviours and vulgar marketing.

INFORMATION SECURITY AND PRIVACY PROTECTION

On 28 December 2000, the Standing Committee of the PRC National People’s Congress (the “SCNPC”) enacted the Decisions on Maintaining Internet Security (全國人大常委會關於維護互聯網安全的決定), later amended on 27 August 2009, specifies the situations subject the violators to criminal punishment in China. Pursuant to Administrative Measures for the Security Protection of Computer Information Networks Linked to the Internet (計算機信息網絡國際聯網安全保護管理辦法) which was approved by the State Council on 11 December 1997 and promulgated by the MPS on 16 December

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1997 and revised by the State Council on 8 January 2011, the internet is prohibited to be used in ways which, among other things, would result in a leakage of state secrets or a spread of socially destabilising content.

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

PRC governmental authorities have enacted laws and regulations on internet use to protect personal information from any unauthorised disclosure. On 28 December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (關於加強網絡信息保護的決定) to enhance the legal protection of information security and privacy on the internet. On 16 July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (電信和互聯網用戶個人信息保護規定) which became effective on 1 September 2013 to regulate the collection and use of users' personal information in the provision of telecommunication services and internet information services in China. Telecommunication business operators and internet service providers are required to establish its own rules for collection and use of users' information and cannot collect or use users' information without users' consent. Telecommunication business operators and internet service providers are prohibited from disclosing, tampering with, destroying, selling or illegally providing others with, collected personal information.

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

REGULATIONS ON THE INTELLECTUAL PROPERTY

Trademark

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

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

Patent

According to the Patent Law of the PRC (2008 Revision) (中華人民共和國專利法(2008年修正)) promulgated by the SCNPC, and its Implementation Rules (2010 Revision) (中華人民共和國專利法實施細則(2010年修訂)) promulgated by the State Council, the patent administration department of 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 utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than someone files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability.

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

Copyright

The Copyright Law of the PRC (2010 Revision) (中華人民共和國著作權法(2010年修正)) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organisations shall, whether published or not, enjoy copyright in their works which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The Computer Software Protection Regulations (2013 Revision) (計算機軟件保護條例(2013修訂)) provides for the rights of

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software copyright owners and relevant matters associated with the protection, registration, licencing and transfer of software copyright, and stipulates that software copyright owners may obtain registration from the software registration authority acknowledged by the copyright administrative department under the State Council. The registration certificate issued by the software registration authority shall be the preliminary evidence for the registration. The Computer Software Copyright Registration Measures (計算機軟件著作權登記辦法) (the “**Software Copyright Measures**”) which was promulgated by the NCA on 20 February 2002 regulates the registrations of software copyright, exclusive licencing contracts for software copyright and transfer contracts. The NCA shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Centre of China is designated as the software registration authority.

Domain Name

The Administrative Measures for Internet Domain Names (互聯網域名管理辦法), which was promulgated by the MIIT on 24 August 2017 and became effective on 1 November 2017, regulate the “.CN” and the “.zhongguo (in Chinese character)” shall be China’s national top level domains. Any party that engages in internet information services shall use its domain name in compliance with laws and regulations and in line with relevant provisions of the telecommunications authority, but shall not use its domain name to commit any violation.

The Measures of the China Internet Network Information Centre on Domain Name Dispute Resolution (2014 Revision) (中國互聯網絡信息中心域名爭議解決辦法(2014年修訂)), which was implemented by the China Internet Network Information Centre on 1 September 2014, requires domain name disputes to be submitted to institutions authorised by the China Internet Network Information Centre for resolution.

REGULATIONS ON FOREIGN ENTERPRISES

Company Law of the PRC

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

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

The Wholly Foreign-Owned Enterprises Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-Owned Enterprises Law**”), last amended on 3 September 2016 and came into force on 1 October 2016 and the Implementation Rules on the Wholly Foreign-Owned Enterprises Law of the PRC (中華人民共和國外資企業法實施細則) (the “**Wholly Foreign-Owned Enterprises Implementation Rules**”), last amended on 19 February 2014 and came into force on 1 March 2014 stipulate the establishment procedure of a wholly foreign-owned enterprise, regulations on registered capital, affairs of foreign exchange, accounting practise, taxation and labour service, and other relevant issues. The Decisions by the SCNPC on the Modification of the Wholly Foreign-Owned Enterprises Law

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of the PRC and Other Four Laws (全國人民代表大會常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定) issued by the SCNPC on 3 September 2016 has modified the procedures of investment by foreign investor in China, so that foreign investor investing in commercial industry which is not under the restriction of special access administrative measures shall make record-filing with the relevant authorities, which replaced the approval process.

In accordance with the Interim Measures on Management of Establishment and Change of Foreign-Owned Enterprises (外商投資企業設立及變更備案管理暫行辦法) last amended by the MOFCOM on 29 June 2018 and became effective on 30 June 2018, if the establishment and changes of foreign-owned enterprises does not involve the special access administrative measures prescribed by the PRC government, the examination and approval process is now being replaced by the record-filing administration process with the relevant local authorities of the MOFCOM.

Foreign Investment Law of the PRC

The 2019 FIL was adopted by the National People's Congress on 15 March 2019 and will become effective on 1 January 2020. The 2019 FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the 2019 FIL, foreign investments are entitled to pre-entry national treatment and are subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the State implements special administrative measures for access of foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields.

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

Upon taking effect on 1 January 2020, the 2019 FIL will replace 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 Enterprises Law (中華人民共和國外資企業法) to become the legal foundation for foreign investment in the PRC.

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REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

Employment Laws

The PRC Labour Law (中華人民共和國勞動法), which became effective on 1 January 1995 and amended on 27 August 2009 and 29 December 2018, and PRC Labour Contract Law (中華人民共和國勞動合同法) (the “**Labour Contract Law**”), which became effective on 1 January 2008 and was amended on 28 December 2012, provide for collective contracts to be developed through collaboration between the labour union (or employees representatives in the absence of a union) and management that specify such matters as working conditions, wage scale, and hours of work. The laws also permit employees and employers in all types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract. The Labour Contract Law has enhanced rights for employees, including permitting labour contracts without a fixed term and economic compensation. The legislation requires employers to provide written contracts to their employees, and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an open-ended contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period.

Social Insurance and Housing Funds

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

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

REGULATIONS ON TAXATION

EIT

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

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

The Notice on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry (關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知) ("**2012 Policy**"), which was promulgated by the MOF and the SAT on 20 April 2012 and took effect on 1 January 2011 and the Notice on Issues concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries (關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知) ("**2016 Policy**") promulgated by the MOF, the SAT, the NDRC and the MIIT on 4 May 2016 and took effect on 1 January 2015, provides that newly established integrated circuit design enterprises and eligible software enterprises shall be exempt from the EIT for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. If Key Software Enterprises included in the national plan do not enjoy the tax exemption preference in the current year, they shall be subject to the EIT at a reduced rate of 10%. On 17 May 2019, the MOF and the SAT issued the Notice on Enterprise Income Tax Policies for the Integrated Circuit Design and Software Industries (《關於集成電路設計和軟件產業企業所得稅政策的公告》) ("**2018 Policy**"), which also provides that legally established and eligible integrated circuit design enterprises and software enterprises shall be exempted from the enterprise income tax for the first and second year after it makes profits and shall be levied thereon at half of the statutory rate of 25% for

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the third to fifth year until the expiration of the preferential period. The preferential period shall be calculated from the profitable year prior to 31 December 2018. The 2018 Policy further provides that the eligibility criteria set out in 2012 Policy and the 2016 Policy will continue to apply.

Value-Added Tax

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

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

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

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

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

Dividend Tax

Individual Investors

According to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) promulgated on 10 September 1980, as amended on 31 October 1993, 30 August 1999, 27 October 2005, 29 June 2007, 29 December 2007, 30 June 2011, 31 August 2018 and the latest amendment had been effective on 1 January 2019 and the Provision for Implementation of the Individual Income Tax Law (中華人民共和國個人所得稅法實施條例) promulgated on 28 January 1994, as amended on 19 December 2005, 18 February 2008, 19 July 2011 and 18 December 2018 and the last amendment had been effective on 1 January 2019, dividends declared by PRC companies to individuals are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of

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the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Enterprises

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

Tax Treaties

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

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

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

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Laws and Regulations Related to Dividend Distribution

The principal regulations governing distribution of dividends of foreign holding companies include the Company Law, the Wholly Foreign-Owned Enterprises Law and the Wholly Foreign-Owned Enterprises Implementation Rules. Under the 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 our PRC subsidiary, 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 ON FOREIGN EXCHANGE

Under the Foreign Currency Administration Rules of the PRC (中華人民共和國外匯管理條例) which was promulgated on 29 January 1996 and last amended on 5 August 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, RMB is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments and loans, requires the prior approval from the SAFE or its local office. Foreign exchange income under the current accounts may be retained or sold to a financial institution engaging in settlement and sale business of foreign exchange pursuant to relevant rules and regulations of the PRC. For foreign exchange income under the capital accounts, approval from the relevant foreign exchange administrative authority is required for its retention or sale to a financial institution engaging in settlement and sale business of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

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

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On 30 March 2015, the SAFE promulgated The Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (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 “**Circular 19**”) to expand the reform nationwide. Circular 19 allows foreign-invested enterprises to make equity investments by using RMB fund converted from foreign exchange capital. Under the Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is currently 100%. SAFE can adjust such proportion in due time based on the circumstances of the international balance of payments. However, Circular 19 and the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (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 “**Circular 16**”) continues to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for security investment or guarantee products issued by banks), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use.

In January 2017, the SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) (the “**Circular 3**”), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) when bank handles outward remittance of profits equivalent to more than USD50,000 for a domestic institution shall, under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years’ losses before remitting the profits. Moreover, pursuant to the Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilisation arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

REGULATIONS RELATING TO M&A AND OVERSEAS LISTING

The M&A Rules was jointly promulgated by six PRC governmental authorities including the MOFCOM, the SAT, the SAFE, the SAIC, the State-owned Assets Supervision and Administration Commission of the State Council and the CSRC on 8 August 2006, and came into effect on 8 September 2006 and subsequently amended on 22 June 2009. Foreign investors must comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing of the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in China, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the assets of a domestic company by agreement, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by the PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO SOUTH KOREA

We have been publishing our games through third-party distribution platforms in South Korea since 2016. Set out below is a summary of laws and regulations of South Korea which our business and operation are subject to.

Regulations Relating to the Game Industry

Game Industry Promotion Act

The Game Industry Promotion Act (the “**Game Promotion Act**”) enacted by the National Assembly of South Korea on 28 April 2006, as amended, primarily regulates the game industry in South Korea. Under the Game Promotion Act, any person intending to engage in the development or distribution of games is required to register with the provincial governor, a mayor, a municipal governor (*gunsu*) or a head of a borough (*gucheongjang*) and file an amendment registration in the event of any change in material matters in the registration with certain exceptions. Friend Times Korea has registered as a game distributor on 12 March 2019 with the head of the borough (*gucheongjang*) of Geumchon-gu in Seoul, South Korea, where its office is located.

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

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

REGULATORY OVERVIEW

system linked to GRAC's system. Furthermore, self-regulators cannot give an "18 years of age or older" rating and thus must apply to GRAC for a rating to distribute any game for users of 18 years of age or older. The only games that we are distributing in South Korea as at the Latest Practicable Date are *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳), *Rise of Queendom* (宮廷計手游) and *Yokai Kitchen* (精靈食肆), all of such games which are mobile games that are distributed in South Korea through only Google Play, Apple's App Store and One Store and have been rated as shown in the information provided about the three games on Google Play, Apple's App Store and One Store.

Meanwhile, the Game Promotion Act excludes "Speculative Game Products" from the game products subject to the ratings requirement, and a game which is deemed "Speculative Game Product" is thus not eligible for a rating. Since an unrated game may not be distributed in South Korea, the provision or distribution of a "Speculative Game Product" is thus illegal in South Korea. Typical examples of a "Speculative Game Product" are casino-style games, and the key factor in determining whether a particular online game constitutes a "Speculative Game Product" is whether playing the game leads to a "gain or loss of property". While "Speculative Game Products" are *per se* illegal, game products with "speculative elements" that do not fall under the definition of "Speculative Game Products" may be eligible for a rating.

In rating the game products as "Speculative Game Products" or having "speculative elements", the game's content in their totality is examined. "Speculative Game Product" is defined as a game resulting in a gain or a loss of property and has aspects of (i) betting or allotment, (ii) chances to determine the outcome, (iii) horse racing or any game based on horse racing, (iv) cycling and boat racing and any game based on cycling and boat racing, (v) casino games regulated under the Tourism Promotion Act and any game based on casinos, and/or (vi) any other gaming product designated as "Speculative Game Product" under a Presidential Decree. In the context of ratings, the term "speculative element" is not defined but is referred to in the Rating Review Regulations, according to which, if the game provides exchanging virtual property which is gained as the result of game freely or not, into real money, it would be likely to be determined that it has a "speculative element". The only games that we are distributing in South Korea as at the Latest Practicable Date are *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳), *Rise of Queendom* (宮廷計手游) and *Yokai Kitchen* (精靈食肆), all of which have been rated as shown in the information provided about the three games on Google Play, Apple's App Store and One Store, and such games would not be considered to be "Speculative Game Products". Although the fact that they have been rated does not in itself mean that the games do not contain "speculative elements", we believe that the three games distributed in South Korea do not contain any "speculative elements".

Regulations Relating to Online Services

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

Value-added communication services that may be offered may be recognized as an online service provider's value-added communication services for the purpose of transmitting of intellectual properties among different individuals. In addition, a telecommunication business operator is a provider of information and communication services under the Act on Promotion of Information and

REGULATORY OVERVIEW

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

In addition to the above, the TBA provides that any person who intends to operate a value-added telecommunication business, which would generally include provision of mobile game services, shall report (including cases of reporting through information and telecommunication networks) to the Minister of Science, ICT and Future Planning. Friend Times Korea was issued a certificate confirming its filing of a value-added telecommunication business report by the Head of the Seoul Radio Management Service on 20 May 2019.

Regulations Relating to Mobile Content and Mobile Commerce Businesses

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

Under the CPEC Act, a business entity that is considering to provide information on the sale of goods or services by means of mail, electronic communication or similar means and selling such goods or services (except for solicitation by phone which is governed by the Act on Door-to-Door Sales, Etc.) is required to file for registration of a mail order distributorship with any of the Fair Trade Commission of South Korea (the “**FTC**”), a relevant provincial governor, a mayor, a municipal governor (*gunsu*) or a head of a borough (*gucheongjang*), as applicable. Friend Times Korea registered as an online retailer on 19 February 2016 with the head of the borough (*gucheongjang*) of Geumchon-gu in Seoul, South Korea, where its office is located.

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OVERVIEW

Our history traces back to May 2010 when our predecessor Suzhou Bojoy (currently known as Suzhou FriendTimes) was established by Mr. Jiang, our founder, chairman, executive Director, chief executive officer and one of our Controlling Shareholders. Before that, Mr. Jiang worked at an online game company and he noticed the growth potential in the Chinese online game market and the shortage of female-oriented online games. Mr. Jiang then decided to start his own business. Together with an Independent Third Party, he established Suzhou Bojoy in May 2010 to develop our own brand focusing on the ancient Chinese style female-oriented games.

In December 2010, we launched our first web game, *Rise of Queendom* (宮廷計), which obtained popularity and became one of our flagship titles. Since then, we continued to expand our game portfolio and launched a number of mobile games including, among others, *Royal Legend* (宮廷風雲) in 2012, *Royal Tales* (宮廷Q傳) in 2014, *Legend of Empress* (熹妃傳) in 2015, *Fate: Royal Revenge* (京門風月) in 2016, *Royal Chaos* (熹妃Q傳) in 2017 and the mobile version of *Rise of Queendom* (宮廷計手游) in 2018. Each of *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and the mobile version of *Rise of Queendom* (宮廷計手游) had achieved a highest ranking of no. 20 on 5 January 2016, no. 14 on 8 March 2019 and no. 15 on 3 August 2018, respectively, in the best-selling games board for iPhone on Apple's App Store shortly after their initial launch and remained within the top 66, 32 and 48 best-selling games in Apple's App Store, respectively, as at 8 February 2019.

Our Company was incorporated in the Cayman Islands on 16 November 2018. As part of the Reorganisation and for the purpose of the Listing, our Company became the ultimate holding company of our various subsidiaries in 2019.

OUR BUSINESS MILESTONES

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

<u>Year</u>	<u>Event</u>
May 2010	We commenced our game development business through Suzhou Bojoy, one of our Operating Entities
December 2010	We officially launched our first self-developed web game <i>Rise of Queendom</i> (宮廷計)
November 2012 –June 2015	We officially launched our self-developed mobile games <i>Royal Legend</i> (宮廷風雲), <i>Royal Tales</i> (宮廷Q傳) and <i>Legend of Empress</i> (熹妃傳)
December 2015	Suzhou Bojoy changed its name to Suzhou FriendTimes
January 2016	Suzhou FriendTimes completed the financing of RMB100.0 million from pre-IPO investors

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Event
September 2017	We officially launched our self-developed mobile game <i>Royal Chaos</i> (熹妃Q傳)
December 2017	Suzhou FriendTimes was awarded as “The key cultural and technological enterprises in Jiangsu Province in 2017 (2017年江蘇省重點文化科技企業)”
February 2018	Suzhou FriendTimes and GameFriend were both awarded as the “National Key Cultural Export Enterprise for the year 2017–2018 (2017–2018年度國家文化出口重點企業)”
March 2018	We officially launched the mobile version of <i>Rise of Queendom</i> (宮廷計手遊)
September 2018	Suzhou FriendTimes was awarded as the “Key Software Enterprise of National Planning Scheme (國家規劃佈局內重點軟件企業)”
October 2018	Suzhou FriendTimes was awarded as the “Unicorn to-be Enterprise of Suzhou (蘇州市獨角獸培育企業)”
August 2019	Suzhou FriendTimes was awarded as the “National Key Cultural Export Enterprise for the year 2019–2020 (2019–2020年度國家文化出口重點企業)” and the “Top 50 Internet Enterprise in Jiangsu Province in 2019 (2019年江蘇省互聯網50強企業)”

OUR OPERATING ENTITIES

As at the Latest Practicable Date, we had five principal Operating Entities in the PRC and two overseas subsidiaries which made material contributions to our financial results during the Track Record Period. The corporate details of these operating entities are set forth below:

Name of Entity	Principal Business Activities	Date of Establishment and Commencement of Business, Place of Establishment	Registered Capital/Share Capital	Relationship with our Company
Suzhou FriendTimes	online game development	11 May 2010 the PRC	RMB51,660,000	an Operating Entity of our Company
GameFriend	online game development, publishing and operation	9 April 2014 the PRC	RMB10,000,000	an Operating Entity of our Company
Purple Blaze	online game development and operation	23 March 2017 the PRC	RMB6,000,000	an Operating Entity of our Company
Cheeryoo	online game development and operation	11 January 2018 the PRC	RMB5,000,000	an Operating Entity of our Company
Purple Wing	online game development	5 February 2018 the PRC	RMB5,000,000	an Operating Entity of our Company

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Name of Entity	Principal Business Activities	Date of Establishment and Commencement of Business, Place of Establishment	Registered Capital/ Share Capital	Relationship with our Company
Wish Interactive	the overseas publishing of online games	19 May 2015 Hong Kong	HK\$15,000,000	a wholly-owned subsidiary of our Company
Friend Times Korea	the overseas publishing of mobile games	22 December 2015 South Korea	KRW583,230,000	a wholly-owned subsidiary of our Company

OUR CORPORATE DEVELOPMENT

Suzhou FriendTimes

Establishment

Our predecessor Suzhou Bojoy, as our first Operating Entity, was incorporated in the PRC as a limited liability company on 11 May 2010 with an initial registered capital of RMB500,000. It was founded as to 40% by Mr. Jiang and 60% by Ms. Pan Jueqing, an Independent Third Party, respectively.

Early development

On 24 April 2013, Mr. Jiang and Ms. Pan Jueqing entered into an equity transfer agreement, pursuant to which Ms. Pan Jueqing agreed to transfer her entire equity interest in Suzhou Bojoy to Mr. Jiang at a consideration of RMB960,000. The transfer was determined based on arm's length negotiation and was fully settled on 20 May 2013. Upon completion of such transfer, Suzhou Bojoy was wholly-owned by Mr. Jiang.

In September 2015 and October 2015, Suzhou Zixin, an employee share incentive platform and Mr. Song Dawei, an employee of Suzhou Bojoy, subscribed additional registered share capital of RMB352,900 and RMB72,800 of Suzhou Bojoy, respectively. Upon the completion of such capital increase, Suzhou Bojoy was held as to 82.45% by Mr. Jiang, 14.55% by Suzhou Zixin and 3.0% by Mr. Song Dawei, respectively.

In December 2015, Suzhou Bojoy changed its name to Suzhou FriendTimes.

On 25 December 2016, Mr. Jiang entered into an equity transfer agreement with Mr. Song Huan, an employee of Suzhou FriendTimes, pursuant to which Mr. Jiang agreed to transfer 2.0% equity interest in Suzhou FriendTimes to Mr. Song Huan at a consideration of RMB1,033,200. The consideration was determined in consideration of Mr. Song Huan's long-term contribution to Suzhou FriendTimes and was fully settled on 27 December 2016.

Investment by Pre-IPO Investors

On 23 January 2016, SEC Electric, Nanjing Liheng, Mr. Wang Jianyu, Shanghai Luopu, Mr. Lin Zhirong and Mr. Zhang Min, all of whom are independent institutional and individual investors, invested RMB32.0 million, RMB25.0 million, RMB13.0 million, RMB10.0 million, RMB10.0 million and RMB10.0 million, respectively, in Suzhou FriendTimes. The considerations were determined based on arm's length negotiations between parties with reference to the prospect of our business and were fully

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

settled in January 2016. The date of registration with the local branch of the SAIC for such investment was 1 February 2016. Upon the completion of such investment, Suzhou FriendTimes was held as to approximately 72.14% by Mr. Jiang, 12.73% by Suzhou Zixin, 4.0% by SEC Electric, 3.13% by Nanjing Liheng, 2.63% by Mr. Song Dawei, 1.62% by Mr. Wang Jianyu, 1.25% by Shanghai Luopu, 1.25% by Mr. Lin Zhirong and 1.25% by Mr. Zhang Min.

On 18 May 2016, Shanghai Luopu entered into an equity transfer agreement with Shanghai Keluopu, the general partner of Shanghai Luopu, pursuant to which Shanghai Luopu agreed to transfer its entire equity interest in Suzhou FriendTimes (i.e. 1.25%) to Shanghai Keluopu at a consideration of RMB10.0 million. The consideration was determined based on the price when Shanghai Luopu purchased the shares of Suzhou FriendTimes and was fully settled on 11 August 2016. The date of registration with the local branch of the SAIC was 21 June 2016.

Subsequently, on 8 January 2018, Shanghai Keluopu and Suzhou Luoyuan entered into an equity transfer agreement, pursuant to which Shanghai Keluopu agreed to transfer its entire equity interest in Suzhou FriendTimes (i.e. 1.25%) to Suzhou Luoyuan at a consideration of RMB21,268,000. Shanghai Keluopu is the general partner of Suzhou Luoyuan. The consideration was determined based on arm's length negotiation and was fully settled on 17 January 2018. The date of registration with the local branch of the SAIC for such transfer was 29 May 2018.

Upon the completion of such transfers and as at the Latest Practicable Date, Suzhou FriendTimes was held as to approximately 70.14% by Mr. Jiang, 12.73% by Suzhou Zixin, 4.0% by SEC Electric, 3.13% by Nanjing Liheng, 2.63% by Mr. Song Dawei, 2.0% by Mr. Song Huan, 1.62% by Mr. Wang Jianyu, 1.25% by Suzhou Luoyuan, 1.25% by Mr. Lin Zhirong and 1.25% by Mr. Zhang Min.

See "Pre-IPO Investments" below for more details.

GameFriend

GameFriend was established in the PRC as a limited liability company on 9 April 2014. The initial registered capital of GameFriend was RMB10.0 million. At the time of the establishment, it was owned as to 95.0% by Mr. Jiang and 5.0% by Mr. Mao Weixiang, the father-in-law of Mr. Jiang. The principal business activity of GameFriend is online game development, publishing and operation.

On 23 September 2015, each of Mr. Jiang and Mr. Mao Weixiang entered into equity transfer agreements with Suzhou Bojoy, pursuant to which Mr. Jiang and Mr. Mao Weixiang agreed to transfer their respective equity interests in GameFriend to Suzhou Bojoy at a consideration of RMB7,971,900 and RMB419,600, respectively. The consideration was determined based on arm's length negotiation with reference to the valuation of GameFriend at the time of the transfer and was fully settled on 30 September 2015. Upon the completion of such transfer and as at the Latest Practicable Date, GameFriend was wholly-owned by Suzhou FriendTimes.

Purple Blaze

Purple Blaze was established in the PRC as a limited liability company on 23 March 2017. The initial registered capital of Purple Blaze was RMB6.0 million. At the time of the establishment and as at the Latest Practicable Date, it was wholly-owned by Suzhou FriendTimes. The principal business activity of Purple Blaze is online game development and operation.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Cheeryoo

Cheeryoo was established in the PRC as a limited liability company on 11 January 2018. The initial registered capital of Cheeryoo was RMB5.0 million. At the time of the establishment and as at the Latest Practicable Date, it was wholly-owned by Suzhou FriendTimes. The principal business activity of Cheeryoo is online game development and operation.

Purple Wing

Purple Wing was established in the PRC as a limited liability company on 5 February 2018. The initial registered capital of Purple Wing was RMB5.0 million. At the time of the establishment and as at the Latest Practicable Date, it was wholly-owned by Suzhou FriendTimes. The principal business activity of Purple Wing is online game development.

As at the Latest Practicable Date, we had completed the requisite approvals and registrations with the relevant governmental authorities in the PRC for all of the above-mentioned equity transfers, capital increases and name changes of our Operating Entities.

Wish Interactive

Wish Interactive was incorporated in Hong Kong as a limited liability company on 19 May 2015. The initial share capital of Wish Interactive was HK\$5,000,000. On 23 October 2015, Wish Interactive allotted and issued 10,000,000 ordinary shares to Suzhou FriendTimes at the nominal value of HK\$1.00 per share, therefore the total share capital of Wish Interactive was increased to HK\$15,000,000. At the time of the incorporation, Wish Interactive was wholly-owned by Suzhou FriendTimes. The principal business activity of Wish Interactive is the overseas publishing of online games. Upon the completion of the Reorganisation, Wish Interactive is wholly-owned by Friend World, see “Reorganisation” in this section for more details.

Friend Times Korea

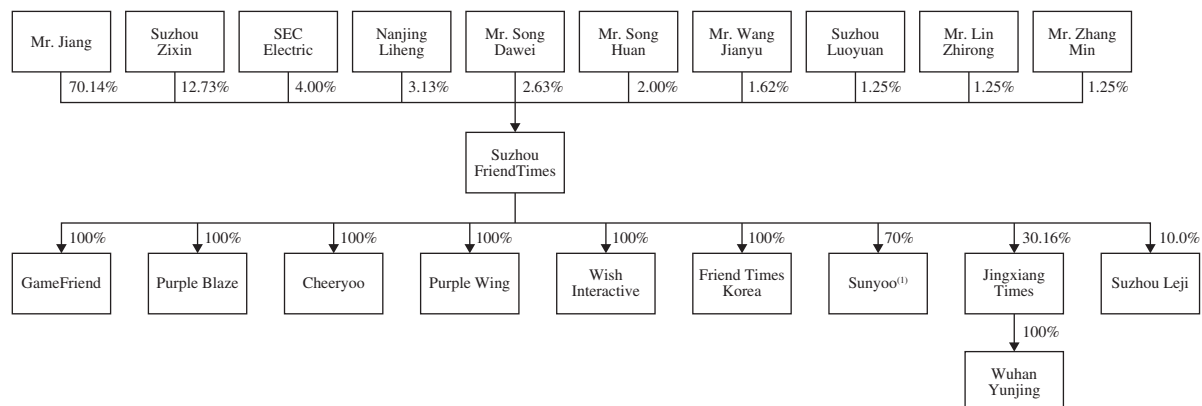
Friend Times Korea was established in South Korea as a limited company on 22 December 2015. The initial share capital of Friend Times Korea was KRW583,230,000. At the time of the incorporation, Friend Times Korea was wholly-owned by Suzhou FriendTimes. The principal business activity of Friend Times Korea is the overseas publishing of mobile games. Upon the completion of the Reorganisation, Friend Times Korea is wholly-owned by Friend World, see “Reorganisation” in this section for more details.

REORGANISATION

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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



Note:

- (1) The remaining 30% equity interest of Sunyoo is held by its director, Mr. Lu Lin, an Independent Third Party.

Offshore Reorganisation

Incorporation of offshore holding companies

During the period from October 2018 to January 2019, each of the Registered Shareholders of Suzhou FriendTimes or their respective ultimate beneficial owners (as listed below) had incorporated a series of companies in the BVI and/or Hong Kong. The details of all these offshore holding companies are set out as below:

Company	Ultimate shareholder(s)	Equity interest
Future Wisdom, Eternal Heart, Ling Long, Warm Sunshine, Agile Eagle, Lucky Fish	Mr. Jiang	100%
Purple Dream and Purple Crystal ⁽¹⁾	Mr. Jiang, Mr. Song Dawei ⁽⁴⁾ , Mr. Song Huan ⁽⁴⁾ and eight employees of our Group (including three of our executive Directors, Mr. Xu Lin, Mr. Sun Bo and Mr. Wu Jie)	100%
SEC Electric SPV	SEC Electric	100%
JTW Investment	five individuals being partners of Nanjing Liheng	100%
Magic David and David Epoch ⁽²⁾	Mr. Song Dawei ⁽⁴⁾	100%
Joy Cloud and Joy Box ⁽³⁾	Mr. Song Huan ⁽⁴⁾	100%
VEM GmbH	Mr. Wang Jianyu	100%
Crop Pioneer	four individuals being partners of Suzhou Luoyuan	100%
LIN ZHIRONG Holdings	Mr. Lin Zhirong	100%
Zhangmin Holdings	Mr. Zhang Min	100%

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Purple Crystal is wholly-owned by Purple Dream which is in turn held by Agile Eagle as to 71.35%, by Magic David as to 4.94%, by Joy Cloud as to 4.94%, and by eight employees of our Group as to 18.77% (including three of our executive Directors, Mr. Xu Lin as to 4.94%, Mr. Sun Bo as to 2.47% and Mr. Wu Jie as to 2.47%).
- (2) David Epoch is wholly-owned by Magic David which is in turn wholly-owned by Mr. Song Dawei.
- (3) Joy Box is wholly-owned by Joy Cloud which is in turn wholly-owned by Mr. Song Huan.
- (4) Current employees of our Group.

Incorporation of our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 November 2018 with an authorised share capital of US\$50,000 divided into 5,000,000,000 Shares with a par value of US\$0.00001 each. As at the Latest Practicable Date, 51,660,000 Shares of our Company were allotted and issued for cash at par value to the following subscribers:

<u>Company</u>	<u>Beneficial owner(s)</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding</u>
Eternal Heart	Mr. Jiang	25,904,261	50.14%
Ling Long	Mr. Jiang	5,166,000	10.00%
Warm Sunshine	Mr. Jiang	5,166,000	10.00%
Lucky Fish	Mr. Jiang	2,583,000	5.00%
Purple Crystal ⁽¹⁾	Mr. Jiang, Mr. Song Dawei ⁽⁴⁾ , Mr. Song Huan ⁽⁴⁾ and eight employees of our Group (including three of our executive Directors, Mr. Xu Lin, Mr. Sun Bo and Mr. Wu Jie)	3,993,964	7.73%
SEC Electric SPV	SEC Electric	2,066,400	4.00%
JTW Investment	Five individuals being partners of Nanjing Liheng	1,614,375	3.13%
David Epoch ⁽²⁾	Mr. Song Dawei	1,356,075	2.63%
Joy Box ⁽³⁾	Mr. Song Huan	1,033,200	2.00%
VEM GmbH	Mr. Wang Jianyu	839,475	1.62%
Crop Pioneer	Four individuals being partners of Suzhou Luoyuan	645,750	1.25%
LIN ZHIRONG Holdings	Mr. Lin Zhirong	645,750	1.25%
Zhangmin Holdings	Mr. Zhang Min	645,750	1.25%

Notes:

- (1) Purple Crystal is wholly-owned by Purple Dream which is in turn held by Agile Eagle as to 71.35%, by Magic David as to 4.94%, by Joy Cloud as to 4.94%, and by eight employees of our Group as to 18.77% (including three of our executive Directors, Mr. Xu Lin as to 4.94%, Mr. Sun Bo as to 2.47% and Mr. Wu Jie as to 2.47%).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (2) David Epoch is wholly-owned by Magic David which is in turn wholly-owned by Mr. Song Dawei.
- (3) Joy Box is wholly-owned by Joy Cloud which is in turn wholly-owned by Mr. Song Huan.
- (4) Current employees of our Group.

Incorporation of offshore subsidiaries

Friend World was incorporated in the British Virgin Islands as a limited liability company on 26 November 2018 with the initial authorised share capital of US\$50,000 divided into 50,000 Shares of US\$1.00 each. Upon incorporation, 50,000 shares, representing the then entire issued share capital of Friend World, were issued and allotted to our Company at par value. Upon the completion of such issue and allotment, Friend World became a directly wholly-owned subsidiary of our Company.

Friend Century was incorporated in Hong Kong as a limited liability company on 7 December 2018 with the initial authorised share capital of HK\$10,000 divided into 10,000 Shares of HK\$1.00 each. Upon incorporation, 10,000 shares, representing the then entire issued share capital of Friend Century, were issued and allotted to Friend World at par value. Upon the completion of such issue and allotment, Friend Century became an indirectly wholly-owned subsidiary of our Company.

Acquisition of Friend Times Korea and Wish Interactive by Friend World

Prior to the Reorganisation, Friend Times Korea and Wish Interactive were wholly-owned by Suzhou FriendTimes. For the purpose of the Reorganisation, in January and March 2019, Suzhou FriendTimes entered into equity transfer agreements with Friend World, pursuant to which Suzhou FriendTimes transferred all of its shares in Wish Interactive and Friend Times Korea to Friend World at the considerations of US\$1,950,000 and KRW552,552,102, respectively. The considerations were determined based on the share capital invested by Suzhou FriendTimes when subscribing for the shares in Wish Interactive and Friend Times Korea. The share transfers have been completed in February 2019 and March 2019 respectively and the considerations have been fully settled on 4 September 2019.

Onshore Reorganisation

Establishment of our PRC subsidiary

Suzhou Eagle was established in the PRC as a limited liability company on 24 January 2019 with a registered capital of US\$5,000,000 and was wholly-owned by Friend Century.

Disposals of equity interest in Sunyoo and Suzhou Leji

Sunyoo was established in the PRC as a limited liability company on 3 June 2014 with a registered capital of RMB4,000,000. Immediately prior to the Reorganisation, it was owned as to 70.0% by Suzhou FriendTimes and 30.0% by Mr. Lu Lin, the director of Sunyoo and an Independent Third Party. The principal business activity of Sunyoo is advertising service.

On 10 December 2018, in order to streamline our business structure, Suzhou FriendTimes entered into an equity transfer agreement with Mr. Lu Lin, pursuant to which Suzhou FriendTimes agreed to transfer 70.0% equity interest in Sunyoo to Mr. Lu Lin at a nominal consideration of RMB1.0. The

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

consideration was determined based on arm's length negotiation with reference to the net book value (which had net liabilities) of Sunyoo prior to the transfer. The disposal has been completed and fully settled in December 2018.

Suzhou Leji was established in the PRC as a limited liability company on 13 November 2013 with a registered capital of RMB225,490. Immediately prior to the Reorganisation, it was owned as to 10.0% by Suzhou FriendTimes and a number of Independent Third Parties. The principal business activity of Suzhou Leji is game development.

As the performance of Suzhou Leji did not meet our expectation, on 10 December 2018, Suzhou FriendTimes entered into an equity transfer agreement with Bin Xiaohua, one of the existing shareholders of Suzhou Leji and an Independent Third Party, pursuant to which Suzhou FriendTimes agreed to transfer 10.0% equity interest in Suzhou Leji to Bin Xiaohua at a consideration of RMB500,000. The consideration was determined based on arm's length negotiation with reference to the valuation of Suzhou Leji at the time of the transfer and was fully settled on 12 December 2018.

De-registrations of non-core entity

Wuhan Yunjing was established in the PRC as a limited liability company on 7 June 2016 with a registered capital of RMB3,000,000. Immediately prior to the Reorganisation, Suzhou FriendTimes indirectly held 30.16% of the equity interest in Wuhan Yunjing and the remaining equity interest were held by a number of Independent Third Parties. As Wuhan Yunjing had limited operation since its establishment, it was voluntarily dissolved through de-registration on 1 January 2019.

Transfer of non-restricted business

From February 2019, the Operating Entities commenced the transfer of all of their non-restricted business to Suzhou Eagle. Physical assets (such as computer equipment and facilities) and personnel relating to the operation of non-restricted business are in the process of being transferred to Suzhou Eagle.

Contractual Arrangements

In order for us to operate our current business in the PRC through Suzhou FriendTimes, we entered into the Contractual Arrangements with Suzhou FriendTimes and its Registered Shareholders on 20 February 2019 and 6 March 2019. For further details, see "Contractual Arrangements".

PRE-IPO INVESTMENTS

To provide part of the financing required for our business development, capital expenditures and general working capital for our operating entities in the PRC, we underwent the pre-IPO investments in early 2016.

Principal Terms of the Pre-IPO Investments

On 23 January 2016, each of SEC Electric, Nanjing Liheng, Mr. Wang Jianyu, Shanghai Luopu, Mr. Lin Zhirong and Mr. Zhang Min entered into share subscription agreements with Suzhou FriendTimes and invested RMB32.0 million, RMB25.0 million, RMB13.0 million, RMB10.0 million,

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RMB10.0 million and RMB10.0 million in Suzhou FriendTimes, respectively. On 21 June 2016, Shanghai Luopu transferred its shares in Suzhou FriendTimes to its general partner Shanghai Keluopu and Shanghai Keluopu further transferred such shares to Suzhou Luoyuan on 29 May 2018. Shanghai Keluopu is the general partner of Suzhou Luoyuan. For further details, see “—Our Corporate Development — Suzhou FriendTimes — Investment by Pre-IPO Investors”.

During the period from November 2018 to February 2019, as part of the Reorganisation, our Company allotted and issued Shares at nominal value to the respective offshore holding companies of SEC Electric, Nanjing Liheng, Mr. Wang Jianyu, Suzhou Luoyuan, Mr. Lin Zhirong and Mr. Zhang Min. For further details, see “—Reorganisation — Offshore Reorganisation — Incorporation of our Company”.

The following table sets forth other key particulars of the pre-IPO investments:

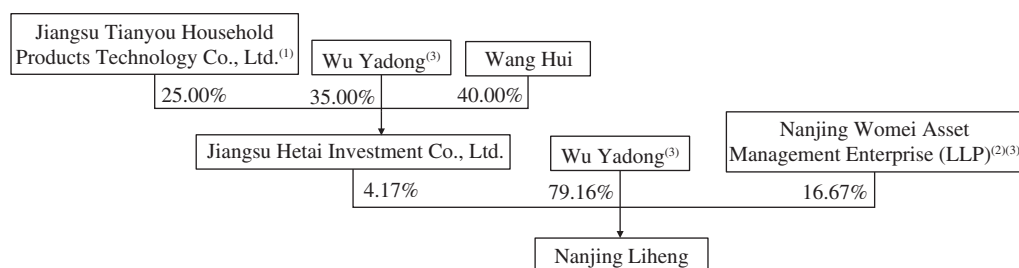
Name of pre-IPO investor	SEC Electric	Nanjing Liheng	Mr. Wang Jianyu	Suzhou Luoyuan	Mr. Lin Zhirong	Mr. Zhang Min
Amount of consideration paid	RMB32.0 million	RMB25.0 million	RMB13.0 million	RMB21.3 million	RMB10.0 million	RMB10.0 million
Basis of determination of the considerations	the considerations were determined based on arm’s length negotiations between the parties with reference to the prospect of our business.					
Settlement date of the consideration	25 January 2016	14 January 2016	13 January 2016	17 January 2018	13 January 2016	13 January 2016
Registration date of investments with local branch of SAIC	1 February 2016	1 February 2016	1 February 2016	29 May 2018	1 February 2016	1 February 2016
Cost per Share and premium of the Offer Price	HK\$0.48 per Share, representing a discount of 72.4% to an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	HK\$0.48 per Share, representing a discount of 72.4% to an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	HK\$0.48 per Share, representing a discount of 72.4% to an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	HK\$1.01 per Share, representing a discount of 42.0% to an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	HK\$0.48 per Share, representing a discount of 72.4% to an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	HK\$0.48 per Share, representing a discount of 72.4% to an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)
Use of pre-IPO investment proceeds	to increase the working capital for the development and operation of our business and the proceeds have been fully utilised.					
Strategic benefits	our Directors believe that the pre-IPO investors will bring strategic benefits to our Group by strengthening and diversifying the shareholders’ portfolio of our Group.					
Shareholding in our Company upon Listing (assuming the Over-allotment Option is not exercised)	3.40%	2.66%	1.38%	1.06%	1.06%	1.06%
Lock-up	six months after the Listing	N/A	six months after the Listing	N/A	six months after the Listing	N/A
Public float	since the shareholding of each of the pre-IPO investors in our Company will be less than 10%, and the acquisition of their respective interest in our Shares was not directly or indirectly financed by any connected person of our Company, the Shares held by them will be counted as public float.					
Special rights	no special rights were granted to any of the pre-IPO investors.					

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Information about the Pre-IPO Investors

SEC Electric is a company limited by shares established in the PRC on 8 April 2003 which principally engaged in the manufacturing of electric motors. Its shares are listed on the main board of Shanghai Stock Exchange (stock code: 603988.SH).

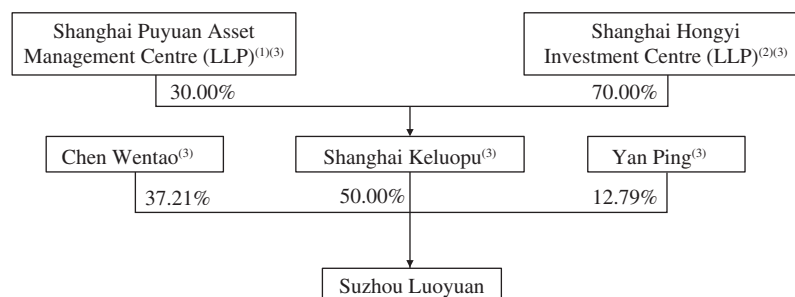
Nanjing Liheng is a limited liability partnership organised under the laws of the PRC on 11 May 2011, the principal business of which includes venture capital investment and consultancy, and investment management. The investment of Nanjing Liheng focuses on the areas of mass consumption, internet and advanced manufacturing industry. Nanjing Liheng is wholly-owned by Independent Third Parties. The general partner of Nanjing Liheng is Jiangsu Hetai Investment Co., Ltd. (江蘇和泰投資有限公司), an Independent Third Party. The shareholding structure of Nanjing Liheng is set out below.



Notes:

- (1) Jiangsu Tianyou Household Products Technology Co., Ltd. is controlled by Wu Yadong.
- (2) Nanjing Womei Asset Management Enterprise (LLP) is controlled by Xu Jianfeng, a substantial shareholder of Nanjing Liheng.
- (3) Being a substantial shareholder of Nanjing Liheng.

Suzhou Luoyuan is a limited liability partnership organised under the laws of the PRC on 28 August 2017, the principal business of which includes industrial investment, investment management and investment consultancy. The investment of Suzhou Luoyuan focuses on the areas of high-end manufacturing and entertainment industry. Suzhou Luoyuan is wholly-owned by Independent Third Parties. The general partner of Suzhou Luoyuan is Shanghai Keluopu, an Independent Third Party. The shareholding structure of Suzhou Luoyuan is set out below.



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Note:

- (1) Shanghai Puyuan Asset Management Centre (LLP) is controlled by Wang Yi, a substantial shareholder of Suzhou Luoyuan.
- (2) Shanghai Hongyi Investment Centre (LLP) is controlled by Yang Fan, a substantial shareholder of Suzhou Luoyuan.
- (3) Being a substantial shareholder of Suzhou Luoyuan.

Mr. Wang Jianyu, Mr. Lin Zhirong and Mr. Zhang Min are Independent Third Parties and individual private investors who from time to time participate in various investment opportunities in different target companies encompassing various business sectors. As at the Latest Practicable Date, Mr. Wang Jianyu holds 14.35% voting rights in SEC Electric.

Public Float

As none of the pre-IPO investors (i) is a core connected person of the Group; (ii) has been financed directly or indirectly by a core connected person of the Group for the subscription of Shares; or (iii) is accustomed to take instructions from a core connected person of the Group in relation to the acquisition, disposal, voting or other disposition of the Shares registered in his/its name or otherwise held by him/it, the Shares held by the pre-IPO investors under the pre-IPO investments will be counted towards the public float upon the Listing for the purpose of Rule 8.08 of the Listing Rules.

Compliance with Interim Guidance and Guidance Letters

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

PREVIOUS LISTING PLAN

In early 2016, Suzhou FriendTimes planned to apply for listing on the main board of Shanghai Stock Exchange (the “**Previous Listing Plan**”). In preparation for the listing plan, a sponsor was engaged in November 2015 by Suzhou FriendTimes to provide tutoring and some preliminary compliance advices with regard to the requirements of the CSRC. Subsequently Suzhou FriendTimes made an informal preliminary filing (上市輔導備案) with the Jiangsu CSRC (中國證券監督管理委員會江蘇監管局) in March 2016. The purpose of the informal preliminary filing was to report to the CSRC from time to time in respect of the progress of the preliminary guidance and tutoring services provided by the engaged sponsor in accordance with the relevant CSRC’s guidelines on the Group’s major operational and financial condition, corporate governance and internal control measures. The informal preliminary filing did not constitute a listing application with the CSRC. There was no proposed timetable for the Previous Listing Plan. The costs incurred with regard to the Previous Listing Plan were approximately RMB1.1 million, RMB0.3 million and RMB0.3 million, for the year ended 31 December 2016, 2017 and 2018, respectively, and were reflected as professional services fees under general and administrative expenses in the Group’s financial information. For further details, see “Financial Information — Description of Major Components of Our Results of Operations — General and Administrative Expenses” in this prospectus.

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However, in consideration of our future global business strategy, we believe the listing on the Hong Kong Stock Exchange would provide our Group with an international platform to gain access to foreign capital and to promote our Group to overseas investors. In around July 2018, we changed our plan and decided not to proceed with the Previous Listing Plan and to seek a listing of our Shares on the Hong Kong Stock Exchange to pursue our global business strategy. In August 2018, we terminated the engagement with the sponsor for the Previous Listing Plan. During the tutoring period in preparation for the Previous Listing Plan, we did not encounter any disagreements with the professional parties or the CSRC. As of the Latest Practicable Date, we did not file any listing application with the CSRC, as we have terminated our Previous Listing Plan.

To the best of their knowledge, our Directors are not aware of (i) any other matters relating to the Previous Listing Plan that are relevant to the Listing which should be reasonably highlighted in this prospectus for investors to form an informed assessment of our Company; (ii) any enquiries from the CSRC relating to the Previous Listing Plan that would affect our Company's suitability for listing on the Hong Kong Stock Exchange; (iii) any other matters relating to the Previous Listing Plan that may have implications on our Company's suitability for listing on the Hong Kong Stock Exchange or on the truthfulness, accuracy and completeness of information disclosed in this prospectus; and (iv) any other matters that need to be brought to the attention of the Hong Kong Stock Exchange and investors in relation to the Previous Listing Plan. Based on the above, our Directors are of the view that there are no matters in the Previous Listing Plan that would potentially affect the suitability of our Company to list on the Hong Kong Stock Exchange.

Based on the Sole Sponsor's independent due diligence, the Sole Sponsor concurred with such view of our Directors. The Sole Sponsor also confirmed that there are no matters which need to be brought to the attention of the Hong Kong Stock Exchange and other regulators in relation to the Previous Listing Plan.

CAPITALISATION ISSUE

Subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the Offer Shares pursuant the Global Offering, our Directors shall be authorised to allot and issue a total of 1,818,340,000 Shares credited as fully paid at par value to the Shareholders on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as they may direct) in proportion to their respective shareholdings in the Company (as nearly as possible without fractions) by way of capitalisation of the sum of US\$18,183.4 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.

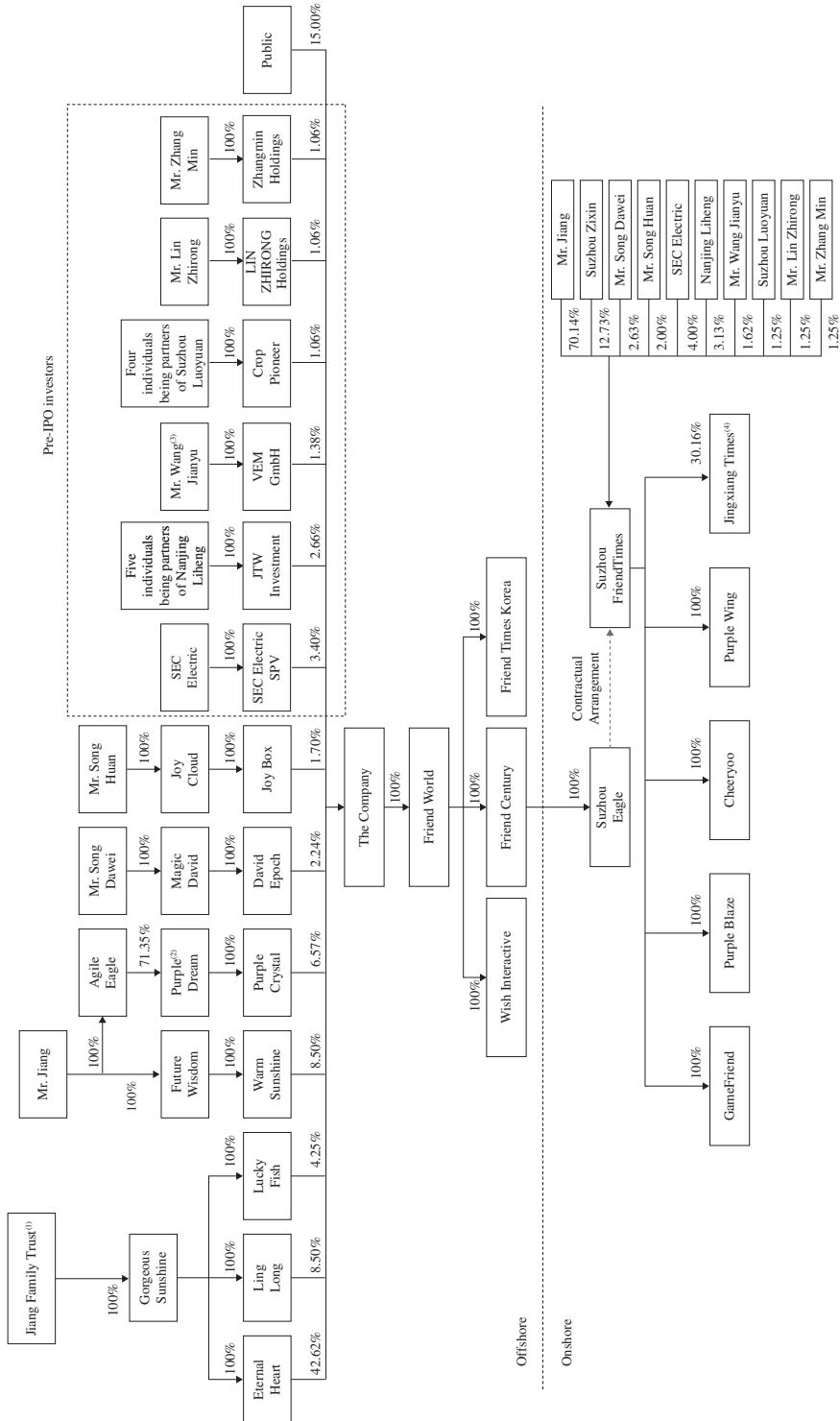
ESTABLISHMENT OF JIANG FAMILY TRUST

For estate-planning purpose, a discretionary trust was established by Mr. Jiang (as the settlor and protector) and TMF (Cayman) Ltd. (as the trustee), for the benefit of Mr. Jiang. On 17 January 2019, Mr. Jiang transferred all his shares indirectly held in Eternal Heart, Ling Long and Lucky Fish (in aggregate representing 65.14% voting rights of the issued share capital of our Company) to Gorgeous Sunshine which is wholly-owned by TMF (Cayman) Ltd.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate Structure Immediately after Global Offering

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



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Notes:

- (1) Jiang Family Trust is established by Mr. Jiang (as the settlor and protector).
- (2) The remaining equity interest of Purple Dream is held by Magic David as to 4.94%, by Joy Cloud as to 4.94%, and by eight employees of our Group as to 18.77% (including three of our executive Directors, Mr. Xu Lin as to 4.94%, Mr. Sun Bo as to 2.47% and Mr. Wu Jie as to 2.47%).
- (3) As at the Latest Practicable Date, Mr. Wang Jianyu holds 14.35% voting rights in SEC Electric.
- (4) The remaining equity interest of Jingxiang Times is held as to 61.52% by Liu Hao (劉號), 4.82% by Sun Liwei (孫力偉) and 3.50% by Qiqihar Binaohui Technology Co. Ltd. (齊齊哈爾市百腦惠科技有限公司), each of them is an Independent Third Party. Jingxiang Times mainly engaged in the E-sports business and has obtained the ICP Licence which foreign investors are restricted to invest in, therefore Suzhou FriendTimes continues to hold the shares in it after the completion of the Reorganisation.

PRC LEGAL COMPLIANCE

M&A Rules

Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then the invests such assets to establish a foreign-invested enterprise.

Given that (i) Suzhou Eagle 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; (ii) no provision in the M&A Rule clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules, as advised by our PRC Legal Advisers, the establishment of Suzhou Eagle and the Reorganisation are not subject to the M&A Rules, and the Global Offering of our Company does not require approvals from the CSRC and the MOFCOM under the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented.

SAFE REGISTRATION

Pursuant to the Circular No. 37 promulgated by the SAFE and came into force on 4 July 2014, a PRC citizen residing in the PRC or an overseas individual who does not hold a Chinese identity document but has a habitual residence in China due to economic interests (a “**PRC Resident**”) must register with the local branch of SAFE before he contributes legal assets or equity interests in China or overseas in an oversea special purpose vehicle, which is directly incorporated or indirectly controlled by the PRC Resident for the purpose of overseas investment or financing. In addition, on 13 February 2015, the SAFE promulgated Circular 13 which was effective on 1 June 2015. The aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with 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, each of our individual beneficial owners, who is required to complete the registration under Circular 37 and Circular 13 has duly completed the foreign exchange registrations in January 2019 in relation to their offshore investments as PRC resident.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our PRC Legal Advisers have confirmed that the Reorganisation has complied with all applicable laws and regulations in the PRC and we have obtained all necessary approvals from the relevant PRC government authorities in relation to the Reorganisation.

OVERVIEW

We are a leading integrated and well-established mobile game developer, publisher and operator with particular success in female-oriented games. Since our inception in 2010, we have been strategically focusing on mobile games targeting female players in the PRC to capture the significant growth potential in both the mobile game industry and the female-oriented game market. According to Frost & Sullivan, we ranked the third in the PRC female-oriented mobile game market as measured by revenue from female-oriented mobile games in 2018, which accounted for approximately 2.9% of the female-oriented mobile game market in the PRC in 2018, and the first in the ancient Chinese style female-oriented mobile game market in the PRC in terms of revenue from ancient Chinese style female-oriented mobile games in 2018. We accounted for approximately 31.5% of the revenue of ancient Chinese style female-oriented mobile game market in the PRC in 2018. The revenue from ancient Chinese style female-oriented mobile game market accounted for only 9.1% of the revenue from female-oriented mobile game market in the PRC in 2018..

Over the years, we successfully developed, published and operated a number of popular ancient Chinese style female-oriented mobile games, such as our three signature games, *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游), each of which has achieved a high ranking in the best-selling games board for iPhone on Apple's App Store. We strategically focus on maximising the monetisation of a limited number of high-quality games. We have established a player community to enhance players' interaction, activity and loyalty through our *Game Friend* (好玩友) application, which according to Frost & Sullivan, is one of the few game social platform applications tailored for game players in the PRC. Backing by our strong data collection and analytics abilities, we can adjust our game operation strategies and marketing activities as necessary to adapt to the latest market trend and to satisfy the evolving player demand based on analysis of game and player data. As a result of these strategies, our hit game titles are able to achieve a relatively long lifecycle. For example, *Legend of Empress* (熹妃傳) was launched in June 2015 and still maintained stable monthly sales proceeds, average DAUs and average MAUs in 2018 after over 50 months' operations, far exceeding the lifecycle of mobile games in general, which is generally between three to 12 months accordingly to Frost & Sullivan.

We believe our success is attributable to our strong integrated abilities in game development, publishing and operations. Such an integration of upstream and downstream services in the value chain of the mobile game industry has enhanced management efficiency, productivity and profitability of our operations. As at 31 March 2019, we had a robust research and development team consisting of 864 members, accounted for over 65% of our total number of employees. Benefiting from our significant commitment of research and development resources, we stay in the fore front of technology development. We have developed our proprietary 2D and 3D game engines, which allow us to achieve a virtuous cycle of fast and cost-efficient development of games. We have also developed our proprietary multi-channels docking platforms, which can connect to the systems of approximately 100 distribution platforms, advertising platforms and payment channels platforms globally with a single consolidated software development kit. These technologies and tools have significantly enhanced the quality of our games and our development efficiency. Due to our strong game development ability, most of the games we offered are self-developed.

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We also have strong game publishing and operating capability. We have established stable and direct cooperation with mainstream distribution platforms, such as Apple's App Store, Google Play and Mobile Hardcore Alliance, and received positive feedback and recognition from these platforms. In addition, we obtained the Online Publication Service Licence for online game publication in November 2016. As a result, we have the in-house publication capabilities to register for games in the PRC, which expedites the entire game registration process compared to using third party publishing companies with the relevant licences prior to November 2016. We offer our games on a free-to-play basis and generate all of our revenue from the in-game sale and consumption of virtual items. We endeavour to cultivate player's loyalty to enhance their in-game purchase through adjusting our marketing and pricing strategy from time to time. Our strong publishing and operating capabilities have enhanced our control over the entire operation chain as well as our profitability. A large percentage of the games we offered are self-published through third-party distribution platforms.

Leveraging on our success in the PRC market, we started to expand into overseas market in 2011. We initially cooperate with local third-party publishers to publish our games in the targeted overseas markets. In February 2014, we commenced publishing mobile games through third-party publishers in overseas markets; in 2016, we commenced our self-publishing operations in overseas markets by distributing our mobile game through third-party distribution platforms which have world-wide operations. In 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue from overseas markets amounted to RMB105.9 million, RMB113.0 million, RMB276.3 million and RMB101.4 million, respectively, representing a CAGR of approximately 61.5% from 2016 to 2018.

We have experienced significant growth during the year ended 31 December 2016, 2017 and 2018 and the seven months ended 31 July 2019. Our cumulative registered players increased from 30.5 million in 2016 to 99.5 million as at 31 July 2019, and our average monthly paying players increased from 186,600 in 2016 to 234,900 for the seven months ended 31 July 2019. In 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue was RMB568.8 million, RMB700.2 million, RMB1,464.3 million and RMB393.5 million, respectively, representing a CAGR of 60.4% from 2016 to 2018, and our profit for the year/period was RMB80.7 million, RMB117.9 million, RMB336.7 million and RMB86.6 million, respectively, representing a CAGR of 104.3% from 2016 to 2018.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths of our Company have contributed to our success and help us compete effectively in the industry.

A leading mobile game developer, publisher and operator with a focus on female-oriented games

Benefiting from the increasing female consumption demand driven by the continuously rising social status of women and the gradual cultivation of mobile games as a means of entertainment into people's daily life, the number of female-oriented mobile game players in the PRC has increased rapidly from 48.3 million in 2013 to 256.1 million in 2018, representing a CAGR of 39.6% during this six-year period, according to Frost & Sullivan. As a result, the market size of female-oriented games in the PRC as measured by revenue grew at a CAGR of 84.9% from RMB1.9 billion in 2013 to RMB41.1 billion in 2018. The number of female-oriented mobile game players in the PRC is expected to grow steadily to 396.1 million in 2023, representing a CAGR of 9.1% from 2018 to 2023. It is projected that the female-oriented game market will maintain stable growth, reaching RMB95.8 billion in 2023, representing a CAGR of 18.4% over the period from 2018 to 2023.

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To capture the significant growth potential in the female-oriented game market, we have been strategically focusing on games targeting female players in the PRC since our inception in 2010 and we are a leading mobile game developer, publisher and operator with a focus on female-oriented games. With over eight years of experience in developing and operating this genre of games and along with the expansion of our operational scale, we are now one of the leading female-oriented game developers, publishers and operators in the PRC. We ranked the third in the PRC female-oriented mobile game market measured by revenue from female-oriented mobile games in 2018, which accounted for approximately 2.9% of the female-oriented mobile game market in the PRC in 2018, and ranked the first in the ancient Chinese style female-oriented mobile game market in the PRC with a market share of approximately 31.5% measured by revenue from ancient Chinese style female-oriented mobile games in 2018. The revenue from ancient Chinese style female-oriented mobile game market accounted for only 9.1% of the revenue from female-oriented mobile game market in the PRC in 2018.

Our games feature engaging story and plot design and attractive artistic style that match the general preference and aesthetics of female players. We also emphasise the interaction between players and our games as well as the interaction among players by establishing our player community through our *Game Friend* (好玩友) application, in-game forum and other online and offline player groups with an aim to enhance players activity and loyalty. We first gained credibility among industry operators and players from *Legend of Empress* (熹妃傳), our signature game launched in June 2015. It is our first large scale ancient Chinese style aesthetic RPG based on a classic aulic story of *Legend of Xi Princess of Qing Dynasty* (清宮熹妃傳). Leveraging on the success of *Legend of Empress* (熹妃傳), we further launched *Royal Chaos* (熹妃Q傳) in September 2017, which is our first 3D game with more relaxed, lively and humorous artistic style and advanced production technology development. In March 2018, we launched *Rise of Queendom* (宮廷計手游), which was developed from a different story line of the same back story of *Legend of Empress* (熹妃傳). Through the enhanced 3D motion, scene and character production, it has greater presentation of the splendid scene of the game and represents our advanced development capabilities in our games.

Each of *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游) has achieved a highest ranking of no. 20 on 5 January 2016, no. 14 on 8 March 2019 and no. 15 on 3 August 2018, respectively, in the best-selling games board for iPhone on Apple's App Store after their initial launch and ranked the top 66, 32 and 48 best-selling games in Apple's App Store, respectively, on 8 February 2019. These games have also become the benchmark ancient Chinese style games in the female-oriented game market which have attracted a large female player base for us. Our cumulative registered players reached approximately 99.5 million as at 31 July 2019 and our average DAUs and average MAUs amounted to approximately 635,500 and 3.2 million, respectively for the seven months ended 31 July 2019, demonstrating the popularity of our games.

Active expansion into overseas markets backed by stable cooperation with mainstream distribution platforms in the overseas markets and game localisation capabilities

We first expanded into overseas market in Taiwan, Hong Kong and Macau in 2011 by cooperating with local third-party publishers. In February 2014, we commenced publishing our mobile games through third-party publishers in overseas markets; in 2016, we commenced our self-publishing operations in overseas markets by distributing our game through distribution platforms which have world-wide operations. Thereafter, we have gradually established our market position and brand recognition. We have also established stable cooperation with mainstream distribution platforms in the

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overseas markets, including Google Play and Apple's App Store. Certain of our games have achieved satisfactory market response and financial performance. For instance, as at 31 March 2019, one of our signature ancient Chinese style games, *Legend of Empress* (熹妃傳), had achieved a highest ranking of no. 15 on 17 September 2016 and no. 40 on 10 September 2016 in the best-selling games board in South Korea for iPhone on Apple's App Store and Google Play, respectively, and its cumulative registered players reached approximately 1.1 million in South Korea. Our other successful ancient Chinese style game, *Royal Chaos* (熹妃Q傳), had achieved a highest ranking of no. 22 on 31 July 2018 and no. 23 on 27 August 2018 in the best-selling games board in South Korea for iPhone on Apple's App Store and Google Play, respectively, and its cumulative registered players reached approximately 1.1 million in the South Korea markets; it also had achieved a highest ranking of no. 3 on 2 September 2018 and no. 5 on 9 October 2018 in the best-selling games board in Singapore for iPhone on Apple's App Store and Google Play, respectively.

Over the years, we have built up strong localisation capabilities to structurally and artistically modify our game offerings through local language scripts and other in-game features specifically redesigned to meet the differentiated gameplay needs and preferences of players from diverse geographical markets. As at the Latest Practicable Date, we had developed, offered and promoted our major ancient Chinese style games *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳), *Rise of Queendom* (宮廷計手遊) and *Fate: Royal Revenge* (京門風月) in nine, seven, five and four language versions, respectively, in a number of overseas countries and regions. We are attentive to the cultural difference of players and have gained profound insights into the market and player difference from regions to regions. When localising a game, we introduce local features, such as local dialects, local artistic design and popular local gameplay into our games to cater for the preference of players from different countries and regions to enhance their in-game experience. We also have a team of employees with local background and living experience to evaluate and assess the games from local culture perspective.

We believe that overseas operations can reduce our risks of over reliance upon a single geographical market whilst increasing the awareness of our games internationally. In 2016, 2017 and 2018 and the three months ended 31 March 2019, we generated revenue of RMB105.9 million, RMB113.0 million, RMB276.3 million and RMB101.4 million, respectively, from our overseas markets, representing a CAGR of 61.5% from 2016 to 2018 and accounting for 18.6%, 16.1%, 18.9% and 25.8%, respectively, of our total revenue during the same periods.

In recognising our achievement in overseas mobile game markets, we were named the National Key Cultural Export Enterprise for the year 2017 to 2018 by the MOFCOM, the Publicity Department of Central Committee of Communist Party of China (中國共產黨中央委員會宣傳部), the MOF, the MOC and the SAPPRFT. As a result of such recognition, we were not only rewarded financially but also built our market reputation. With the favourable culture export policy support, we believe that our overseas operational scale will further expand in the upcoming years.

Highly integrated business model with game development, publishing and operation capabilities

We are an integrated and well-established mobile game company focusing on game development, publishing and operation with near nine years of experience. Such integration of upstream and downstream services in the value chain of the mobile game industry has enhanced the management, efficiency, productivity and profitability of our operations in that it establishes a scalable operation

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model to streamline internal workflow and reduces the time and costs of communications, project implementation and intelligence sharing among different functional departments, which provided us with better market position. A large percentage of the games we offered are self-developed and self-published through third-party distribution platforms, which demonstrates our strong game development and publishing capabilities. In 2016, 2017 and 2018 and the three months ended 31 March 2019, 99.2%, 99.2%, 100.0% and 99.9%, respectively, of our total revenue were generated from our self-developed games and 85.1%, 90.1%, 96.3% and 95.5%, respectively, of our total revenue were generated from our self-published games.

Over the years of operation, we have assembled valuable IP assets leveraging on the popularity of our proprietary games. Our signature ancient Chinese style female-oriented games, *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳), are developed from a novel about imperial palace stories during the Qing Dynasty composed by a popular novel writer. *Fate of the Empress* (浮生為卿歌), which is another ancient Chinese style female-oriented game, is developed from a novel composed by our in-house novel composing team. The simplified Chinese (Overseas) and traditional Chinese versions of this game were both launched in June 2019. Our novel composing team is dedicated to composing online novels as back stories of our games, serving as the blueprints for the scenario and character design of the games. We believe these game IPs are instrumental to building our brand and market position. They also provide a solid foundation for us to implement our strategy to derive non-game products from our IPs.

We have established stable cooperation with distribution platforms, such as Apple's App Store, Google Play and Mobile Hardcore Alliance. We have received positive feedback and recognition from these platforms with respect to technology application, game and content design and players responses of our games and our games have been promoted and recommended by Google Play and a number of major distribution platforms of the Mobile Hardcore Alliance on their platforms, such as Meizu and OPPO. According to Frost & Sullivan, the games recommended by these mainstream distribution platforms are generally games that are creative in game design and with high-quality. For instance, we launched one of our signature ancient Chinese style female-oriented games, *Rise of Queendom* (宮廷計手遊), in the South Korea market in January 2019. The game has been recommended by Google Play under the "coming soon to Google Play" category on its South Korea homepage before the official launch of the game and under the "new recommended games" category with banners on the top of its homepage after launch. Having games being recommended by these main stream platforms may improve the download volume of our games, enhance the reputation of our Company and strengthen the influence of our brand. We are seeking to further develop closer relationships with these platforms, which may give us more favourable terms in promoting and distributing our games. For example, Apple's App Store and Google Play would provide expert advice on artistic designs, game designs and players' in game experience, as well as priority worldwide promotion resources for high quality products, to publishers they consider important. As we have direct cooperation with the mainstream distribution platforms, we have better control over the entire operation chain as well as our profitability.

As our revenue generation relies on the players' in-game purchase of virtual items, we endeavour to cultivate players' loyalty to enhance their in-game purchase. As such, we have developed our proprietary social platform application, *Game Friend* (好玩友) as a means to increase players interaction and their stickiness to our games. We have created several player groups with a number of sub-groups under different titles of games and interests of players in the application. Players can communicate with other players through bulletin board discussions, live chat or online and offline players gatherings to

create a rich amount of social footprints in our player community. We also release the latest game strategies, activities notices and player ranking of each game in each player group for players to gather the most updated game strategies, content and activities information to enhance their game performance and in-game experience as well as to share their game experience with other players. We have accumulated a large base of players in this application. As at 31 July 2019, it had over 1.4 million cumulative registered accounts, and its average number of posts and replies for the seven months ended 31 July 2019 reached approximately 749,400 per month.

Strong game development team and sophisticated data analysis and application capabilities

We have set up a game development centre in our headquarters in Suzhou. Our research and development team is headed by Mr. Xu Lin, our executive Director, who has over 13 years of experience in technology industry. He has been leading our game development projects and overall research and development since our inception in 2010. We have a robust research and development team consisting of skilled game designers, artistic designers, programmers, mathematical designers (數值設計師), level designers, sound engineers and testing engineers. As at 31 March 2019, our research and development team had 864 employees, representing over 65% of our total number of employees, of which over 65 of them were our core research and development team members with an average of over seven years of relevant industry experience. In 2016, 2017 and 2018 and the three months ended 31 March 2019, we incurred research and development expenses of RMB63.6 million, RMB89.4 million, RMB136.4 million and RMB48.2 million, respectively, accounting for 11.2%, 12.8%, 9.3% and 12.2% of our total revenue during the same periods.

Benefiting from our significant commitment of research and development resources, we have established strong game development capabilities with a solid track record for the development of games. With our proprietary 2D and 3D game engines and multi-channels docking platforms, we have achieved a virtuous cycle of fast, scalable, manageable and cost-efficient development of games. Our game engines provide a series of comprehensive development tools and solutions for our game development team to develop the fundamental model, animation, scenes and special effects of a game and to manage resources under a centralised platform, which significantly enhances the quality of our games and our development efficiency. Our proprietary docking platform can connect to the systems of approximately 100 distribution platforms, advertising platforms and payment channels platforms globally with a single consolidated software development kit, which significantly enhance the efficiency and stability of our connection with the systems of various platforms.

Taking the advantages of our strong research and development capabilities, we have established a data-driven operation model from game development, publishing to operation with the support of our proprietary data collection and analysis system. We continuously collect and analyse a wide array of game and player data, including primarily the log-in frequency, time of gameplay, in-game activity levels, progress of skill levels, preference of using specific in-game functions and retention rate of players. Our functional departments analyse the data based on their demand and translate the understanding into well-planned game enhancement, promotional activities and targeted advertisement. For instance, our marketing team can measure the effectiveness and performance of our advertisement on different publishing platforms by analysing the average acquisition costs of each player from each platform. We then make targeted adjustment to the advertisement content, timing and frequency or even change the publishing platforms to manage such costs and thereby enhancing our profitability.

Dedicated and visionary management team with stable teams and highly engaging corporate culture

Our senior management team possesses extensive industry experience, in-depth insight into the market trends and rich operational expertise, and has successfully guided us through the rapidly evolving and highly competitive industry by strategically determining the ancient Chinese style female-oriented game as our focused sector. Mr. Jiang, our founder, executive Director and chief executive officer, has nearly 15 years of experience in the game industry. He is responsible for formulating the development strategies and overseeing the overall management of our Company. Mr. Jiang has been recognised as the “Technology Entrepreneur of Jiangsu Province (江蘇省科技企業家)” in 2018, the “Gusu Cultural Promotion Person of the Year (姑蘇宣傳文化重點人才)” in 2018, the “Suzhou Industrial Park Technology Leading Talent (蘇州工業園區科技領軍人才)” in 2017 and “Suzhou Cultural and Creative Industry Person of the Year (蘇州文化創意產業2016年度人物)” for 2016. Mr. Wu Jie, our executive Director and vice president heading our sales and marketing as well as overseas publishing departments, has over six years of experience in the game industry. Mr. Sun Bo, our executive Director and vice president heading our game operation department, has over 14 years of experience in game operations.

We have stable and committed teams of senior management personnel and key employees. Substantially all of our senior management personnel joined us at the early development stage of our Company and are still actively involved in the daily operations and management. As at 31 March 2019, our key employees consisted of 94 members who were at the manager level or above and had been working with us for over two years and the turnover rate of these employees was maintained at a low level at around 0.3% in 2018. We consider the management capabilities of our key employees critical to our success and therefore have committed significant resources to sponsor our key employees to attend the Project Management Professional Programme organised by the Project Management Institute to enhance their project management skills in terms of leading and directing cross-functional teams, managing project schedule, budget and resources and applying appropriate project methodologies to achieve the project requirements and deliverables. All of our managerial personnel who have participated in the programme have passed the exams and obtained their Project Management Professional Certificates.

We encourage our employees to actively participate in our decision making and daily operations and endeavour to establish an engaging corporate culture. We have been hosting competitions among our employees annually to gather and select creative game ideas, concepts and designs since 2016. We provide cash rewards or other prizes to our employees whose ideas are considered appealing and distinguishing by our evaluation committee. We also develop some of the outstanding ideas into games if we consider that the game ideas match our development strategies and have market potential. For instance, one of our games, *Yokai Kitchen (精靈食肆)*, is developed from a game idea selected from those participating in the competition of 2017 and is expected to be one of our signature games. The English/simplified Chinese (Overseas) version, the Korean version, the traditional Chinese version and the simplified Chinese (PRC) version of this game were launched in June 2019, July 2019, July 2019 and August 2019, respectively. We believe such engaging and dynamic corporate culture will cultivate the spirit of innovation and the sense of belonging of our employees and enhance our team stability which lays the foundation of our continued success.

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Our goal is to strengthen our leadership in the online game industry in China and globally. We intend to achieve our goals by pursuing the following strategies.

Further expanding and enriching our game portfolio to strengthen our market position

According to Frost & Sullivan, the female-oriented game market in PRC will maintain stable growth in the coming years and its market size as measured by revenue is projected to reach RMB95.8 billion in 2023, representing a CAGR of 18.4% over the period from 2018 to 2023. To capture such great market opportunity, we plan to continue to focus our development, publishing and operational efforts on female-oriented games which we have accumulated abundant experience and recognisable market share. We plan to continue to enhance our existing female-oriented games by releasing new version upgrades and expansion packs. We have incorporated new features in certain of our existing games to boost attractiveness. For example, *Fate of the Empress* (浮生為卿歌) has incorporated 3D features and physically based rendering technology for more exquisite and splendid effects, and has incorporated real-time weather rendering system (即時天氣系統) to make the world in the game more realistic; *Yokai Kitchen* (精靈食肆) has adopted a fantasy theme incorporating creative elements such as supernatural creatures, cooking and restaurant management.

Leverage on our successful experience in developing ancient Chinese style female-oriented games during the Track Record Period, we also plan to expand and diversify our game portfolio. As at the Latest Practicable Date, our pipeline included (i) five new self-developed games, (ii) various new language versions of our existing games; and (iii) five H5 games. Our new self-developed games will include both female-oriented games and games targeting a wider audience of players, such as SLG and collective card games. We believe that the expansion and enrichment of our game portfolio will widen our player base, thereby strengthening our market position. As at the Latest Practicable Date, we have not obtained publication number for the simplified Chinese (PRC) version of one of our existing games and all of our pipeline games. However, we have received preliminary approvals from the NAPP at the provincial level for the simplified Chinese (PRC) version of such existing game and three of our pipeline games. We are pending for publication numbers to be issued by the NAPP at the national level for these games. As we have completed the game development process for that existing game, we have launched it in overseas markets first while waiting for its publication number before launching it in the PRC.

We closely follow emerging and cutting-edge internet technologies and envision the growth potential of H5 games, which allow players to play in browsers or other social communication applications without separately installing our game applications on their mobile devices. Depending on the game size, it generally takes one to six months for us to develop and launch an H5 game, which means lower development risks compared to large scale games. We believe the offering of different varieties of H5 games with creative game plays will diversify our player base by attracting more players and bring us the opportunity to cross-promote our games to a wider group of players.

Deepen and expand our overseas markets

To implement our global development strategy, we will continue to develop games in localised style and languages. For our existing games, we have been offering different language versions such as simplified Chinese, traditional Chinese, English, Korean, Japanese, Vietnamese and Thai. Our pipeline games include new mobile games in various language versions as well as new language versions of our existing games for overseas markets.

In certain overseas countries where we adopt the self-publishing through third-party distribution platforms and self-operating model, we will continue to adopt this model for our new games and the new language versions of our existing games offered in these countries should it remain cost effective to adhere to this model under the then prevailing market and regulatory conditions. In certain other overseas countries, such as Thailand and Vietnam, where we generally engage third-party publishers to publish our games in the local markets, we seek to deepen our cooperation with these local partners in the publishing of our new games. We may also explore the opportunity to cooperate with other third-party publishers in these existing overseas markets to expand our player reach and enhance our bargaining power and control over our overseas operations in these markets. Where it is more commercially effective to do so, we would consider adopting the third-party publishing model in our other overseas markets where we currently adopt the self-publishing through third-party distribution platforms model. We will take into account a number of factors when selecting our partners, the major ones include historical experience in publishing mobile games (especially games with Chinese culture background), local promotion and marketing resources and networks, abilities to localise game for local markets, relationships with distribution platforms, number and quality of their games, player or user base, local regulatory and compliance requirements and revenue sharing arrangement.

We also plan to devote our marketing efforts and resources for our expansion in important overseas markets. We are actively gathering markets intelligence and exploring market opportunities with an aim to steadily expand into other countries and regions with a large number of Chinese population or with relatively high acceptance of Chinese culture. As at the Latest Practicable Date, we plan to publish a total of three new language versions of our three existing signature games, namely, *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游), in the Middle East, North America and Europe in 2019 and 2020. As we enrich our game portfolio with different genres and varieties of new games, we also intend to expand into other multi-cultural countries and regions. In addition to our existing overseas markets, we have strategically selected Europe (especially Germany and France) and the Middle East as our targeted markets for expansion in the near future due to the mature internet infrastructure and stronger willingness to pay by the game players in Germany, France and the Middle East and the large size of the mobile game market in the Middle East in terms of revenue.

We will continue to cooperate with Apple's App Store and Google Play as distribution platforms and Facebook as advertising and marketing platform to distribute and promote our games in these markets. As at the Latest Practicable Date, we had applied for registration of the trademark "FriendTimes" in 12 countries and regions to facilitate our overseas expansion.

Engage in effective marketing and promotion activities to enhance our brand and game recognition

As a leading mobile game developer, publisher and operator, we have been launching and distributing our games under our “FriendTimes” brand. With the success of a number of high quality and popular female-oriented games and expansion of operational scale over the years, we believe that our brand has gained awareness and recognition among the industry as well as among players. In the overseas markets, we have also started to implement our global expansion strategy under our “FriendTimes” brand. As brand image and recognition are critical in attracting players and expanding cooperation with upstream and downstream industry players, we seek to promote our “FriendTimes” brand through a series of enhanced online and offline marketing campaigns that increase the exposure of our games and brand.

We will maintain stable and close cooperation with our existing business partners to enhance our online marketing efforts and we plan to increase our online marketing and advertising spending in the next three years to promote our games in order to enhance our brand image and attract more players. In terms of offline advertisements, we plan to invite celebrities to endorse our signature games and we also plan to release more advertisements in television channels and public places, such as buses, undergrounds and public buildings, to create additional channels to disseminate information of our games. We will hold product launch conferences for our future signature games and will attend more diversified industry events, such as exhibitions and industrial conferences, to attract more public and industrial attention to our brand and new games. Please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” for more information.

Moreover, we intend to further enhance our in-house advertisement designing ability to enrich the contents and enhance the attractiveness of our advertisement. As at 31 March 2019, we had built up a team of 162 members specialising in brainstorming advertising ideas and designing advertisement content with basic game and character materials supplied by our game development team. We plan to continue to hire new talents to join us to enhance our in-house advertisement designing ability and strengthen our cooperation with our marketing and advertisement suppliers.

Expand our player base and build up gaming social platform

We target potential players by utilising a multi-channel marketing strategy and we cooperate with leading internet platforms to source players and expand our brand reach. Currently, Apple’s App Store, Google Play and Mobile Hardcore Alliance are our primary platforms to source players by providing players with easy download access to our games. We also advertise our games through Facebook, Google, Tencent and ByteDance, which we believe would help us to expand our player base. To further expand the reach of our games to a wider group of players and enhance the monetisation of our players, we intend to (i) develop and publish greater variety of games; (ii) enhance initial game play experience to attract new players; (iii) develop new gaming methods to enhance player experience; (iv) gather players’ feedback to enhance the attractiveness of our games; (v) review our pricing to ensure the prices of virtual items are proportional to their values in the games; (vi) devote resources to enhance the brand of each of our games; and (vii) further expand our reach to other overseas markets.

In recent years, online gameplay has been playing an increasing role as a means for socialisation. A mobile game may become part of players’ life as they not only get entertainment but also make more friends and acquaintance through the gameplay. A dynamic player community may significantly enhance the players’ interest and loyalty and could even attract more players for our games by the introduction of

our existing players to their colleagues, friends or relatives. Our proprietary social platform application *Game Friend* (好玩友) provides a solid base for us to continue to expand our player community. We plan to further optimise this application by (i) maintaining the quality of the platform to ensure positive user experience; (ii) continuously communicating with users to promptly respond to their feedbacks; (iii) making the platform more interactive to engage the users; (iv) enhancing access to the platform to make it faster and more convenient for the users; and (v) cooperating with third parties to make access to our platform available through third parties platforms.

Enhance our capabilities of utilising and commercialising game IPs

As mobile games fuse cutting-edge technology and imaginative artistic expression, the cultural impact of mobile games has great influence across the world. Accordingly, it has created great opportunities for us to commercialise our game IPs in the near future. In addition to the IPs we have assembled from our existing games, we will further expand our IP resources from literature composing by our in-house novel composing team and commissioned novel writers. We also plan to acquire IPs and associated assets relating to popular comics, animation, TV series and programmes, and movies. We have set up an in-house novel composing team to compose four novels, which are expected to become the IP reserve for our future development of new games. In addition, we have commissioned a famous novel writer in the PRC to customise a novel on ancient Chinese love story for our game. We expect this novel to be completed in the second half of 2019 and the corresponding game is expected to become one of our major games in the future. In sourcing IPs created by third-parties, we will enter into legally binding written agreements with the third-parties. By paying commission fees to such third-parties, we generally require all of the IPs created pursuant to the contractual arrangement to be owned by us and we shall have the exclusive rights to licence or further utilise such IPs in a manner subject to our absolute discretion.

As we are assembling more and more game IPs, we will seek to commercialise our game IPs to diversify our revenue stream and to establish our game IP ecosystem. Currently, we have been cooperating with merchants to manufacture souvenirs with our game characters, such as Princess Xi as gifts for our players or prizes for our in-game activities. We have also customised and designed emojis using our game characters and published them on the internet. Furthermore, we also developed soundtracks for our games. We plan to use our IPs in deriving games as well as marketing and promotional materials for the primary purpose of enhancing the market position and market influence of our IPs and our games, extending the lifecycle of our IPs and our IP-related games, and maximising the commercial value and potentials of our IPs.

OUR REVENUE MODEL

We provide integrated game development, game publishing and game operation services in the PRC and overseas markets, with a leading position in the PRC female-oriented mobile game market. We have been focusing on developing, publishing and operating online games since our inception in 2010 and then mobile games since 2012. We adopt three models in our game development, publication and operation: (i) self-publish through third-party distribution platforms of self-developed games, (ii) self-publish through third-party distribution platforms of third-party developed games, and (iii) third-party publish of self-developed games. The self-publish through third-party distribution platforms of self-developed games model is our main business model, while at the same time we also adopt other models to diversify our operational and development risks.

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Under the first model, we publish our games by distributing them through a wide range of distribution platforms, including our proprietary *Game Friend* (好玩友) social platform application, App Stores on mobile devices of reputable brands, major international and domestic mobile application stores, and mobile application stores operated by China's major internet corporations. We also commission the development of a small number of games, in particular new genre of games that we wanted to expand into, to third party game developers, and obtain the copyright and self-publish the games after their development is completed. Under this arrangement, we provide the game concepts and ideas to the third-party developers and own the IP rights of the games. Under the second model, we publish and operate games developed by third-party game developers who licence the games to us for publishing and operation. The third model of third-party publishing of self-developed games is mainly adopted in certain overseas markets such as Vietnam and Thailand where it is more effective and cost-efficient to licence our games to selective local third-party publishers to publish and operate the localised versions of our games in those markets.

PRC Operations

As a PRC-based game developer, publisher and operator, the PRC market is the primary focus of our operations. In 2016, 2017 and 2018 and the three months ended 31 March 2019, we generated revenue of RMB462.9 million, RMB587.2 million, RMB1,187.9 million and RMB292.1 million, respectively, from our operations in the PRC market, accounting for 81.4%, 83.9%, 81.1% and 74.2%, respectively, of our total revenue during the same periods.

As at the Latest Practicable Date, we had 12 games in operation, nine of them were developed, published and operated by ourselves, two were commissioned third-party developed but published and operated by ourselves and one was third-party developed but published and operated by ourselves.

We publish games in the PRC either through our proprietary distribution platforms or third-party distribution platforms. Our proprietary distribution platforms include our social platform application *GameTime* (好玩友), our official websites and other third-party websites linked to our official websites providing downloading links of our games. Third-party distribution platforms primarily include Apple's App Store, Google Play, Mobile Hardcore Alliance and other third-party application marketplaces.

Overseas Operations

In 2011, we started to cooperate with local third-party publishers to expand into Taiwan, Hong Kong and Macau. To leverage on our successful publishing and operation experience accumulated in the PRC market, we commenced our self-publishing operations in overseas markets by distributing our games through third-party distribution platforms with worldwide operations (such as Apple's App Store and Google Play) in 2016. In our self-publishing model in overseas markets, we act as a content provider and game developer to publish our games through such third-party distribution platforms. Such an arrangement has enabled our games to be offered in a number of countries such as Japan, South Korea, Singapore, Malaysia, the United States and Canada.

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In 2016, 2017 and 2018 and the three months ended 31 March 2019, we generated revenue of RMB105.9 million, RMB113.0 million, RMB276.3 million and RMB101.4 million, respectively, from our operations in the overseas markets, accounting for 18.6%, 16.1%, 18.9% and 25.8%, respectively, of our total revenue during the same periods. During the Track Record Period, substantially all of our games offered in the overseas markets were self-developed.

We first self-published two of our major games, namely *Legend of Empress* (熹妃傳) and *Royal Tales* (宮廷Q傳), through third-party distribution platforms in the Korean version in July 2016 and May 2016, respectively. Through the launching of the Korean version of these two games, we have acquired an understanding of the local culture and overseas self-publishing experience. We then decided to further expand our self-publishing model through third-party distribution platforms to other overseas markets in 2017, such as Singapore, Malaysia and the North America. Our overseas game publishing and operation team grew from 15 employees as at 31 December 2016 to 36 employees as at 31 March 2019 through our constant recruitment of talents with strong overseas game publishing experience.

Also, we have established stable and direct cooperation with mainstream distribution platforms, such as Apple's App Store and Google Play, and received positive feedback and recognition from these platforms. Our games have been promoted and recommended by Google Play on its platform. For instance, we launched one of our signature ancient Chinese style female-oriented games, *Rise of Queendom* (宮廷計手遊), in the South Korea market in January 2019. The game has been recommended by Google Play under the "coming soon to Google Play" category on its South Korea homepage before the official launch of the game and under the "new recommended games" category with banners on the top of its homepage after it was officially launched. Having games being recommended by mainstream platforms may improve the download volume of our games, enhance the reputation of our Company and strengthen the influence of our brand in the overseas markets. With our success in self-publishing through third-party distribution platforms in overseas markets, we recorded a significant increase in our revenue from self-published games through third-party distribution platforms in overseas markets during the Track Record Period.

With respect to games that are published overseas by third parties, we have established trusted licencing relationships with third-party local publishers to publish our games in the local markets to leverage on their localisation capabilities, resources and user bases. In our cooperation with the third-party publishers, we are responsible for developing and upgrading the game, providing technical support to the third-party publishers, and licensing our copyright to such third-party publishers to operate such games in a defined period. The third-party publishers are responsible for publishing and operating the games, including designing and operating the game websites, offering the games to the players, hosting game servers, determining the prices of virtual items, organising game socialising and promotion activities, maintaining and providing services to players, cooperating with media platforms and conducting marketing campaigns and dealing with payment channels.

Currently, we adopt pure third-party publishing arrangement in Thailand, Vietnam, Hong Kong, Macau and Taiwan, and pure self-publishing arrangement in overseas markets such as Japan, South Korea, the United States and Canada. Going forward, depending on market development, type of games and third-party publisher capabilities, we may consider it suitable or desirable to publish games ourselves in markets where we adopt pure third-party publishing arrangement or publish games through third-party publishers in markets where we adopt pure self-publishing arrangement.

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In addition to our existing overseas markets, we plan to expand into our targeted new overseas markets, namely the Europe (in particular Germany and France) and the Middle East in the near future. According to Frost & Sullivan, for certain markets where there are very few Chinese mobile game developers and publishers, such as Germany, France and the Middle East, their mobile game market are supported by mature internet infrastructure and stronger willingness to pay by the users. The mobile game markets in Germany and France were among the top five in terms of revenue in Europe in 2018 and the number of female mobile game users in Germany and France was 14.4 million and 9.1 million in 2018, respectively. The mobile games in these two markets are dominated by SLG and casual games. As such, we believe there exists a gap in certain market segments in Germany and France. By offering new game plays and innovative ideas such as introducing mobile games featuring historical and Chinese characteristics to these two countries, we will be able to fill in such gap in these markets. The size of mobile game market in the Middle East exceeded USD1.2 billion in 2018, which largely is comprised of female players (who tend to have more leisure time) and young players under 30 years old (who account for more than 70% of the total population in the Middle East). Since young generation tends to show strong curiosity for new things including new game genres such as ancient Chinese style, it is our strategy to introduce ancient Chinese style mobile games to the young players and female-oriented games to the female players in such market.

Further, in addition to our ancient Chinese style female-oriented games, we may also launch other female-oriented and non-female-oriented games in those markets to capture a wider player base. As at the Latest Practicable Date, we had 12 existing games in total, out of which five were ancient Chinese style female-oriented games, four were non-ancient Chinese style female-oriented games, and three were non-female-oriented games; in addition, we had two non-ancient Chinese style female-oriented games and two non-female-oriented games in our pipeline. These games include a variety of different genres such as RPG, SLG, MMORPG, music battle, management simulation, casual and collective card games. As such, we can offer a wide variety of games to our targeted new overseas markets and are not limited to only launching our ancient Chinese style female-oriented games. Also, given that our games have already been developed, the costs for localisation of our games for launching them in our targeted new overseas markets are relatively low (estimated to be less than 10% of the initial costs of developing the games). Therefore, our Directors believe it is cost-effective and worthwhile for us to invest in the localisation of our games to explore these new overseas markets. As such, we have selected Europe (especially Germany and France) and the Middle East as our targeted markets for expansion in the near future.

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The following table sets forth the breakdown of our revenue from games by markets, game development model and publishing model in absolute amounts and as percentage to our total revenue from games for the periods indicated:

	Year ended 31 December						Three months ended 31 March	
	2016		2017		2018		2019	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentages)</i>							
PRC market	462,196	81.4	586,435	83.8	1,187,818	81.1	292,115	74.2
Self-developed games	458,374	80.7	582,509	83.3	1,187,689	81.1	291,821	74.2
— self-publishing	456,783	80.4	582,509	83.3	1,187,689	81.1	291,821	74.2
— third-party publishing	1,591	0.3	—	—	—	—	—	—
Third-party developed games	3,822	0.7	3,926	0.5	129	0.0	294	0.0
— self-publishing	3,822	0.7	3,926	0.5	129	0.0	294	0.0
Overseas markets	105,941	18.6	113,019	16.2	276,343	18.9	101,423	25.8
Self-developed games	105,941	18.6	112,043	16.1	276,221	18.9	101,423	25.8
— self-publishing	23,713	4.2	43,338	6.2	221,812	15.2	83,736	21.3
— third-party publishing	82,228	14.4	68,705	9.9	54,409	3.7	17,687	4.5
Third-party developed games	—	—	976	0.1	122	0.0	—	—
— self-publishing	—	—	976	0.1	122	0.0	—	—
Revenue from games	568,137	100.0	699,454	100.0	1,464,161	100.0	393,538	100.0

For detailed discussion of our revenue recognition and revenue breakdown, please refer to the section headed “Financial Information — Description of Major Components of our Results of Operations — Revenue”.

OUR GAMES

Currently, most of our games are female-oriented games which generally require developer to have an outstanding plot design capabilities to achieve high degree of completion in terms of enchanting story, exquisite picture and harmonious music. We have developed and published a number of popular female-oriented games, such as *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊). Leveraging our strong game development and publishing capabilities, we further expanded our game portfolio into other genres of games, such as SLGs, MMORPG, love simulation, management simulation and music battle games.

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Typically, our games experience in their lifecycle an early growth stage, a stable and mature stage and a recession stage based on the growth rate of the number of players and revenue. According to Frost & Sullivan, after a game is launched, the number of players and revenue generated from such game tend to increase relatively fast as a result of the comprehensive marketing and promotion campaigns at the beginning stage, which falls within the early growth stage. In the stable and mature stage, the game has gained its player base and market share and the revenue generated from the game tend to be stable. We maintain our marketing and promotion efforts and operation activities and introduce version upgrades on a regular basis at this stage to enhance the profitability of the game. When a game enters into its recession stage, as the existing players begin to lose interest in the game and there are not enough new players to supplement the player base, the number of players 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 of the game. However, any temporary decrease in the number of users or revenue, even a significant one, does not necessarily mean that a game has started its recession stage.

We seek to extend the lifecycle, especially the stable and mature stage, of our games through a number of measures, including (i) adjusting our game operation strategies and activities based on accurate analysis of game and player data, (ii) carrying out differentiated operation and promotion activities targeting paying players, non-paying players, new players and existing players, (iii) launching version upgrades with new contents and gameplays (such as launching new in-game missions and allowing players to team battle and team up to complete certain tasks) to reflect the latest market trend and to satisfy the evolving player demand based on our player and market surveys, (iv) offering new and diversified virtual items (e.g. characters, pets, costumes and time limited virtual items for certain festivals such as the Mid-Autumn Festival and the Chinese Valentines Day) and special virtual items which can only be obtained after the player has achieved certain advance level in the game to keep our games interesting to our existing players so as to enhance players' loyalty and to motivate and entice our players to continuously play our games, (v) maintaining the stability of our economic system to avoid unexpected inflation of virtual items, and (vi) enhancing our internal control on daily operations to avoid any accident that may result in the loss of our existing players.

With the above strategies, certain of our games are able to maintain and are expected to maintain a relatively long lifecycle. For instance, *Legend of Empress* (熹妃傳), one of our signature ancient Chinese style female-oriented games, was initially launched in June 2015 in the PRC and its simplified Chinese version published in the PRC was still at the stable and mature stage as at 30 June 2019. We expect the stable and mature stage of *Legend of Empress* (熹妃傳) to be over 48 months and its entire lifecycle to be over 72 months, which is far longer than the general lifecycle of 7 to 16 months for mid-core to hard core mobile games in the industry, according to Frost & Sullivan. We believe that the reasons for some of our games to have a relatively longer lifecycle than the industry average are primarily two-folds. Firstly, our existing games are designed to be female-oriented. According to Frost & Sullivan, the players of story based female-oriented mobile games demonstrate a higher level of stickiness in terms of longer length of daily playing time and players have higher willingness to pay. Secondly, it can be attributable to our operational ability. We constantly analyse the players' behavioral data and adopt different operation and promotion strategies based on the data gathered to stimulate player interest, encourage in-game purchase and re-engage dormant users. Further, we also make use of the social element of our games and players through our social platform application *Game Friend* (好玩友) to create an online community for our players and we also release gaming strategies and activities on the platform to enhance players in-game experience. We believe that these efforts have successfully enhanced our players' loyalty and stickiness, which have resulted in the relatively longer lifecycle for some of our games.

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Existing Game Portfolio

As at the Latest Practicable Date, our existing game portfolio included 12 games with different language versions (totaling 33 versions) that were in operations, the details of which are set forth in the following table:

Title	Genre	Language	Publishing	Launch Date	Expected Lifecycle (months)	Time Reached Stable and Mature Stage	Lifecycle Stage
Self-developed games							
Rise of Queendom (宮廷計手遊)	RPG	Simplified Chinese (PRC)	Self-publishing	Mar 2018	72	Aug 2018	Stable and mature
		Traditional Chinese	Third-party	Dec 2018	72	May 2019	Stable and mature
		Korean	Self-publishing	Jan 2019	72	Jun 2019	Stable and mature
		Vietnamese	Third-party	May 2019	72	Aug 2019	Stable and mature
		Thai	Third-party	Aug 2019	72	— ⁽¹⁾	Early growth
Royal Chaos (熹妃Q傳)	RPG	Simplified Chinese (PRC)	Self-publishing	Sep 2017	84	Apr 2018	Stable and mature
		English/Simplified Chinese (Overseas)	Self-publishing	Jan 2018	84	Sep 2018	Stable and mature
		Traditional Chinese	Third-party	Apr 2018	84	Sep 2018	Stable and mature
		Korean	Self-publishing	Jul 2018	84	Dec 2018	Stable and mature
		Vietnamese	Third-party	Aug 2018	84	Oct 2018	Stable and mature
		Thai	Third-party	Nov 2018	84	Mar 2019	Stable and mature
		Japanese	Self-publishing	March 2019	84	Aug 2019	Stable and mature
Legend of Empress (熹妃傳)	RPG	Simplified Chinese (PRC)	Self-publishing	Jun 2015	72	Sep 2015	Stable and mature
		Traditional Chinese	Third-party	Dec 2015	72	Jun 2016	Stable and mature
		Korean	Self-publishing	Jul 2016	72	May 2017	Stable and mature
		Vietnamese	Third-party	Dec 2016	72	Feb 2017	Stable and mature
		Japanese	Self-publishing	May 2018	72	Aug 2018	Stable and mature
		English/Simplified Chinese (Overseas)	Self-publishing	Feb 2019	72	— ⁽¹⁾	Early growth
		Fate: Royal Revenge (京門風月)	RPG	Simplified Chinese (PRC)	Self-publishing	Jun 2016	60
		Traditional Chinese	Third-party	Nov 2016	60	Feb 2017	Stable and mature
		Simplified Chinese (Overseas)	Self-publishing	Jul 2017	30	Nov 2017–Feb 2019	Recession
Fantasy: Pocket Pets (幻寵大陸)	RPG	Simplified Chinese (PRC)	Self-publishing	Apr 2018	18	May 2018–Jul 2018	Recession
Dynasty of Kingdoms (帝王雄心)	SLG	Simplified Chinese (PRC)	Self-publishing	Jun 2019	18	— ⁽¹⁾	Early growth
Fate of the Empress (浮生為卿歌) ⁽²⁾	RPG	Simplified Chinese (Overseas)	Self-publishing	May 2019	72	— ⁽¹⁾	Early growth
		Traditional Chinese	Third-party	Jun 2019	72	— ⁽¹⁾	Early growth
Story: Cyborg Fantasy (化芯物語) ⁽³⁾	Love Simulation	Simplified Chinese (Overseas)	Self-publishing	Jun 2019	24	— ⁽¹⁾	Early growth
Yokai Kitchen (精靈食肆) ⁽²⁾	Management Simulation	English/Simplified Chinese (Overseas)	Self-publishing	Jun 2019	84	— ⁽¹⁾	Early growth
		Traditional Chinese	Third-party	Jul 2019	84	— ⁽¹⁾	Early growth
		Korean	Self-publishing	Jul 2019	84	— ⁽¹⁾	Early growth
		Simplified Chinese (PRC)	Self-publishing	Aug 2019	84	— ⁽¹⁾	Early growth
Third-party developed game							
Project: Heartbeat (心跳計劃)	Music Battle	Simplified Chinese (PRC)	Self-publishing	Jun 2019	24	— ⁽¹⁾	Early growth
Commissioned third-party developed games							
Pantheon's War (諸神幻想)	MMORPG	Simplified Chinese (PRC)	Self-publishing	Jun 2019	24	— ⁽¹⁾	Early growth
Tale: Love Forest (戀人之森)	RPG	Simplified Chinese (PRC)	Self-publishing	Sep 2017	25	Nov 2017–Dec 2018	Recession

Notes:

- (1) Being games that have not yet reached stable and mature stage as at the Latest Practicable Date.
- (2) We have received the publication number issued by the NAPP at the national level for the simplified Chinese (PRC) version of the game in July 2019.
- (3) We have received preliminary approval from the NAPP at the provincial level for the simplified Chinese (PRC) version of the game, but is pending for the publication number to be issued by the NAPP at the national level.

Some of our main games are described below:

Legend of Empress (熹妃傳)



Legend of Empress (熹妃傳) is our first large scale ancient Chinese style female-oriented aesthetic mobile game that was officially launched in June 2015. We subsequently launched this game in various countries and regions. As at the Latest Practicable Date, this game was available in six different language versions, including simplified Chinese (PRC), English/simplified Chinese (Overseas), traditional Chinese, Korean, Vietnamese and Japanese. It was based on a popular classic aulic story, *Legend of Xi Princess of Qing Dynasty (清宮熹妃傳)* composed by a well-known novel writer. It is a 2D RPG where the players need to pass a series of levels to experience the life journey of Empress Xi from a maid in the imperial palace to the empress.

Legend of Empress (熹妃傳) quickly gained popularity among female players after its launch and has become the benchmark game of its genre in the mobile game sector according to Frost & Sullivan. At its peak, its DAUs and MAUs were approximately 412,700 and 2,106,400, respectively, and monthly sales proceeds of approximately RMB46.0 million. It achieved a highest ranking of no. 20 in the best-selling games board on 5 January 2016 and no. 30 in the top free games board both for iPhone on Apple's App Store on 26 July 2015 and remained on average the top 85 besting-selling games during 2018.

Royal Chaos (熹妃Q傳)



Royal Chaos (熹妃Q傳) is our first 3D game based on the same story of *Legend of Empress* (熹妃傳). As compared with the previous 2D game, it has enhanced graphics which was achieved by using the Unity 3D technology. As a result, the characters appear more realistic, which provides players with greater gaming experience.

Although both of *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳) are developed based on the same story, they have different style, target players and player interactions. The setting in *Royal Chaos* (熹妃Q傳) is more relaxed and its artistic style is more lively and humorous as compared to the more traditional style adopted by *Legend of Empress* (熹妃傳). Further, compared to *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) provides players with greater in-game player interactions and communication. As such, *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳) are two different games.

Given that *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳) target different group of players and are two different games, the launch of *Royal Chaos* (熹妃Q傳) further expanded our player base and contributed to our revenue growth, and it did not affect the performance of *Legend of Empress* (熹妃傳).

Royal Chaos (熹妃Q傳) also gained widespread popularity after its launch in September 2017. At its peak, its DAUs and MAUs were approximately 559,000 and 3,250,600, respectively, and monthly sales proceeds of approximately RMB73.7 million. It achieved a highest ranking of no. 14 in the best-selling games board on 8 March 2019 and no. 15 in the top free games board both for iPhone on Apple's App Store on 25 February 2018 and remained on average within the top 33 best-selling games during 2018. The Japanese version of *Royal Chaos* (熹妃Q傳) has been recommended by Google Play. As at the Latest Practicable Date, this game was available in seven different language versions, including simplified Chinese (PRC), English/simplified Chinese (Overseas), traditional Chinese, Korean, Vietnamese, Thai and Japanese.

Rise of Queendom (宮廷計手游)



Rise of Queendom (宮廷計手游) is a 2D ancient Chinese style female-oriented game where the players can choose a role from a wide array of game roles that we offer in the game to experience the real life in the palace. It is based on a different story line of the same series of story of *Legend of Empress* (熹妃傳). It represents our advanced development capabilities in the 2D game areas with enhanced 3D motion, scene and character production.

It has become one of our most popular games shortly after its launch in March 2018. At its peak, its DAUs and MAUs were approximately 255,900 and 1,603,400, respectively, and monthly sales proceeds of approximately RMB40.2 million. It achieved a highest ranking of no. 15 in the best-selling games board on 3 August 2018 and no. 7 in the top free games board both for iPhone on Apple's App Store on 21 May 2018 and remained on average within the top 55 best-selling games during 2018. The game has been recommended by Google Play under the "coming soon to Google Play" category on its South Korea homepage before the official launch of the game and under the "new recommended games" category with banners on the top of its homepage after launch. As at the Latest Practicable Date, other than the simplified Chinese (PRC) and traditional Chinese versions, we also launched the Korean version, the Vietnamese version and the Thai version of *Rise of Queendom* (宮廷計手游) in January 2019, May 2019 and August 2019, respectively. We are under the process of developing the English/simplified Chinese (Overseas) version of this game and plan to launch it in North America in the first half of 2020.

Fate: Royal Revenge (京門風月)



Fate: Royal Revenge (京門風月) is a 2D ancient Chinese style female-oriented game with engaging game plot set in an ancient Chinese society. The players can create their social networks and interact with non-player characters in the game. It is based on the story of a same name novel, which we acquired the IP of the novel from the author.

It was one of our top three games by revenue in 2016 and 2017. At its peak, its DAUs and MAUs were approximately 183,500 and 1,291,300, respectively, and monthly sales proceeds of approximately RMB12.5 million. It achieved a highest ranking of no. 4 in the best-selling games board on 24 July 2016 and no. 71 in the top free game board both for iPhone on Apple's App Store on 6 October 2016. As at the Latest Practicable Date, this game was available in three language versions, including simplified Chinese (PRC), traditional Chinese and simplified Chinese (Overseas).

Fate of the Empress (浮生為卿歌)



Fate of the Empress (浮生為卿歌) is an ancient Chinese style female-oriented game, which was developed from a novel composed by our in-house novel composing team. It is a story-based RPG game which has an extensive and complicated game play structure with an aim to deeply engage our players. It has incorporated 3D features and physically based rendering technology for more exquisite and splendid effects, and has incorporated real-time weather rendering system (即時天氣系統) to make the world in the game more realistic. It represents our advanced technological development capabilities in 3D game and it features remarkable refined graphics. This is our largest scale game in terms of research and development expenses incurred prior to its initial launch.

We launched its simplified Chinese (Overseas) version in Malaysia in May 2019 and its traditional Chinese version in Hong Kong, Macau and Taiwan in June 2019. Within the short time frame it was launched, the traditional Chinese version was promoted and recommended by Apple's App Store and Google Play on their platforms under the "new recommended games" category and achieved a highest ranking of no. 2 on 1 July 2019 in the free game board for iPhone or Apple's App Store in Taiwan.

Yokai Kitchen (精靈食肆)



Yokai Kitchen (精靈食肆) is a game developed from a game idea selected from our staff participating in our in-house competition in 2017. It is a female-oriented mobile game which features a fantasy theme incorporating creative elements such as supernatural creatures, cooking and restaurant management simulation. The players are given the role as a restaurant manager and the players can raise supernatural creatures and use them to capture food ingredients. The players then use the food ingredients to create different types of food. The players can also purchase in-game virtual items to decorate and design their restaurants. It differs from other general restaurant management simulation games as it incorporates collective card game elements in the game. It has incorporated 3D features and augmented reality technology, which is a technology that adding a digital image on the players' view of the real world, to enhance the reality of in-game experience. The IPs of the game are created by us.

This is our second largest scale game in terms of research and development expenses incurred prior to its initial launch and we launched its English/simplified Chinese (Overseas) version in Malaysia and Singapore in June 2019, its traditional Chinese version in Hong Kong, Macau and Taiwan in July 2019, its Korean version in South Korea in July 2019 and its simplified Chinese (PRC) version in the PRC in August 2019. The traditional Chinese version was promoted and recommended by Apple's App Store on its platform and the Korean version was promoted and recommended by Google Play on its platform.

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Our Main Games

The following tables sets forth certain information of our top four games in terms of revenue contribution for each of 2016, 2017 and 2018 and the three months ended 31 March 2019:

Three months ended 31 March 2019

<u>Title</u>	<u>Revenue</u>	<u>% of our total revenue from games</u>	<u>Development</u>	<u>Earliest Launch Date</u>
<i>(revenue in thousands of RMB)</i>				
Royal Chaos (熹妃Q傳)	182,362	46.3	Self-developed	Sep 2017
Rise of Queendom (宮廷計手遊)	105,415	26.8	Self-developed	Mar 2018
Legend of Empress (熹妃傳)	97,361	24.7	Self-developed	Jun 2015
Fate: Royal Revenge (京門風月)	<u>6,674</u>	<u>1.7</u>	Self-developed	Jun 2016
Total	<u>391,812</u>	<u>99.5</u>		

Note:

- (1) The above top four games accounted for significant portion of our total revenue from games for the three months ended 31 March 2019 and none of the remaining games individually contributed to more than 1% of our total revenue from games for the three months ended 31 March 2019.

2018

<u>Title</u>	<u>Revenue</u>	<u>% of our total revenue from games</u>	<u>Development</u>	<u>Earliest Launch Date</u>
<i>(revenue in thousands of RMB)</i>				
Royal Chaos (熹妃Q傳)	691,790	47.2	Self-developed	Sep 2017
Legend of Empress (熹妃傳)	443,482	30.3	Self-developed	Jun 2015
Rise of Queendom (宮廷計手遊)	275,226	18.8	Self-developed	Mar 2018
Fate: Royal Revenge (京門風月)	<u>46,203</u>	<u>3.2</u>	Self-developed	Jun 2016
Total	<u>1,456,701</u>	<u>99.5</u>		

Note:

- (1) The above top four games accounted for significant portion of our total revenue from games for 2018 and none of the remaining games individually contributed to more than 1% of our total revenue from games for 2018.

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2017

<u>Title</u>	<u>Revenue</u>	<u>% of our total revenue from games</u>	<u>Development</u>	<u>Earliest Launch Date</u>
<i>(revenue in thousands of RMB)</i>				
Legend of Empress (熹妃傳)	473,053	67.6	Self-developed	Jun 2015
Fate: Royal Revenge (京門風月)	114,545	16.4	Self-developed	Jun 2016
Royal Chaos (熹妃Q傳)	91,120	13.0	Self-developed	Sep 2017
Royal Tales (宮廷Q傳)	6,867	1.0	Self-developed	Apr 2014
Total	<u>685,585</u>	<u>98.0</u>		

Note:

- (1) The above top four games accounted for significant portion of our total revenue from games for 2017 and none of the remaining games individually contributed to more than 1% of our total revenue from games for 2017.

2016

<u>Title</u>	<u>Revenue</u>	<u>% of our total revenue from games</u>	<u>Development</u>	<u>Earliest Launch Date</u>
<i>(revenue in thousands of RMB)</i>				
Legend of Empress (熹妃傳)	479,830	84.5	Self-developed	Jun 2015
Fate: Royal Revenge (京門風月)	50,525	8.9	Self-developed	Jun 2016
Royal Tales (宮廷Q傳)	17,636	3.1	Self-developed	Apr 2014
Royal Legend (宮廷風雲)	8,405	1.5	Self-developed	Dec 2012
Total	<u>556,396</u>	<u>98.0</u>		

Note:

- (1) The above top four games accounted for significant portion of our total revenue from games for 2016 and none of the remaining games individually contributed to more than 1% of our total revenue from games for 2016.

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The table below sets forth the number of games launched and terminated and the number of different language versions of our games launched, terminated and still in operation for the periods and as of the dates specified:

	During the year ended 31 December			During the three months ended 31 March	From 1 April 2019 and up to the Latest Practicable Date
	2016	2017	2018	2019	
Games					
Number of games in operation at the beginning of the year/period	13	11	11	8	6
Newly launched	4	4	2	—	6
Terminated ⁽¹⁾	<u>(6)</u>	<u>(4)</u>	<u>(5)</u>	<u>(2)</u>	<u>—</u>
Number of games in operation at the end of the year/period	<u>11</u>	<u>11</u>	<u>8</u>	<u>6</u>	<u>12</u>
Language versions					
Number of language versions of games in operation at the beginning of the year/period	19	22	25	24	21
Newly launched	10	9	9	3	12
Terminated	<u>(7)</u>	<u>(6)</u>	<u>(10)</u>	<u>(6)</u>	<u>—</u>
Number of language versions of games in operation at the end of the year/period	<u>22</u>	<u>25</u>	<u>24</u>	<u>21</u>	<u>33</u>

Note:

(1) A game is considered as terminated when all of its language versions are terminated.

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The table below sets forth certain details of the different language versions of our games terminated in 2016:

Title	Genre	Language	Launch Date	Termination Date	Revenue for the year ended	
					31 December 2016	
<i>(in thousands of RMB)</i>						
Emperor Online (皇帝online) ⁽¹⁾	SLG	Simplified Chinese (PRC)	Sep 2012	May 2016	6.1	
Dream Back to Tang Dynasty (唐宮夢) ⁽¹⁾	RPG	Traditional Chinese	Dec 2014	Apr 2016	4.6	
Rise of Majesty (皇帝崛起)	SLG	Simplified Chinese (PRC)	Sep 2013	Apr 2016	9.3	
Royal Bubble Blast (格格愛泡泡)	Casual Games	Simplified Chinese (PRC)	Nov 2014	Aug 2016	0.1	
Royal Crush (格格愛消除)	Casual Games	Simplified Chinese (PRC)	Nov 2014	Aug 2016	0.3	
Smash Kingdoms (合體三國)	ARPG ⁽²⁾	Simplified Chinese (PRC)	Apr 2015	Apr 2016	13.2	
The Virtuous Queen of Han (衛子夫)	RPG	Simplified Chinese (PRC)	Feb 2015	Oct 2016	1,591.2	

Notes:

- (1) These are PC version games.
- (2) ARPG refers to action role playing game.

The table below sets forth certain details of the different language versions of our games terminated in 2017:

Title	Genre	Language	Launch Date	Termination Date	Revenue for the year ended	
					31 December	
<i>(in thousands of RMB)</i>						
Fate of Phoenix (鳳凰訣) ⁽¹⁾	RPG	Simplified Chinese (PRC)	Feb 2013	Feb 2017	11.7	—
		Traditional Chinese	Jul 2014	Apr 2017	12.8	0.9
Royal Legend (宮廷計) ⁽¹⁾	RPG	Simplified Chinese (PRC)	Dec 2010	Feb 2017	756.8	105.9
		Traditional Chinese	May 2011	Apr 2017	22.4	5.7
Dream Back to Tang Dynasty (唐宮夢) ⁽¹⁾	RPG	Simplified Chinese (PRC)	Jan 2014	Feb 2017	782.8	—
Legend of Monkey King (大聖王)	RPG	Simplified Chinese (PRC)	Sep 2016	Apr 2017	99.4	10.3

Note:

- (1) These are PC version games.

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The table below sets forth certain details of the different language versions of our games terminated in 2018:

Title	Genre	Language	Launch Date	Termination Date	Revenue for the year ended 31 December		
					2016	2017	2018
<i>(in thousands of RMB)</i>							
Revenge of Queen (戲說宮廷)	RPG	Traditional Chinese	Oct 2015	Jul 2018	2,059.8	279.6	169.0
Royal Tales (宮廷Q傳)	RPG	Korean	May 2016	March 2018	1,221.1	468.3	2.9
	RPG	Traditional Chinese	Dec 2014	Jul 2018	2,314.3	402.3	28.2
Royal Legend (宮廷風雲)	RPG	Traditional Chinese	Nov 2014	Jul 2018	2,685.3	365.2	20.0
Ori Princess (甜心格格)	RPG	Simplified Chinese	Apr 2016	Aug 2018	1,966.6	1,424.2	110.2
		(PRC)					
Battles: Dragon Dynasty (戰龍城)	RPG	Simplified Chinese	Apr 2016	Mar 2018	3,822.4	1,820.0	3.8
		(PRC)					
Dynasty of Invasions (馬踏千軍)	ARPG ⁽¹⁾	Simplified Chinese	Jun 2017	Jul 2018	0.1 ⁽²⁾	2,106.5	114.1
		(PRC)					
		Korean	Aug 2017	Apr 2018	—	975.8	121.5
Rise of Warriors (破軍天下)	RPG	Simplified Chinese	Mar 2017	Nov 2018	0.0 ⁽²⁾	2,848.9	173.0
		(PRC)					
		Traditional Chinese	Jul 2017	Jul 2018	—	358.7	309.6

Notes:

- (1) ARPG refers to action role playing game.
- (2) Revenue generated from the testing stage prior to the official launch of the games.

The table below sets forth certain details of the different language versions of our games terminated in the three months ended 31 March 2019:

Title	Genre	Language	Launch Date	Termination Date	Revenue for the year ended 31 December			Revenue for the three months ended 31 March
					2016	2017	2018	2019
<i>(in thousands of RMB)</i>								
Royal Tales (宮廷Q傳)	RPG	Simplified Chinese (PRC)	April 2014	March 2019	14,100.4	5,996.1	1,527.6	9.0
Royal Legend (宮廷風雲)	RPG	Simplified Chinese (PRC)	December 2012	February 2019	5,719.4	2,579.1	418.2	5.5
Fate: Royal Revenge (京門風月)	RPG	Korean	December 2017	March 2019	—	285.8	4,067.1	55.8
Legend of Empress (熹妃傳)	RPG	Simplified Chinese (North America)	November 2016	March 2019	35.9	20,200.2	18,380.8	424.9
		Thai	May 2017	March 2019	—	1,265.8	758.0	97.8
		Simplified Chinese (Singapore/Malaysia)	January 2016	January 2019	5,437.4	3,079.3	1,567.3	0.2

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In relation to our games terminated during the Track Record Period, those games were terminated mainly because certain of them did not perform as well as our other games or other language versions of our games.

As advised by our PRC Legal Advisers, in relation to the operations of our terminated games operated in the PRC during the Track Record Period, none of the PRC government authorities had imposed any administrative penalties on our Group and there were no breaches or violations of PRC rules and regulations which would have a material adverse impact on the game operation of our Group in the PRC.

As at the Latest Practicable Date, our Directors confirmed that none of our terminated games operated in jurisdictions other than the PRC during the Track Record Period had received any notices of breaches and/or violations from any government authorities or subject to any regulatory actions by any government authorities in relation to the operations of these terminated games. Our Directors further confirmed that our Group had not been imposed any penalties by any government authorities in relation to the operations of these terminated games during the Track Record Period. As such, our Directors believe that the operations of these terminated games complied with all the relevant rules and regulations in the jurisdictions where such games were published.

Game Pipeline

We expand our game portfolio primarily through self developing new games and new language versions for our existing games. To a much lesser extent, we also publish new third-party developed games to expand our game portfolio.

As at the Latest Practicable Date, our pipeline included five new mobile games with different language versions, 16 new language versions of existing games and five H5 games.

New Mobile Games

The details of our five new mobile games with different language versions (totaling 15 language versions) in the pipeline as at the Latest Practicable Date are set forth in the following table:

Title	Genre	Language	Expected launch time
Fate: The Loved Journey (此生無白)	RPG	Simplified Chinese (PRC)	Subject to approval ⁽¹⁾
	Female-oriented	Traditional Chinese	1st half of 2020
		Korean	1st half of 2020
		English/Simplified Chinese (Overseas)	1st half of 2020
		Japanese	2nd half of 2020
		Vietnamese	1st half of 2021
Thai	1st half of 2021		
Majesty & Conquest (王冠與征服)	SLG	Simplified Chinese (PRC)	Subject to approval ⁽¹⁾
	Non-female oriented	English/Simplified Chinese (Overseas)	1st half of 2020
Wizardlord (魔法交鋒)	Collective Card Games	Simplified Chinese (PRC)	Subject to approval ⁽¹⁾
	Non-female oriented	English/Simplified Chinese (Overseas)	2nd half of 2019
Game X ⁽³⁾	RPG	Simplified Chinese (PRC)	Subject to approval ⁽²⁾
	Female oriented	Traditional Chinese	2nd half of 2020
Game Y ⁽⁴⁾	Casual	Simplified Chinese (PRC)	Subject to approval ⁽²⁾
	Female oriented	Traditional Chinese	2nd half of 2020

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Notes:

- (1) Being games that we have received preliminary approvals from the NAPP at the provincial level, but are pending for the publication numbers to be issued by the NAPP at the national level. After obtaining the requisite publication numbers, these games are ready to be launched in the PRC. Our Directors expect that these games can be formally and commercially launched in the PRC soon after the publication numbers are obtained. Our Directors also plan to launch these games in overseas markets at or around the time as indicated in the table above regardless of the formal launch date in the PRC.
- (2) Being games that are in the development process. We intend to submit game registration applications for these games once their development and production processes are completed. Our Directors plan to launch these games in overseas markets at or around the time as indicated above regardless of the formal launch date in the PRC.
- (3) A story-based game with modern city background.
- (4) A casual elimination game combined with simulation game play elements.

Among the five new mobile games in the pipeline, three of them are female-oriented mobile games and the remaining two are non-female-oriented mobile games.

New Language Versions of Existing Mobile Games

As at the Latest Practicable Date, the details of our 16 new language versions of existing games in our pipeline are set forth in the following table:

Title	Genre	Language	Expected launch time
Rise of Queendom (宮廷計手遊)	RPG	English/Simplified Chinese (Overseas)	1st half of 2020
Royal Chaos (熹妃Q傳)	RPG	Arabian	1st half of 2020
Legend of Empress (熹妃傳)	RPG	German/French	2nd half of 2019
Dynasty of Kingdoms (帝王雄心)	SLG	Simplified Chinese (Overseas)	1st half of 2020
Fate of the Empress (浮生為卿歌)	RPG	Traditional Chinese	1st half of 2020
		Simplified Chinese (PRC)	2nd half of 2019 ⁽¹⁾
		Japanese	1st half of 2020
		Korean	1st half of 2020
		Vietnamese	2nd half of 2020
Yokai Kitchen (精靈食肆)	Management Simulation	Thai	2nd half of 2020
		Japanese	2nd half of 2019
		Arabian	2nd half of 2020
		Thai	2nd half of 2020
Story: Cyborg Fantasy (化芯物語)	Love simulation	Vietnamese	2nd half of 2020
		Simplified Chinese (PRC)	Subject to approval ⁽²⁾
		Traditional Chinese	2nd half of 2019

Notes:

- (1) We received the publication number issued by the NAPP at the national level in July 2019.
- (2) Being game that we have received preliminary approval from the NAPP at the provincial level, but is pending for the publication number to be issued by the NAPP at the national level. After obtaining the requisite publication number, this game is ready to be launched in the PRC. Our Directors expect that this game can be formally and commercially launched in the PRC soon after the publication number is obtained.

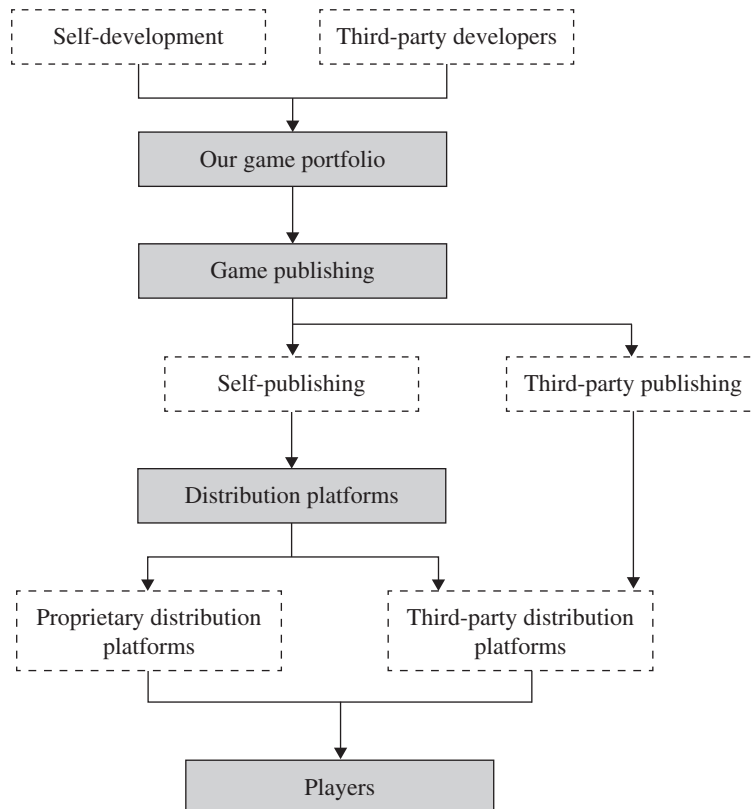
H5 Games

We also closely follow emerging and cutting-edge internet technologies and envision the growth potential of H5 games, which allow players to play in browsers or other social communication applications without separately installing our game applications on their mobile devices. Depending on the game size, it generally takes one to six months for us to develop and launch an H5 game, which means lower development risks compared to large scale games. We launched one H5 game in January 2019. As at the Latest Practicable Date, we had five H5 games in the pipeline and we plan to launch these H5 games in the pipeline in the rest of 2019 to meet the rising demand from our players for gameplay flexibility. We believe the offering of different varieties of H5 games with creative game players will diversify our player base by attracting players and bring us the opportunity to cross-promote our games to a wider group of players.

OUR OPERATION FLOW

As a mobile game developer, publisher and operator, our operations start from game development to game publishing and to game operations. In terms of distribution platforms, our players come from our proprietary platforms, including primarily our *Game Friend* (好玩友) social platform application and our official websites, and third-party platforms, such as Apple’s App Store, Google Play and Mobile Hardcore Alliance.

The following chart illustrates a simplified operation flow of our game business:



GAME DEVELOPMENT

Self-Development

As game development plays a critical role in backing our business growth since our inception, we have committed significant resources in building up and enhancing our in-house game development capabilities and have been engaging in self-development of games since our inception in 2010. With over eight years' experience in proprietary game development, we believe that we are able to develop games that swiftly respond to the growing market demands and satisfy the evolving players preference.

Research and Development Team

Our research and development team is headed by Mr. Xu Lin, our executive Director, who has over 13 years of experience in game development. For further details of Mr. Xu Lin's experience, please refer to the section headed "Directors and Senior Management — Directors — Executive Directors" for more information. As at 31 March 2019, our research and development team had 864 members and represented over 65% of our total employees, primarily comprising a team of designers, artists, programmers, sound engineers, plot designer and testing engineers. These employees on average have over three years of relevant industry experience and over 55% of our research and development employees have obtained bachelor's degree or above.

Our research and development team is further divided into four departments categorising by their different functions, namely, the game development centre, the artistic design centre, the social platform development centre and the technology support centre. Our game development centre is responsible for game design and planning, programme development and project management of our game development process. Our artistic design centre is specialised in the artistic design for the characters, scene and special effects of our games. Our social platform development centre is responsible for the development and maintenance of our social platform application, *Game Friend* (好玩友) as detailed in the section headed "Business — Our Players — Player Community". Our technology support centre is responsible for grounding up the fundamental the game structure with game engines, designing common and specific development tools and providing other technical support to our game development. Please refer to the section headed "Business — Technology Infrastructure" for more information.

As at 31 March 2019, we had 67 key game development employees. They had on average over seven years of experience in the mobile game industry and had been with our Group on average for over four years. Over 60% of them had received at least a bachelor degree. The team is headed by Mr. Xu Lin, our executive Director, who has been working with our Group since 2010 and has over 13 years of experience in the technology industry. For further details of his experience, please refer to the section headed "Directors and Senior Management — Directors — Executive Directors" in this prospectus. To retain key game development employees, we have adopted various incentive measures such as competitive remuneration and welfare package, performance-based incentive bonus and continued professional trainings. As a result, the turnover rate of our key game development employees were relatively low at 0.6%, 0.2%, 0.3% and 0.1% in 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively.

During the Track Record Period, we incurred research and development expenses of RMB63.6 million, RMB89.4 million, RMB136.4 million and RMB48.2 million, respectively, in 2016, 2017 and 2018 and the three months ended 31 March 2019, accounting for 11.2%, 12.8%, 9.3% and 12.2% of our

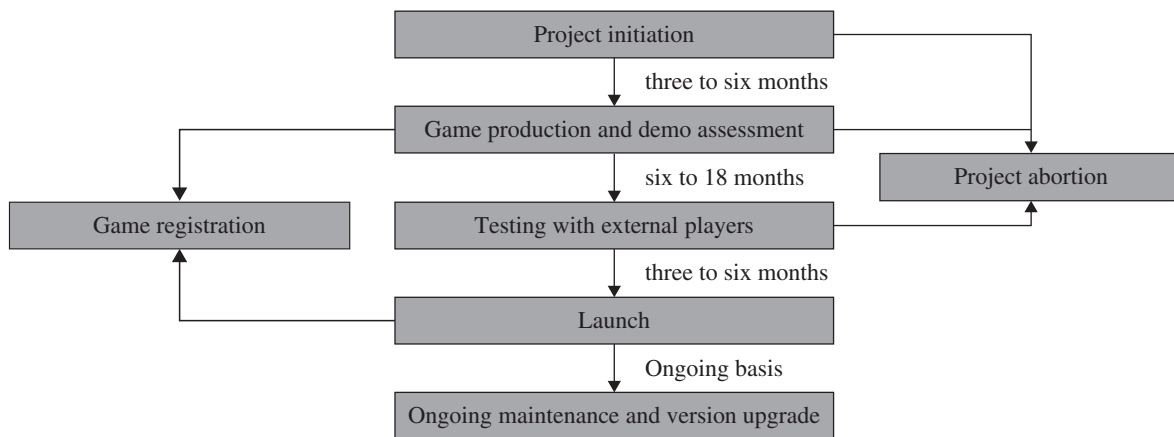
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total revenue during the same periods. Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Research and Development Expenses” for more information.

Game Development Process

We have established a scalable game development process that allow us to streamline the collaboration among game development, publishing, marketing and operation departments and to minimise the duplication of development efforts in different games that are of similar technical functionalities or features.

Depending on the complexity and novelty of the relevant games, the complete development cycle of a mobile game typically ranges from one year to two and a half years. Some of the game development process may overlap and run in parallel with each other during the entire game development cycle. The following chart illustrates a simplified development and launching process for our in-house developed games:



Project Initiation

Project initiation is the pre-production designing phase of the game project, which develops the idea, concept and core gameplay of the games and produce the initial design documents. Largely, the success of a game depends on whether its idea and concept are attracting and whether its core gameplay is engaging. Usually, we adopt a top-down development structure where the idea and concept of a new game project is determined by our senior management based on analysis and review of the latest market intelligence of the entertainment trend, players preference and technology advancement as well as their planning of our development strategies. Also, we have hosted competitions among our employees annually to gather and select creative game ideas, concepts and designs since 2016. We consider it as a supplement to our typical method of developing game ideas, concepts and core gameplay which helps us gain insights into the most popular culture and gameplays and the latest industry development from players’ perspectives.

Novels and other literatures are also important sources of ideas and concepts for our games. We have an in-house novel composing team in our game development centre responsible for writing novels as the back stories of game scenarios and character design of our games. Currently, they are in the preparation stage to compose four novels, which are expected to become the IP reserve for our future

development of new games. Moreover, we have commissioned a famous novel writer in the PRC to customise a novel on ancient Chinese love story for our game. We expect this novel to be completed in the second half of 2019 and the corresponding game is expected to become one of our major games in the future. We currently do not have a target timetable for developing and launching such game and we will further evaluate the timetable after the completion of the novel.

Once the concept of a game is determined, our game development centre will take lead in preparing the game proposal with support from our artistic design centre, game publishing centre and game operation centre. The game proposal is a highly descriptive document covering all key aspects of a game project, such as the game's selling points, target players, core and major gameplays, story and level design, major characters, artistic style, staff and budget planning and development cycle. The game proposal will be submitted to our senior management for formal approval, after which a full-staff meeting will be held to introduce the detailed development plan and to officially kick off the production process.

Game Production and Demo Assessment

Game production is the main stage of development, where the gameplay, story and programme of a game are produced. It starts with establishing the fundamental game structure with our proprietary game engines developed by our in-house technology support centre. Please refer to the section headed "Business — Technology Infrastructure — Core Proprietary Technologies — 2D and 3D Game Engines" for more information. Our game designers further refine the detailed implementation plans for different aspects of the game development projects, including plots, levels, gameplays, functions, economic system and combat power numerical system based on the initial game proposal. Our programmers continue to customise the game by introducing gameplays, new features and characters and building levels as required by the game design and fix bugs discovered during the development process. Depending on the scale of the project, we usually have ten to 50 artistic design staff who are responsible for designing the 3D models, user interface style, scene, special effects, movement and costume of different game characters. In terms of audio production, we have a team of sound engineers specialising in producing the sound effects, music and voice-over of the game. We also engage Independent Third Parties to provide certain audio production service to us. Please refer to the section headed "Business — Suppliers — Other Related Game Developing Services Providers" for more information.

During the game production, quality assurance plays a significant role in ensuring the functionalities and in-game experience of our games. Generally, we have a team of over 100 testing engineers. They are assigned to different games and will start working on the testing when any level or subset of the game programme is playable. Most of the testers closely follow the development process of the game step by step and test all aspects of a game at all relevant stages.

We hold a series of demo assessment meetings during the two major game production stages: the first stage is when the core gameplay and preliminary artistic and sound effect were developed and the second stage is when the entire development process is half-way and the core gameplays and major functions and levels are produced and playable. In every demo assessment, our in-house testing team try out the game demo and assess whether the core gameplay and basic functions and design achieve the effect contemplated in the original game proposal. The testing team also provide feedback on game functionalities and their in-game experience for the development team to refine the designs, resolve

technical issues and fix programme bugs. If our product development committee is satisfied with the full product demo, the game development process then proceeds to the preparation for the specific game version and relevant documentation for game registration.

Testing with External Players

Once the game development is almost completed, we conduct several rounds of testing of the game with the involvement of external players. Each testing typically lasts for one to two weeks. The testings are generally classified into two stages, namely close testing, which involves inviting external players and sourcing external players through advertising and marketing agencies on an invitation basis, and open testing, which involves us uploading our game on third-party distribution platforms for the public to download and play.

Before a close testing starts, we will publish notices and announcements on our websites and social platform application, *GameFriend* (好玩友), to invite external players and source external players through advertising and marketing agencies to download and play our games. During a close testing, each player is provided with certain amount of in-game virtual currency and virtual items free of charge for them to experience the game.

After the game is further optimised according to feedback gathered from players from one or several rounds of close testing, we start the open testing. At this stage, the game product is almost ready for official launch and the operation of the game is closely imitating the real game operation after launch. For instance, in addition to external players we invite from our own player community, we also engage players through third-party distribution platforms to form a testing player base that is similar to the real player base of the game. Also, different from close testing, players involved in the open testing in most cases would need to purchase the in-game virtual currency with real money and to exchange for the virtual items with the purchased virtual currency if they want to enhance their in-game experience.

We closely keep track of the key game and user data, including primarily player retention rate, active players, payment frequency and spending amount of the players during the entire testing process. With the support of our proprietary data collection and analysis tools as detailed in the section headed “Business — Data Analytics”, we are able to analyse the data on a real-time basis. We also actively gather players’ feedback through market surveys, discussions in our player community and communication with third-party distribution platforms. Through the analysis of the game and player data and players’ feedback, we are able to pre-assess the market reaction and financial performance of our games and further optimise the games as necessary before officially launching the game.

Launch

After the game has undergone sufficient testings with external players and the testing data having met our standards and passed our technology review, the management will then pass a resolution for the commercial release of the game. We typically launch our games on different distribution platforms with advertisement disseminated through various advertising platforms to increase the exposure of our games in order to attract more players. Please refer to the sections headed “Business — Game Publishing” and “Business — Marketing” for more information.

Ongoing Maintenance and Update

After launching our game, we maintain a team, the members of which are mainly from the same project development team, responsible for the ongoing development, optimisation and upgrades of the game in our daily operation until the game phases out.

We continuously update our games on a regular basis based on our analysis of data we collected on player behaviour and virtual item purchase and consumption patterns. At the early growth stage, we generally release version upgrades twice a month, mainly to introduce in-game promotional activities, new game contents and gameplays and optimise the game design, function and player experience in order to attract more players and gain popularity for our games. At the stable and mature stage, we regularly release version upgrades on a monthly basis to introduce new functions, characters, scenes and artistic effect of the game together with enhancement of programme performance with an aim to enhance players loyalty and incentivise in-game spending thereby extending the lifespan of the game. At the recession stage, version upgrades are released every two months or even longer period of time and we continue to keep the basic maintenance and regular in-game activities to manage the monetisation and profitability of the game.

Our strong proprietary data analytical capabilities have provided significant support to the ongoing maintenance of our game. Please refer to the section headed “Business — Data Analytics” for more information.

Commissioned Development

We also commission game development to third-party game developers with specialty in the new type or genre of games that we wanted to expand into. For example, we commissioned the development of *Pantheon's War* (諸神幻想), which is an MMORPG, to a third-party developer. We have launched the simplified Chinese (PRC) version of this game in June 2019.

Under our commissioned development arrangements, we are generally vested with the IP rights to the games commissioned to the third party developers for development. As we provide the game concepts and ideas to the third-party developers and we paid for the research and development expenses, under the relevant contracts with the third party developers as a result of commercial negotiation it is specifically stipulated that we own the IP rights under the commission arrangement. As such, we considered games developed under this arrangement as self-developed games. In 2016, 2017 and 2018 and the three months ended 31 March 2019, the commissioned research and development expenses we paid to third-party game developers amounted to RMB5.5 million, RMB9.1 million, RMB3.0 million and RMB39,000, respectively.

Third-party Development

In addition to our self-developed games, we also collaborate with several third-party game developers in China to enrich our game portfolio. We had offered three third-party developed games, one of which had one language version published in the PRC and another language version in overseas, while the other two games had one language version published in the PRC.

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As the third-party developers are usually responsible for the entire game design and development projects based on agreed project budget, it enables us to enrich our game portfolio in a cost-effective manner as well as to manage our development risks. When selecting third-party developed games, we consider a number of factors, the major ones including whether the game is in line with our game portfolio or development plan, whether the game has market potential among targeted players and whether the third-party developer is able to deliver the game product up to our standard. During the Track Record Period, we had collaborated with three third-party game developers, all of which are Independent Third Parties. We have entered into licencing agreements with these third-party game developers for each of the third-party developed games. The major arrangements are set forth as follows:

- *Exclusivity.* We have the exclusive right to publish and operate the underlying licenced games in the specified regions.
- *Term of agreement.* For licencing agreements, the term generally ranges from three to five years after the relevant game is officially commercialised.
- *Fee arrangement.* For licencing agreements, we generally pay an upfront flat licencing fees and additional royalties to the third-party developers based on the revenue we receive from the games periodically. The royalties we pay to the third-party developers ranged from 30% to 40% of the sale proceeds from the respective game after deduction of distribution platform fees.
- *Obligations of third-party game developers.* The third-party game developers are responsible for developing the relevant games according to our requirements and the agreed standards. They shall deliver to us the server infrastructure plan and all relevant data and materials for the publishing and distribution of the games, which primarily include data and materials in relation to game development, website design, artistic design, game video and animation, game maps and equipment. The third-party game developers shall also provide version upgrades to the initial version of the games and related technical support, such as providing procurement plan and installation services for servers, trainings and necessary support for our further development of the games and fixing system failures and bugs. Some of these service provided by the third-party game developers may incur additional charges on us on a case-by-case basis.
- *Our rights and obligations.* We are responsible for establishing server infrastructure for the games according to the plan provided by the game developers and hosting and maintaining the game servers. We are also responsible for the promotion, operation and marketing of the game, which primarily include establishing distribution, marketing and payment channels as well as developing in-game payment systems.
- *IP rights.* We require the third-party game developers to have obtained all requisite IP rights for our licencing arrangements to avoid potential infringement of third-party IP rights.

In 2016, 2017 and 2018 and the three months ended 31 March 2019, the licencing fees expense incurred for third-party game developers amounted to RMB3.3 million, RMB2.8 million, nil and RMB0.1 million, respectively, and the revenue-sharing expense incurred for third-party game developers amounted to RMB1.3 million, RMB1.4 million, RMB0.4 million and RMB30,000, respectively.

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GAME PUBLISHING

In line with the general market practice of major operators in the mobile game industry, we primarily publish and operate games by ourselves through various proprietary and third-party distribution platforms. To supplement our self-publishing operation, we license selective third-party publishers to publish and distribute our games in certain overseas markets.

The following table sets forth the breakdown of our revenue by publishing model for the periods indicated:

	Year ended 31 December						Three months ended 31 March	
	2016		2017		2018		2019	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentages)</i>							
Self-publishing games	484,318	85.2	630,749	90.2	1,409,752	96.3	375,851	95.5
Third-party publishing games	83,819	14.8	68,705	9.8	54,409	3.7	17,687	4.5
Total revenue from games	<u>568,137</u>	<u>100.0</u>	<u>699,454</u>	<u>100.0</u>	<u>1,464,161</u>	<u>100.0</u>	<u>393,538</u>	<u>100.0</u>

Self-publishing

Substantially all of our games offered in the PRC market, including our self-developed games and third-party developed games, were published by ourselves. For overseas markets, we commenced publishing our mobile games through third-party publishers in 2014 and commenced our self-published operations of mobile games through third-party distribution platforms with worldwide operations (such as Apple's App Store and Google Play) since 2016. Over years of practice, we have gradually built up our market reputation.

Self-publishing Process

As at 31 March 2019, we had a dedicated team consisting of 108 employees for domestic publishing and operation and 36 employees for overseas publishing and operation. Our publishing and operation team is actively involved in the entire development, launch and operation process of the game:

- *Design and development stage.* When a game is under development, our publishing team shares market insights, including recent market trends and players preference, and provides optimisation suggestions based on distribution and marketing demands for the game development team to develop games that are not only appealing to players in terms of game content but also convenient and efficient for us to monitor player activities and gather player data in terms of software programming.

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- *Launch stage.* At the launch stage, our publishing and operation team cooperates closely with various distribution platforms, marketing channels and payment channels to launch our games and organise marketing campaigns on various channels to attract players and to facilitate in-game purchase. Please refer to the sections headed “Business — Game Distribution”, “Business — Marketing” and “Business — Payment Channels” for more information.
- *Operation stage.* After a game is launched, our publishing and operation team monitors and analyses game and player data on an ongoing basis powered by our proprietary data collection and analysis tools to gain insights into the gameplay habits of players and their specific behaviour in order to facilitate after-launch content updates and new version releases, as well as continuously optimise operational activity strategies with an aim to enhance player engagement, retention, loyalty and monetisation. Please refer to the section headed “Business — Data Analytics” for more information.
- *Localisation for overseas games.* Our overseas publishing and operation team are highly engaged in the localisation of games when publishing games in the overseas markets. These localisation activities include developing local language scripts for the game programme, customising the dialogue between characters with local dialects, inviting local professional voice actors to dub for the characters, introducing local artistic design, gameplays and elements of popular local cultural, such as introducing special activities and game decoration in connection with local festivals. For overseas market, after localisation process we act as a content provider and game developer to publish our games through third-party distribution platforms with world wide operation.

Game Registration

Before a game is officially launched to public players in China, we apply for game registration with the relevant authorities. In the beginning, we cooperated with Independent Third Parties which were mainly publishing companies with the publication licences and qualifications for mobile games to publish our games in the PRC. In November 2016, we obtained the Online Publication Service Licence for online game publication, as a result of which, we have the in-house publication capabilities to register for games in the PRC. Such a licence expedites the entire game registration process for our games and allows us to directly communicate with the relevant governmental authorities and to manage the game development process in a more cost and time efficient manner.

When a game is near ready for close testing, we prepare all the application materials, including a customised version of the game programme, and submit the application for game registration with the relevant authority. Before the game registration was suspended in March 2018, the game registration process typically takes approximately three months for the applicant to obtain the game publication number. To facilitate the successful launch of our pipeline games, we generally start applying for game registration for the relevant game six to nine months before its expected launch date.

For details of the potential impact of suspension of game registration on our operations, please refer to the sections headed “Business — Recent Change in Regulatory Environment” and “Risk Factors — Risk Relating to the Industry — Any regulatory changes in the approval and registration process of new online games by the PRC government may adversely affect our business” for more information.

Third-party Publishing

Third-party publishing model is mainly used in our overseas operations. For our games offered in Hong Kong, Macau, Taiwan, Thailand and Vietnam, we have established trusted licencing relationships with third-party publishers having local connections to publish our games in the relevant local markets.

We license to third-party publishers to publish our games where we consider that the third-party publishers' localisation capabilities, resources and user bases make it more effective and cost-efficient for them to publish our games as compared to self-publishing through third-party distribution platforms, especially in jurisdictions where there are regulatory requirements for game publishing and operation. We screen the third-party publishers after taking into account a number of factors, including primarily the requisite licences for publishing games and general operations, industry experience, scale of user base, market resources and credit. During the Track Record Period, our major overseas third-party publishers include (i) group companies of an internet and technology company in Vietnam, which is one of the leading internet and technology companies in Vietnam and Southeast Asia with over 2,000 associates, and their business, according to the official website of such company, includes development and operation of online games, operation of communication and entertainment platforms, online payment and cloud services; (ii) a Taiwanese company with registered capital of Taiwanese dollar 10 million engages in the provision of game publishing and operation services; and (iii) a subsidiary of a company listed on the Shenzhen Stock Exchange, the principal business of which includes mobile internet with registered capital of around RMB390 million.

We have entered into licensing agreements with these third-party publishers for each of our games. The major arrangements are set forth as follows:

- *Exclusivity.* The third-party publishers have exclusive rights to publish and distribute our games in the relevant markets as designated in the service agreements.
- *Term of agreement.* The term of agreements is usually three years and can be extended upon mutual negotiation.
- *Pricing right.* Normally the third-party publishers have the right to determine the pricing of the virtual items in the games they publish.
- *Fee arrangement and settlement.* Our income as the game developer consists of two or three parts, namely the one-off licencing fees, monthly share of revenue and the conditional incentive fees.
 - *Licencing fees.* The licencing fees are generally payable by third-party publishers in two to three instalments. The specific installment payment schedule varies from agreement to agreement. The first installment is generally payable shortly after the signing of the agreement. The second and/or the third installment are generally payable after completion of the testing of the game by the third-party publisher or after launching of the game on the distribution platform(s). We generally grant a credit term of seven to 15 working days to the third-party publishers for licencing fee settlement.

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- o *Monthly share of revenue.* In addition to the licencing fees, we, as the game developer, are also entitled to the monthly share of revenue of the games which generally ranges from 20% to 25% of the sales proceeds of the games. Such amount is generally payable by the third-party publishers within one to two months after both parties confirm the sales proceeds of the relevant games.
- o *Conditional incentive fees.* For certain of our games, if the sales proceeds of our games reached certain levels during a prescribed period of time due to their popularity, we are entitled to certain amount of incentive fees payable by the third-party publishers.
- *Termination.* Generally, the service agreements can be terminated upon mutual negotiations or upon the occurrence of customary events, such as bankruptcy, winding-up or termination of operations.

GAME DISTRIBUTION

Proprietary Distribution Platforms

Our proprietary distribution platforms include primarily our social platform application, *Game Friend* (好玩友), our official websites and other third-party websites and online advertisement that are linked to our official websites, where we provide links to our games that can be downloaded and installed directly by our players for gameplay. Our proprietary distribution platforms are only for game distributions in the PRC market.

Third-party Distribution Platforms

We also distribute our games on third-party distribution platforms, including primarily Apple's App Store, Google Play, Mobile Hardcore Alliance, which is an alliance of the leading smart phone manufacturers in the PRC such as Huawei, OPPO, Vivo and Meizu, and third-party application marketplaces, such as Xiaomi's App Store, Tencent App Store and 360 platform. As Apple's App Store is the only official platform for iOS devices users and Google Play is the major platform for overseas Android devices users to download mobile applications, we utilise their platforms as the application marketplaces where we launch our mobile game applications for players to download. This model allows us to expand our player base to the wide audience of users and in particular the paying users of these popular platforms, as well as the social and sharing network and payment processing services offered by these platforms. All of these platforms are not involved in the operation of our games and do not have access to our game data.

Out of our revenue generated from self-published games during the Track Record Period, RMB465.9 million, RMB602.2 million, RMB1,375.5 million and RMB369.2 million, or 96.2%, 95.5%, 97.6% and 98.2%, were generated from games distributed through third-party distribution platforms.

Cooperation Arrangements with Third-party Distribution Platforms

Under the typical cooperation model with third-party distribution platforms, we are responsible for development of the games, determination of prices of virtual items and the game registration with the competent authorities. The distribution platforms act as agents for the delivery of our games to players on their platforms by providing download access of our games to players and for the marketing of games

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on certain of these platforms. After launching the games, we are responsible for all operation activities of the games, including hosting the game servers, providing version upgrades and expansion package for new game contents and in-game activities, organising promotion campaigns, determining the pricing of any sales and promotion activities, providing technical support and in-game customer services to players, optimising game settings and fixing system bugs. During our operation of games, the distribution platforms normally stipulate that they do not accept any claim nor liability for any game content or operation activities and we shall ensure that the game and operations are in compliance with all relevant laws and regulations and are not infringing any third-party's rights and shall be responsible for all in-game communications of the players.

We enter into separate legally binding cooperation agreements with standard terms prescribed by the third-party distribution platforms for each of our games. The key arrangements under the service agreements are set forth as follows:

- *Non-exclusivity.* Our cooperation with distribution platforms are on non-exclusive basis.
- *Term of agreement.* The term of most of the agreements is usually one to three years. If no party raises any objection upon expiry of the agreements, the term will be automatically extended until the underlying games are removed from the platforms of the distribution platforms.
- *Payment channel.* For games published on third-party distribution platforms, players can only make payment through the payment channels prescribed and built in by these distribution platforms. The payment channels include primarily proprietary payment channels operated by these distribution platforms, major third-party online payment channels, online banking and for some of the platforms, mobile carriers.
- *Revenue sharing and platform service fees.* The distribution platforms typically charge us a total fee which would include (i) the applicable payment channel and other service fees and (ii) the revenue sharing by these platforms. For Apple and Google, they charge 30% of the sales proceeds of the games for such fee and for other distribution platforms, the total fee is typically up to 55% of the sale proceeds.
- *Settlement of fees.* The distribution platforms collect sales proceeds directly from paying players through various payment channels and then settle our share of proceeds net of any payment processing fees and distribution platform service fees to us on a monthly basis. The sales proceeds are calculated with reference to the player spending data collected by the distribution platforms and reviewed by us. The distribution platforms generally enjoy credit terms ranging from 15 to 45 days to settle payment with us after we issue the relevant invoices to them.
- *Termination.* Generally, the service agreements can be terminated upon mutual negotiations or upon the occurrence of customary events, such as bankruptcy, winding-up or termination of operations. The distribution platforms may unilaterally notify us to terminate the agreements upon our material breach of the agreements or if our games do not meet their requirements.

During the Track Record Period and up to the Latest Practicable Date, we had maintained stable cooperation with the distribution platforms and had not triggered any material breach of the service agreements.

DATA ANALYTICS

To a great extent, our game promotion, publishing and operation activities are data-driven. We have developed our quick and robust data feedback loops backed by our proprietary data collection and analysis system, which is a function built in the software development kits as a component of our game programme. Our data feedback loops include three parts, namely, data collection, data analysis and game enhancement.

Data Collection

Our data collection system enables us to collect a wide array of players' game data, including primarily log-in frequency, time of gameplay, in-game activity levels, progress of skill levels, preference of using specific in-game functions and retention rate of players.

All the game data we collected are processed, transmitted and stored after multi-layer encryption and firewall protection to ensure cyber security. To avoid any data loss event and to ensure our control over the data, all data we collected and generated in the leased cloud servers is backed up in our self-owned physical servers on a real-time basis and the data backup will be stored in accordance with the requirements under local laws and regulations.

To avoid any internal data leakage, we enforce security by applying multiple levels of access control based on our employees' levels and functions to limit access to the data. Changes to the system and database can only be performed with specific authority granted by the system administrators with sufficient reasons provided. All accessing activities and changes made to the data system and database are logged automatically and subject to routine checks and audit. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any data leakage which would cause adverse and material impact on our operations.

Data Analysis and Game Enhancement

We have a dedicated team of data analysis technicians who are specialised in the development, maintenance and application of our data analysis system and processing the wide array of data into data reports or other forms of documents as required by our different operation teams. We are able to process the massive data on a real-time and multi-dimensional basis or by batches. Currently, our data analytics allows the daily process of over 100GB data gathered from over 3,000 data sources distributed across our global server network. We expect to further enhance our data analysis capabilities to facilitate the expansion of our operation scale.

After the data reports or documents are available, our other data analysis technicians in our game development, publishing and operation teams analyse the data based on their specific needs to enhance the designs and operations of our games accordingly. For instance, data analysis helps our game development team to enhance system performance, devices compatibility and server stability and fix programme bugs and system failure of our games. Our game publishing and marketing analysis pays more attention to the performance of advertisement and distribution platforms. If it is identified that

certain advertisement does not attract enough visitors or the conversion ratio of visitors to players does not meet the set goal or certain distribution platform fails to attract the targeted number of new players, we may adjust the advertisement content and frequency or even change advertisement service providers or distribution platforms. For our game operation data team, data analysis allows us to observe and understand our players' in-game behavioural patterns, players' feedback on our promotional activities and identify key performance drivers and non-performing virtual items. We are able to select different operation and promotion strategies based on the data analysis to stimulate player interest, encourage in-game purchase, re-engage dormant users thereby enhancing monetisation and extending lifecycle of our games.

MONETISATION AND PRICING

We develop and enhance our games by striking a balance between maximising monetisation potential and ensuring players' satisfactory game experience. Our monetisation ability depends on whether we are able to attract new players, to convert existing players into paying players and to encourage the in-game spending of paying players. We offer our games on a free-to-play basis and generate all of our revenue from the in-game sale and consumption of virtual items, such as costumes, skills, tools, equipment and other in-game consumables or functionalities. Players spend real money to purchase our virtual currency, which will be further exchanged into virtual items at our prescribed exchange rates. Using virtual items, our players are able to extend their game play, enhance or personalise their game environments or settings, enhance their in-game battle capacity and accelerate their upgrading in the games.

The creation, deployment and pricing of our virtual items significantly impact player monetisation. We have accumulated a large amount of player data which assists us in determining the most appropriate type of virtual items offered, the offer timing and the offer price to trigger an in-game purchase. In the game development stage, we price each virtual items based primarily on our analysis of certain benchmarks, including our expected periodical economic return of the game, the game scenario and in-game battle and upgrading system, level of disposable income of targeted players, purchasing habits of local markets and the price of similar virtual items offered in other games. Once the prices and exchange rates of the virtual items are determined, we generally will not change the prices and exchange rates other than our regular and targeted promotional events in order to avoid uncontrollable inflation of the in-game economic system that will destroy our player experience. We maintain a database that records all in-game transactions, player activities after their in-game purchase and their consumption patterns after we launch new version of games or conduct promotional events. We will continue to optimise in-game content and our virtual items merchandising strategy as well as to regularly release new versions of games to maximise monetisation.

Please refer to the section headed "Business — Our players" for more information of our average monthly paying players and monthly ARPPU.

PAYMENT CHANNELS

As payment experience forms an important part of our players' in-game experience, we endeavour to provide all mainstream mobile payment methods in our games and to enhance the flexibility and convenience of the payment process so as to enhance game monetisation. In the PRC, a majority of our players make in-game purchase through third-party online payment channels, such as Alipay, Wechat Pay and Union Pay and only a minimal portion of players make in-game purchase through mobile carriers. In the overseas markets, our players can make payments through the payment channels offered by Apple's App Store, Google Play and other online payment channels. We are generally subject to the standard terms and conditions prescribed by these payment channels and the third-party distribution platforms.

MARKETING

Depending on the targeted players of our games and our management's assessment on the market conditions and receptiveness of our games, we adopt a combination of marketing strategies to promote our games:

- *Self-operated platforms and in-game promotions.* Before the official launch of a game, we release the relevant game content and notices on our self-operated platforms, including our official websites and our player community application to warm up our targeted player community. During the operation of a game, we regularly hold in-game activities through the participation into which the participating players may be rewarded certain amounts of in-game virtual items. Occasionally, we also offer special discounts for purchase of our in-game virtual items as part of our promotion strategy. As we closely monitor the performance and feedback of all in-game promotional activities, we believe that these promotional measures will not materially and adversely impact on the stability of our overall in-game economy system but will incentivise our players to spend more on in-game purchase.
- *Third-party advertising platforms.* We leverage the influence of leading social network platforms, such as Facebook, Google, Tencent and ByteDance, to target potential players. In addition to these social network platforms, we also cooperate with other online promotional platforms, such as Youtube, Bilibili, TikTok, Douyin and TapTap, to disseminate information of our games. Generally, we supply our advertisement content, including graphics and videos, to the third-party advertising platforms according to their requirements and we select the targeted geographic markets and audience of our advertisement. The third-party advertising platforms post our game advertisements through their channels if they find our advertisement in compliance with their requirements. When the audience of such advertisements is interested in our games, they can generally click on the advertisements and connect directly to the experiencing page or downloading links of our games.

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These third-party advertising platforms generally charge their service fees with reference to the number of posts of advertisements or the number of users actions. For instance, Facebook and Google, two of our major third-party advertising platforms in the overseas markets, charge advertising fees based on cost per thousand impression or cost per click. We settle such advertising fees with Facebook and Google either on a monthly basis after the relevant advertising services are provided or as prepayment prior to the provision of the relevant advertising services. For other advertising platforms which charge based on the number of users actions, the advertising fees are typically charged on cost per day, cost per click, cost per thousand impression, cost per time or cost per action basis. We generally settle such fees with the advertising platforms on a monthly basis after the relevant advertising services are provided and the user action data is confirmed by both parties. The credit terms granted by these advertising platforms are generally between ten to 30 days after they have issued the relevant invoices to us. We also accept advance payment arrangement if the advertisement is disseminated in pre-determined channels at agreed amount and frequency.

- *Offline promotion.* We use offline advertisement to promote our games. Generally, we release offline advertisement in television channels and cinemas and post physical advertisement in public places, such as buses, undergrounds and public buildings. We had also engaged spokesperson to endorse some of our games. For *Royal Chaos* (熹妃Q傳), we engaged a Korean male celebrity as its spokesperson and for *Rise of Queendom* (宮廷計手遊), we engaged a Korean female celebrity as its spokesperson. We also promote our games at trade shows and industry events, with the major ones including ChinaJoy which is one of the most influential game events in the global digital entertainment industry hosted in China, Tokyo Game Show which is the largest game exhibition of Asia hosted in Japan and E3 Expo which is the world's premier event for computer and video games and related products hosted in the US.

Our abundant game development experience enable us to design advertisement with attractive contents, graphics and videos. To promote some of our signature games, we produce game preview which is a short video advertisement that presents a series of selected characters and game scenarios with splendid game scenes and special effects. As the game preview usually consists of excerpts of the most exciting and interesting part of the game, it would intriguing and attractive to potential players. We have developed in-house data collection and analysis system to monitor the performance of our advertisement and marketing campaigns to ensure that our marketing campaigns are conducted in a cost-efficient manner. Please refer to the section headed “Business — Data Analytics” for more information.

In 2016, 2017 and 2018 and the three months ended 31 March 2019, we incurred promotion and advertising expenses in an amount of RMB161.4 million, RMB174.8 million, RMB399.3 million and RMB81.1 million, respectively, representing 28.4%, 25.0%, 27.3% and 20.6%, respectively, of our total revenue for the same periods.

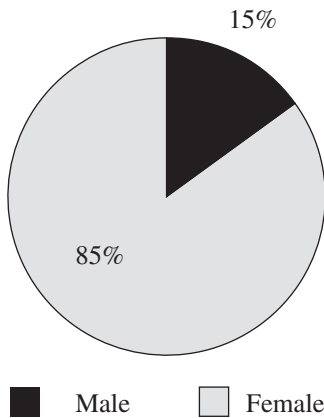
OUR PLAYERS

Along with the steady growth in the number of players, we have successfully established a large loyal player base in the PRC and the overseas markets where we offered our games.

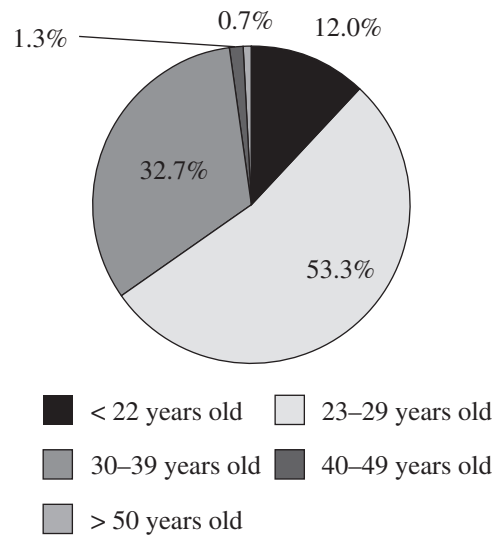
Player Profile

According to an online survey conducted by Frost & Sullivan, the profile of players of the simplified Chinese (PRC) version of *Legend of Empress* (熹妃傳) and/or *Royal Chaos* (熹妃Q傳) (being our two existing major signature games) is set out as follows. Our Directors believe that the player profile is in line with our targeted player group.

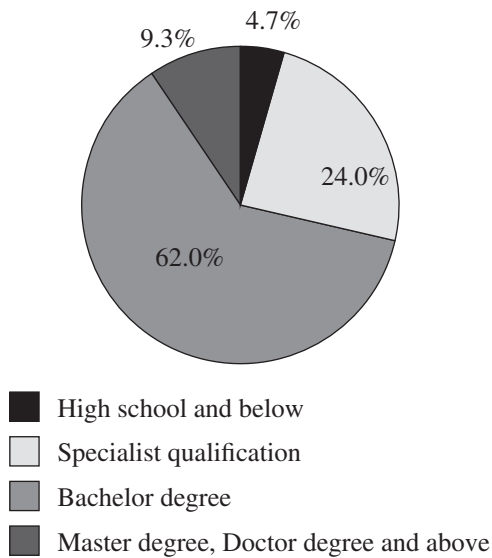
Gender distribution



Age group



Education background



Employment background



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As we offer our games on a free-to-play basis, only a small portion of our total players are paying players who contributed to our revenue during the Track Record Period. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We rely on a small portion of our total players for almost all of our revenue from games, and may not be able to monetise our players effectively” for more information.

During the Track Record Period, we have been focusing on an exquisite collection of large games, each of which has rich content and delicate visual effect. As compared to casual games, mid- to large-scale games usually have strong monetization ability featuring a lower MAU but a higher monthly ARPPU. We did not rely on any single player to generate a substantial amount of our revenue or sustain our growth potential.

Games Operational Information

The following tables set forth certain information of our cumulative registered players, average DAUs, average MAUs, average monthly paying players and monthly ARPPU in total amounts and by major games as at the dates or for the periods indicated:

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands)</i>				
Cumulative registered players⁽¹⁾	30,482.3	56,171.1	86,718.4	92,638.8	99,490.1
<i>Legend of Empress (熹妃傳)</i>	19,903.3	34,264.0	43,091.4	44,859.6	46,726.4
<i>Royal Chaos (熹妃Q傳)</i>	—	5,561.6	18,507.4	20,661.1	23,362.5
<i>Rise of Queendom (宮廷計手遊)</i>	—	—	6,774.3	8,492.6	10,330.6
<i>Fate: Royal Revenge (京門風月)</i>	3,870.9	7,070.3	7,693.6	7,787.5	7,897.2
<i>Others⁽²⁾</i>	6,708.1	9,275.2	10,651.7	10,838.0	11,173.4

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	For the year ended 31 December			For the three months ended 31 March	For the seven months ended 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands)</i>				
Average DAUs	470.7	813.1	760.0	615.3	635.5
<i>Legend of Empress (熹妃傳)</i>	335.4	309.4	211.9	162.9	155.7
<i>Royal Chaos (熹妃Q傳)</i>	—	394.3	385.3	322.5	326.5
<i>Rise of Queendom (宮廷計手遊)</i>	—	—	125.4	113.3	111.2
<i>Fate: Royal Revenge (京門風月)</i>	86.3	65.2	21.2	12.5	11.5
<i>Others⁽²⁾</i>	49.0	44.2	16.2	4.1	30.5
Average MAUs	2,627.4	4,203.5	3,987.1	3,019.4	3,155.4
<i>Legend of Empress (熹妃傳)</i>	1,675.6	1,735.0	1,126.9	881.2	840.1
<i>Royal Chaos (熹妃Q傳)</i>	—	1,755.5	1,779.9	1,296.8	1,364.4
<i>Rise of Queendom (宮廷計手遊)</i>	—	—	841.8	758.8	743.1
<i>Fate: Royal Revenge (京門風月)</i>	648.5	406.1	95.0	56.0	51.7
<i>Others⁽²⁾</i>	303.3	306.9	143.5	26.8	156.2
				For the three months ended 31 March	For the seven months ended 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands for average monthly paying players and in RMB for monthly ARPPU)</i>				
Average monthly paying players	186.6	340.6	323.5	234.7	234.9
<i>Legend of Empress (熹妃傳)</i>	138.0	131.8	93.6	65.2	58.9
<i>Royal Chaos (熹妃Q傳)</i>	—	170.1	149.8	103.6	104.2
<i>Rise of Queendom (宮廷計手遊)</i>	—	—	64.7	59.6	59.0
<i>Fate: Royal Revenge (京門風月)</i>	40.1	30.1	8.3	4.8	4.5
<i>Others⁽²⁾</i>	8.5	8.6	7.1	1.5	8.3
Monthly ARPPU	240.1	201.4	395.4	533.9	544.9
<i>Legend of Empress (熹妃傳)</i>	259.0	268.0	378.1	457.9	492.5
<i>Royal Chaos (熹妃Q傳)</i>	—	133.9	405.1	571.0	584.9
<i>Rise of Queendom (宮廷計手遊)</i>	—	—	425.3	571.5	599.6
<i>Fate: Royal Revenge (京門風月)</i>	175.2	286.3	398.8	383.5	335.2
<i>Others⁽²⁾</i>	239.8	217.4	146.8	289.1	137.4

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Notes:

- (1) Cumulative registered players are calculated with reference to the number of accounts registered with our games. It may not represent the exact number of our cumulative registered players as a player may have registered multiple player accounts with any of our games.
- (2) Others include four, seven, eight, five and ten games in 2016, 2017 and 2018 and the three months ended 31 March 2019 and the seven months ended 31 July 2019, respectively.

The fluctuations in our cumulative registered players, average DAUs, average MAUs, average monthly paying players and monthly ARPPU during the Track Record Period are generally the results of the different stages which our three major games are in during each year or period of the Track Record Period. We adopt different marketing and promotion strategies for our games in the different stages of their life cycle. In general, we focus our marketing and promotion efforts on attracting new players after we launch a new game and when the game is in an early growth stage, as a result of which, the average DAUs, the average MAUs and the average monthly paying players of games in an early growth stage are generally increasing. For games in the stable and mature stage, we generally emphasise our marketing and promotion efforts on maximising the monetization of existing active players.

Through the new version upgrades, offering of new diversified virtual items, new game plays, and enhanced functions, as well as in-game promotional events, we were able to attract players to spend more on virtual items to increase our ARPPU in 2018 compared to 2017. Therefore, we recorded a significant increase in our monthly ARPPU despite a decrease in the number of average monthly paying players in 2018 and for the seven months ended 31 July 2019, which is in line with industry norm.

Our *Legend of Empress* (熹妃傳) has been in its stable and mature stage during the Track Record Period since its launch in June 2015; thus during the Track Record Period, its average DAUs, average MAUs and average monthly paying players were in decreasing trend, while its monthly ARPPU was increasing, in particular in 2018 and the seven months ended 31 July 2019, where the significant increase in its monthly ARPPU was primarily due to new version upgrades with greater offering of diversified virtual items, new game plays, and enhanced functions, as well as more in-game promotional events that have overall enhanced player spending. For example, in 2018 alone, we released 13 version upgrades for the *Legend of Empress*(’s) (熹妃傳) simplified Chinese (PRC) version offering new characters, pets, game plays, costumes and other virtual items.

Our *Royal Chaos* (熹妃Q傳) was initially launched in September 2017 and began to enter into its stable and mature stage during 2018. Therefore, its average DAUs, average MAUs and average monthly paying players were generally stable in 2017 and 2018, while its monthly ARPPU had increased significantly in 2018 compared to 2017. Its monthly ARPPU in 2017 was RMB133.9 which was relatively lower because it was only launched in September 2017 and needed some time to build up popularity and customers’ paying habit.

Our *Rise of Queendom* (宮廷計手游) was initially launched in March 2018. and began to enter into its stable and mature stage later in the same year. Therefore, its average DAUs, average MAUs and average monthly paying players decreased slightly from 2018 to the seven months ended 31 July 2019 but its monthly ARPPU increased significantly from RMB425.3 on 2018 to RMB599.6 for the seven months ended 31 July 2019 as the remaining paying players were spending more.

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Our *Fate: Royal Revenge* (京門風月) was initially launched in June 2016. Its average DAUs, average MAUs and average monthly paying players were in a decreasing trend from 2016 to the seven months ended 31 July 2019, while its monthly ARPPU was in an increasing trend from 2016 to 2018 due to the successful monetization of our players. Its monthly ARPPU witnessed a drop from RMB398.8 in 2018 to RMB335.2 for the seven months ended 31 July 2019 because we released less new virtual items in the seven months ended 31 July 2019.

Reasons for the Operational Trend

The cumulative registered players of our games during the Track Record Period are increasing because we launched two of our three successful signature games in 2017 and 2018.

Our average DAUs, average MAUs and average monthly paying players increased from 2016 to 2017 and then decreased in 2018 and for the seven months ended 31 July 2019; but our monthly ARPPU had increased from 2017 to the seven months ended 31 July 2019. Our Directors believe such trend is in line with the nature of the model of our games and the normal life cycle of games.

All of our games adopt the free-to-play model and our players spend money only when they purchase in-game virtual items. When our games are first launched, a large number of players are attracted to try the new games freely or to spend a small amount of money to try certain functions of our games. As such, in the early growth stage when a game is newly launched, its average DAUs, MAUs, and monthly paying players would be relatively higher while its ARPPU would be relatively lower. As time goes by, some players who become less interested in our game will gradually play less or cease to play our game and those players with keener interest in our game will continue to play our game.

The less loyal players, though of a larger number, are usually those who do not spend or spend little money on our game and who tend to leave our game the earliest. On the other hand, the keener players, though of a smaller number, are usually those who are the most loyal and most willing to spend more money on our game and the major contributors to our revenue. As the keener players continue to play our game, they may enter into higher level of game play and may want to purchase more virtual items to enhance their in-game experience or to achieve higher level faster. According to Frost & Sullivan, it is typical for a mobile game to have a relatively lower average DAUs, average MAUs and monthly paying players when it reaches stable and mature stage compared to its early growth stage and its ARPPU would be relatively higher in the stable and mature stage than early growth stage, which is primarily due to the greater spending of the keener players.

Analysis of our Operational Efficiency

Most of our existing games are mid-core to hard core games instead of casual games. Unlike casual games which usually have a larger number of players with a lower ARPPU and where the game developers may seek to monetize the games by attracting a large player base to generate advertising opportunities, mid-core to hard core games usually have a smaller number of players but with a higher ARPPU and rely more on in-game spending by players instead of utilizing in-game advertising opportunities to monetize from the games. As a game developer, we focus more on the spending of the players rather than the number of players.

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Although our revenue has been increasing during the Track Record Period, the ratio of sales and marketing expenses as a percentage to total revenue has remained relatively stable during the Track Record Period. We believe that this is an indication of a stable and healthy operation. The table below sets out our revenue, sales and marketing expenses and sales and marketing expenses as a percentage to the total revenue for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	Revenue (<i>RMB'000</i>)	568,802	700,247	1,464,290	274,685
Sales and marketing expenses (<i>RMB'000</i>)	168,671	190,436	422,076	103,057	87,291
Sales and marketing expenses as a percentage to total revenue (%)	29.7%	27.2%	28.8%	37.5%	22.2%

Our strategies on advertising, marketing and promotion spending depends partly on the timing of launching new games and the size of game portfolio at the relevant time. The increase in our sales and marketing expenses was most significant in 2018. During 2017, we focused our sales and marketing effort primarily to support (i) the continual popularity of *Legend of Empress* (熹妃傳) which was launched in June 2015; and (ii) the launch of *Royal Chaos* (熹妃Q傳) in September 2017. In 2018, our sales and marketing effort primarily supported (i) the continual popularity of *Legend of Empress* (熹妃傳); (ii) the increase in popularity of *Royal Chaos* (熹妃Q傳) which was at its early growth stage until April 2018; and (iii) the launch of *Rise of Queendom* (宮廷記手游) in March 2018. Accordingly, we recorded more sales and marketing expenses in 2018 in absolute amount; yet the percentage of such expenses to total revenue remained stable. We consider that such increase in advertising, marketing and promotion expenses was reasonably in line with our business need, our growth in business scale and the size of our game portfolio.

The proportion of our expenses directly incurred for marketing of the overseas games, which is included in our promotion and advertising expenses, increased from less than 10% in 2017 to 26.1% in 2018 and further increased to 34.9% in the first quarter in 2019. Such increase in promotion and advertising expenses in 2018 and 2019 was partly brought by our effort in exploring overseas markets. In particular, in 2018, we launched the English/simplified Chinese (Overseas) version and Korean version of *Royal Chaos* (熹妃Q傳), and the Japanese version of *Legend of Empress* (熹妃傳); and, in the first quarter of 2019, we launched the Japanese version of *Royal Chaos* (熹妃Q傳) and the Korean language version of *Rise of Queendom* (宮廷計手游). To prepare for the launch of these games in a new region, we had generally put significant marketing effort to promote these games. These new language versions of our games generated additional income stream from overseas markets for us and our revenue from overseas markets increased by approximately 144.5% in 2018 as compared to 2017 and 250.0% in the first quarter of 2019 as compared to the corresponding period of 2018. As such, we consider that the increase in promotion and advertising cost is partly due to our expansion in overseas market.

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Analysis of our Player Stickiness

Our Directors consider our player stickiness to our games is normal and reasonable. Although there was a decrease in average DAUs and average MAUs in the first quarter of 2019, our Directors consider that it is normal as the less loyal players gradually leave our games while we are able to continue to attract our keener players to continue to play our games and spend money in our games, resulting in an increase in monthly ARPPU and revenue.

As an indicator of player stickiness commonly used in the mobile game industry in the PRC, our DAU-to-MAU ratio remained relatively stable at approximately 17.9%, 19.3%, 19.1%, 20.4% and 20.1%, for the year ended 30 December 2016, 2017 and 2018, the three months ended 31 March 2019 and the seven months ended 31 July 2019. According to Frost & Sullivan, the average DAU-to-MAU ratio for RPG mobile games was approximately 14% in 2018 in the PRC. As most of our games are RPG games, including our three signature games, we consider that our player stickiness to our games are generally in line with the industry average.

Higher ARPPU of Certain Language Versions

We set out the table below with breakdown of monthly ARPPU of certain language versions, for the periods indicated:

<u>Language versions</u>	<u>For the year ended 31 December</u>			<u>For the three months ended 31 March</u>	<u>For the seven months ended 31 July</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>
	<i>(in RMB for monthly ARPPU)</i>				
Korean	680.2	450.4	580.6	815.6	814.2
Japanese	—	—	609.0	627.4	628.6
Simplified Chinese (PRC)	226.2	193.0	375.7	513.7	519.7

Our monthly ARPPU for the Korean and Japanese versions of our games were significantly higher than that of our simplified Chinese (PRC) version of our games in each year/period of our Track Record Period and for the seven months ended 31 July 2019 due to the factors below.

Firstly, according to Frost & Sullivan, Japan and South Korea have similar culture and history with the PRC and the people there have high acceptance of games with Chinese characteristics, which has brought opportunities to the growth of our ancient Chinese style female-oriented mobile games in these two markets. To capture the market potentials in Japan and South Korea, we have invested in the localisation of our games *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳) in various aspects in these markets. For example, we engaged Japanese artists to modify the artistic designs of our characters (e.g. adding anime elements) when launching the Japanese version of *Legend of Empress* (熹妃傳) or engaged a South Korean male celebrity as the spokesperson for our Korean version of *Royal Chaos* (熹妃Q傳).

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Secondly, compared with the mobile game market in the PRC, mobile game players in Japan and South Korea tend to have higher monetization capability than mobile game players in the PRC market. In particular, according to Frost & Sullivan, the ARPPU of mobile game market in Japan and South Korea were much higher than that in the PRC. As a result, mobile game players in Japan and South Korea have formed good paying habits thus have higher willingness to pay for the games.

Thirdly, the pricing of our virtual items significantly impact player monetization. We have adopted a pricing strategy consistent with the spending power and paying habit of players in the relevant market. According to Frost & Sullivan, the average disposable income per capita of Japan and South Korea are much higher than that of the PRC. In view of the higher spending power and monetization capability of mobile game players in Japan and South Korea, we have priced the virtual currencies in the Japanese and Korean versions of our games at a higher monetary price than the simplified Chinese (PRC) version of our games.

Comparison of our ARPPU with Industry Average

In 2017, our annual ARPPU for games in the PRC was RMB354.1, and was 17.1% lower than the annual ARPPU of industry average for story-based female-oriented games in the PRC of RMB428.5. In 2018, our annual ARPPU for games in the PRC was RMB695.9, and was 33.4% higher than the annual ARPPU of industry average for story-based female-oriented games in the PRC of RMB521.6.

ARPPU of games depends on a number of factors including but not limited to: (a) the nature and market positioning of the game (whether they are casual games or hard core games, whether such games aim at attracting a large number of players with small transaction amount, or aim at attracting a relatively small number of keener players who are more willing to pay); (b) the development cost and the promotion cost involved; and (c) the life cycle stage of the game.

According to Frost & Sullivan, ARPPU of games in the PRC could vary widely, from below RMB10 to over RMB800 and, for certain popular hard core games that have a relatively larger number of keener players with higher level of willingness to pay, their ARPPU could reach as high as RMB1,000. Given that (i) our existing signature games are mostly mid-to-hard core story based games; (ii) a majority of the language versions of our existing signature games have entered into stable and mature stage; and (iii) we rely primarily on in-game purchase rather than through vast public mass in-game advertising to monetize from our players, our Directors consider that the current ARPPU level of our Group is reasonable.

Expected Future Trend of ARPPU

As it is the industry norm that ARPPU in South Korea and Japan is higher than that in the PRC, if the proportion of our revenue generated from South Korea and Japan continues to increase, we expect that our ARPPU would continue to increase. For example, among our pipeline games, we have the Japanese and/or Korean versions of *Fate of the Empress* (浮生為卿歌), *Yokai Kitchen* (精靈食肆) and *Fate: The Loved Journey* (此生無白) which are expected to be launched during the second half of 2019 and in 2020.

In respect of the PRC market, we expect that our ARPPU in the PRC may decrease in the future when we continue to launch new games. We have launched *Yokai Kitchen* (精靈食肆) in the PRC in August 2019 and we expect that *Fate of the Empress* (浮生為卿歌) will be launched in the PRC in the

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second half of 2019. We expect that, at the early growth stage of these two games, a vast number of new players will be attracted to try to play our games and a significant number of them may be attracted to spend a small amount of money to purchase virtual items of the games, leading to a wide player base but a lower overall average ARPPU.

Apart from monetization of our players, our Directors consider that it is also very important to extend the life cycle of our games. Our management continuously monitors various parameters of games performance (such as gross billing, ARPPU, number of transactions taking place in response to different promotional/operational event or introduction of new virtual items) and strives to enhance the overall performance and life cycle of our games rather than over monetizing the high spenders alone to avoid the risk of over-monetization of existing players. If our management identifies any weakness in any of the various game performance parameters, we would (i) strengthen marketing and promotion efforts to attract new players; (ii) enhance and update new functions and game plays to provide better playing experience to enhance player stickiness and (iii) organise in-game events such as festival limited editions of certain virtual items to address the weakness identified.

Lifecycle Stage of Our Major Existing Games

The following is an analysis of the simplified Chinese (PRC) version of our major existing games which accounted for over 80% of our total revenue for the year ended 31 December 2018.

(i) Rise of Queendom (宮廷計手遊) (Simplified Chinese version, PRC)

Trend: The simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手遊) was launched in March 2018. Its average MAUs decreased and average monthly ARPPU increased for the three months ended 31 March 2019 as compared to the year ended 31 December 2018. The extent of such increase in average monthly ARPPU exceeded that of the decrease in average MAUs. Both average MAUs and average monthly ARPPU for the seven months ended 31 July 2019 remained relatively stable as compared to that for the three months ended 31 March 2019. Based on such trend, we expect that the revenue of this game still has growth potential and it has not yet reached optimal monetization level.

Life cycle stage: Stable and mature (*early*)

Expected time to enter into recession stage: around 2024

(ii) Royal Chaos (熹妃Q傳) (Simplified Chinese version, PRC)

Trend: The simplified Chinese (PRC) version of *Royal Chaos* (熹妃Q傳) was launched in September 2017. Its average MAUs decreased and average monthly ARPPU increased for the three months ended 31 March 2019 as compared to the year ended 31 December 2018. The extent of such increase in average monthly ARPPU exceeded that of the decrease in average MAUs. Its average MAUs for the seven months ended 31 July 2019 increased slightly as compared to that for the three months ended 31 March 2019 while its average monthly ARPPU for the seven months ended 31 July 2019 increased slightly as compared to that for the three months ended 31 March 2019. Based on such trend, we expect that the revenue of this game still has growth potential and it has not yet reached optimal monetization level.

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Life cycle stage: Stable and mature (*early*)

Expected time to enter into recession stage: around 2024

(iii) Legend of Empress (熹妃傳) (Simplified Chinese version, PRC)

Trend: The simplified Chinese (PRC) version of *Legend of Empress* (熹妃傳) was launched in June 2015. Its average MAUs decreased and average monthly ARPPU increased for the three months ended 31 March 2019 as compared to the year ended 31 December 2018. The extent of the decrease in average MAUs exceeded that of the increase in average monthly ARPPU. While its average MAUs for the seven months ended 31 July 2019 remained relatively stable, its average monthly ARPPU for the seven months ended 31 July 2019 continued to increase slightly as compared to that for the three months ended 31 March 2019. Based on such trend, we consider that this game is at or near its optimal monetization level.

Life cycle stage: Stable and mature (*mid*)

Expected time to enter into recession stage: around 2021

(iv) Fate: Royal Revenge (京門風月) (Simplified Chinese version, PRC)

Trend: The simplified Chinese (PRC) version of *Fate: Royal Revenge* (京門風月) was launched in June 2016. Both its average MAUs and average monthly ARPPU decreased for three months ended 31 March 2019 as compared to the year ended 31 December 2018. Both its average MAUs and average monthly ARPPU for the seven months ended 31 July 2019 continued to decrease slightly as compared to that for the three months ended 31 March 2019. Based on such trend, we consider that this game has passed its optimal monetization level.

Life cycle stage: Stable and mature (*late*)

Expected time to enter into recession stage: around 2nd half 2020

We monitor the operation status of our games on a continuous basis. From time to time, our operation team would take action to stimulate players' interest, such as providing new virtual items, organizing events and updating game plays. Through analyzing certain player data such as the number of in-game purchases for new virtual items and the active players interaction in the chat room, we found that our players of *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳), which were in mid and early stable and mature stage respectively, have generally reacted positively in response to such promotional efforts.

We have been undertaking recurrent promotion and marketing efforts for *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳). Both *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳) have been generating strong cash flow and have been generating stable and significant profit (being revenue net of direct cost of sales and promotional cost). As one of the indications of a game entering into recession stage is when it has become no longer profitable, the strong cash generation capability and profitability of these two games do not justify categorizing them to be in recession stage. Further, for games in recession stage, promotional efforts would cease or be significantly diverted away from those games. As the two games are still profitable, it would not be commercially justifiable for us to cease or significantly divert promotional efforts away from them. As such, our Directors consider that there are no indications suggesting that these two games are entering into or will soon enter into recession stage. However, we cannot assure you that our games can be operated in line with our expected lifecycle given

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that our players may lose interests in our games over time as a result of the changing market trend or their interests and preferences. For further information on such risks, please refer to the section headed “Risk Factors — Risks Relating to Our Business — A small number of games have contributed a substantial majority of our revenue. Failure to maintain the continuous success of these games could materially and adversely affect our business and results of operations” in this prospectus.

Mitigation on Potential Impact of Signature Games Entering into Recession Stage on our Profitability

We have several newly launched games including two up and coming signature games: *Fate of the Empress* (浮生為卿歌) and *Yokai Kitchen* (精靈食肆). The development costs of these two games are significant and we have incorporated a lot of new techniques and creative elements into these two upcoming signature games. The traditional Chinese version of *Fate of the Empress* (浮生為卿歌) was launched in Hong Kong, Macau and Taiwan in June 2019 and the simplified Chinese (Overseas) version of the same game was launched in Malaysia in May 2019. The English/simplified Chinese (Overseas) version of *Yokai Kitchen* (精靈食肆) was launched in Malaysia and Singapore in June 2019, the traditional Chinese version was launched in Hong Kong, Macau and Taiwan in July 2019, the Korean version was launched in South Korea in July 2019 and the simplified Chinese (PRC) version was launched in the PRC in August 2019. *Fate of the Empress* (浮生為卿歌) has been promoted and recommended by Apple’s App Store and Google Play on their platforms under the “new recommended games” category. It has also achieved a highest ranking of no. 2 on 1 July 2019 in the free game board for iPhone or Apple’s App Store in Taiwan. The traditional Chinese version of *Yokai Kitchen* (精靈食肆) was promoted and recommended by Apple’s App Store on its platform and its Korean version was promoted and recommended by Google Play on its platform.

We have obtained the publication number for *Fate of the Empress* (浮生為卿歌) and we expect to launch this game in the PRC in the second half of 2019. Further, there are other language versions (such as Japanese, Vietnamese and Thai) of *Fate of the Empress* (浮生為卿歌) and *Yokai Kitchen* (精靈食肆) in our pipeline which are expected to be launched in the second half 2019 and in 2020. It is expected that they will bring in additional overseas income stream.

In addition, some of our existing games are relatively new and we expect those games will be able to generate revenue for a considerable period of time before entering into recession stage. Some of these games include: (i) the simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手遊) which was launched in the PRC in March 2018 and the Korean and Vietnamese versions of this game which were launched in January 2019 and May 2019, respectively; (ii) the Korean and Japanese versions of *Royal Chaos* (熹妃Q傳) which were launched in July 2018 and March 2019, respectively; and (iii) the Japanese and English/simplified Chinese (Overseas) versions of *Legend of Empress* (熹妃傳) which were launched in May 2018 and February 2019, respectively.

As such, our Directors are of the view that (i) the *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳) are not in recession stage and there is no indication these two games will be entering into recession stage soon; and (ii) our new games and different language versions of our existing games in the pipeline or in the process of being launched can sustain our profitability in the event that *Legend of Empress* (熹妃傳) and *Royal Chaos* (熹妃Q傳) enter into recession stage. The Sole Sponsor concurred such view.

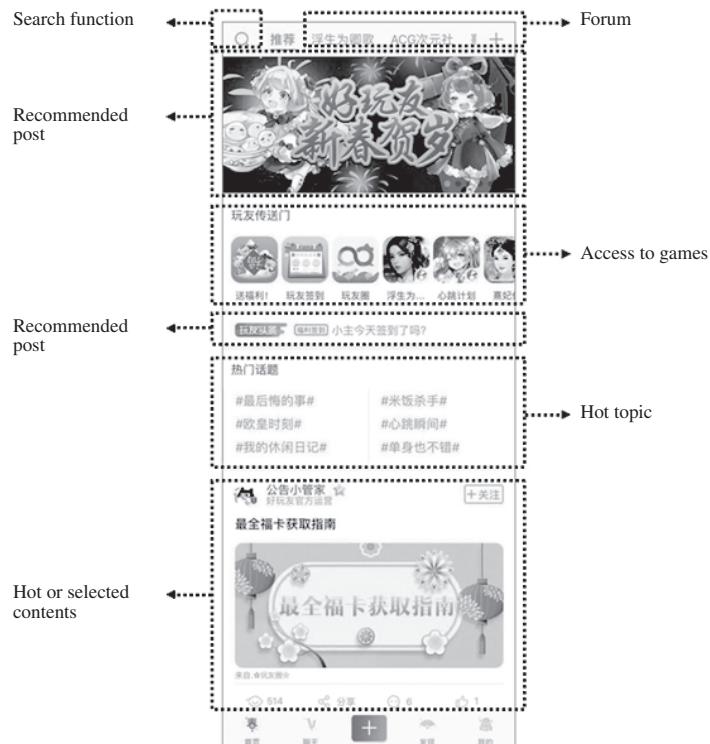
Player Community

Game Friend (好玩友) social platform application

We have been emphasising the social element of our games and players since our early days. With an aim to attract more players and enhance the loyalty of our existing players, we launched our social platform application *Game Friend (好玩友)* in 2015 to create an online community for our existing players and potential players to communicate with each other and find the best gaming strategies and promotional activities. According to Frost & Sullivan, we are one of the few mobile game companies who develops game social platform application tailored for game players in the PRC.

Strong social features and highly engaging game-related content are the two pillars of our application. Our players actively participate in various modes of community interactions and in doing so have created a rich amount of social footprints in our player community. We have created different player groups with a number of sub-groups for different titles of our games and interests of players in the application. Players can communicate with other players through bulletin board discussions and live chat or engage in social activities through online and offline players gatherings. We also release the latest game strategies, activities notices and player ranking of each game in each player group for players to gather the most updated game strategies, content and activities information to enhance their game performance and in-game experience as well as to encourage them to share their game experience with other players.

Below is a sample screenshot of the homepage of the application, with annotations of its various features:



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Users may log in the application with their existing player accounts of our games if they are also our players or through quick log-in with mobile number. Users may also access the application directly and easily through the links to the application that are built in our games. As at 31 July 2019, we had over 1.4 million cumulative registered accounts with our social platform application. We are able to conduct targeted promotion and marketing activities to enhance their loyalty and our monetisation. We have conducted a series of activities to enhance the interaction and loyalty of members registered on our *Game Friend* (好玩友) social platform application, including diversifying the contents of our application to enhance attraction to users, optimising the gifting function to enhance the experience of users to exchange gifts in the application, rewarding the users with virtual medals to enhance their sense of existence and growth and optimising the intelligent in-application push function utilising our big data analytics to drive the motivation for users to visit and use the application on a continuous basis.

Moreover, our players actively engage in discussions and activities in the application. On average, there are approximately 730,000 of posts and replies published on the application on a monthly basis and we have recorded a monthly reading volume of approximately 2.1 million as at 31 July 2019. For the seven months ended 31 July 2019, we had average DAUs of approximately 31,700 and average MAUs of approximately 107,800 for our *Game Friend* (好玩友) application. We believe that the warmth and vibrancy of our community contribute to player retention and monetisation of our games.

Player community on other platforms

In addition to our *Game Friend* (好玩友) application, social media platforms such as Sina Weibo, WeChat public accounts, QQ groups and Baidu Post Bar, form an integral part of our player community. We have registered public accounts with these social media platforms for our Company and our signature games and have attracted a number of followers on these platforms. Through these accounts, we post the latest information, photos and video of our games and the industry, forward discussions and interact with our followers and target audience on a regular basis.

Customer Services

We provide customer service for our games and our social platform application to cater to the needs of our players. As at 31 March 2019, we had over 48 dedicated customer service specialists providing 24/7 online customer services in multiple languages. Players can reach our customer service specialists through multiple channels, including via live chat, emails, telephone calls and in-game inquiry system.

The customer inquiries we received were mainly game-related questions or common inquiries relating to log-in, user accounts, in game payments, system bugs and complaints. We have adopted standard internal procedures to promptly respond to players' inquiries and complaints and resolve the relevant issues. Upon receipt of customer inquiries, our customer service specialists will record the details of the inquiries in our internal IT platform. If the inquiries are frequently asked questions with which our customer service specialists are familiar with the answers, they generally respond to the players promptly when the inquiry is received. Otherwise, they will liaise with the relevant operation department or team to provide an appropriate solution to players or to fix the system problems. We generally require a customer inquiry to be resolved or closed in one to three days.

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Our customer service team holds internal departmental meetings on a weekly basis and customers service team meeting on a monthly basis to discuss the inquiries lodged by our players and to come up with standard action plans for frequently asked questions. We also provide regular trainings to our customer service specialists with respect to the game rules, latest promotion activities, service skills and standardised service procedures and terminology.

We believe that satisfactory customer services play a significant role in retaining players and enhancing our market recognition and reputation. In serving our players, our customer service team also collect valuable first-hand user feedback, which helps us better understand player preference and demand and improve our game designs or even enhance our developing strategies. During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints from our players that resulted in material adverse effect on our business operations.

CUSTOMERS

For our games self-published through third-party distribution platforms, we consider players who have purchased in-game virtual items in our games to be our paying customers. We did not rely on any single player to generate our revenue from games during the Track Record Period. For our games published through third-party publishers, we also consider such third-party publishers as our customers.

During the Track Record Period, our five largest customers together accounted for less than 15% of our revenue during each year in the Track Record Period. During the Track Record Period, none of our Directors, their close associates, to the knowledge of our Directors, any Shareholder owned more than 5% of our Company's issued share capital, had any interest in any of our five largest customers.

SUPPLIERS

Our suppliers primarily include third-party distribution platforms, third-party advertising and marketing service providers, third-party payment channels, server providers, third-party game developers and other related game developing services providers. We consider a number of factors when selecting suppliers, the major ones including the requisite licences and permits, scale of operation, market reputation, creditability and fee arrangements. We assess the performance of our suppliers periodically according to a series of stringent criteria and may decide to enhance or terminate our cooperation with the suppliers based on the assessment results.

Third-party Distribution Platforms

We cooperate with third-party distribution platforms, including primarily Apple's App Store, Google Play, Mobile Hardcore Alliance and third-party application marketplaces, such as Xiaomi's App Store, Tencent App Store and 360 platform, to distribute our games to end players under our self-publishing model. Please refer to the section headed "Business — Game Distribution — Third-party Distribution Platforms" for more information.

Third-party Advertising and Marketing Service Providers

We engage third-party advertising and marketing service providers, which are primarily leading social network platforms and online game promotional platforms, to advertise and market our games. Please refer to the section headed "Business — Marketing" for more information.

Third-party Payment Channels

We engage third-party payment channels, including primarily Alipay, Wechat Pay and Union Pay to collect and process payments from paying players. Please refer to the section headed “Business — Payment Channels” for more information.

Server and Other IT Services Providers

We lease and purchase servers from a number of reputable server providers. We have entered into service agreements with these server providers which are subject to the standard terms and conditions of these server providers. Under our typical arrangements, server providers are responsible for providing operation and maintenance services for cloud server and related server systems and data base, hotline and online inquiry and consultation services and system failure and other malfunction handling services. The service fees are charged with reference to our selected type of services and our usage amount of the relevant services. The service agreements generally last for one year and can be extended upon expiry if we continue to utilise the relevant services. The service agreements may be terminated upon mutual agreement or due to our material breach of the service agreements. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material breach of the service agreements or any material shortage or delay in supply of servers that had material adverse effect on our business.

Apart from the server providers, we procure other IT services, including content delivery network services and internet data centre services, from a number of third-party services providers.

Third-party Game Developers

We publish a limited number of games developed by third-party developers under licencing arrangements and outsource the development of certain games to third-party developers. Please refer to the section headed “Business — Game Development — Third-party Development” for more information.

Other Related Game Developing Services Providers

During our self-development process, we outsource certain of our game development tasks, such as audio production, artistic designs and translation, to third parties specialising in the related areas in the PRC to enhance the development efficiency and cost control of our development project. Generally, we pay pre-agreed fixed amount of service fees to these service providers to complete the designated tasks. During the Track Record Period, we have engaged a number of music producers and artistic designing companies and a translation service provider to provide such game development related services.

In 2016, 2017 and 2018 and the three months ended 31 March 2019, the purchase amounts with our five largest suppliers, all being Independent Third Parties, were RMB201.9 million, RMB282.2 million, RMB644.1 million and RMB143.3 million, respectively, representing 53.6%, 62.1%, 64.4% and 60.6% of the total purchase amounts with our suppliers. During the same periods, the purchase amounts with the largest supplier amounted to RMB81.5 million, RMB115.1 million, RMB306.3 million and RMB70.9 million, respectively, accounting for 21.6%, 25.3%, 30.6% and 30.0% of the total purchase amounts with our suppliers. During the Track Record Period, none of our Directors, their close associates, to the knowledge of our Directors, any Shareholder owned more than 5% of our Company’s issued share capital, had any interest in any of our five largest suppliers.

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Top Five Suppliers

The following tables set forth details of our top five suppliers, including game distributors, advertisement companies, computer and communication service providers and device providers, during the Track Record Period:

Three months ended 31 March 2019

<u>Supplier</u>	<u>Transaction amount</u> <i>in thousands of RMB</i>	<u>% of total procurement costs</u> %	<u>Approximate length of relationship</u> <i>years</i>	<u>Background</u>
Supplier A	70,938	30.0	six	Group companies which provided digital product and game distribution services to us and the parent company of the group is listed on NASDAQ
Supplier D	29,133	12.3	four	Group companies which provided advertisement and game distribution services to us and the parent company of the group is listed on NASDAQ
Supplier C	22,776	9.6	six	Group companies which provided advertisement, cloud and game distribution services to us and the parent company of the group is listed on the Main Board of the Hong Kong Stock Exchange
Supplier H	10,796	4.6	two	A PRC incorporated company which provided advertisement services to us and its parent company is listed on the Main Board of the Hong Kong Stock Exchange
Supplier B	9,665	4.1	three	A PRC incorporated company which provided advertisement services to us
Total	<u>143,308</u>	<u>60.6</u>		

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2018

Supplier	Transaction amount	% of total procurement costs	Approximate length of relationship	Background
	<i>in thousands of RMB</i>	<i>%</i>	<i>years</i>	
Supplier A	306,304	30.6	six	Group companies which provided digital product and game distribution services to us and the parent company of the group is listed on NASDAQ
Supplier B	107,855	10.8	three	A PRC incorporated company which provided advertisement services to us
Supplier C	99,538	10.0	six	Group companies which provided advertisement, cloud and game distribution services to us and the parent company of the group is listed on the Main Board of the Hong Kong Stock Exchange
Supplier D	88,867	8.8	four	Group companies which provided advertisement and game distribution services to us and the parent company of the group is listed on NASDAQ
Supplier E	41,558	4.2	five	A PRC incorporated company which provided game distribution services to us
Total	<u>644,122</u>	<u>64.4</u>		

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2017

<u>Supplier</u>	<u>Transaction amount</u> <i>in thousands of RMB</i>	<u>% of total procurement costs</u> %	<u>Approximate length of relationship</u> years	<u>Background</u>
Supplier A	115,137	25.3	six	Group companies which provided digital product and game distribution services to us and the parent company of the group is listed on NASDAQ
Supplier B	70,242	15.5	three	A PRC incorporated company which provided advertisement services to us
Supplier C	50,651	11.1	six	Group companies which provided advertisement, cloud and game distribution services to us and the parent company of the group is listed on the Main Board of the Hong Kong Stock Exchange
Supplier E	26,926	5.9	five	A PRC incorporated company which provided game distribution services to us
Supplier F	19,274	4.2	four	A PRC incorporated company which provided game distribution services to us
Total	<u><u>282,230</u></u>	<u><u>62.1</u></u>		

BUSINESS

2016

<u>Supplier</u>	<u>Transaction amount</u> <i>in thousands of RMB</i>	<u>% of total procurement costs</u> %	<u>Approximate length of relationship</u> years	<u>Background</u>
Supplier A	81,534	21.6	six	Group companies which provided digital product and game distribution services to us and the parent company of the group is listed on NASDAQ
Supplier B	48,236	12.8	three	A PRC incorporated company which provided advertisement services to us
Supplier C	41,228	11.0	six	Group companies which provided advertisement, cloud and game distribution services to us and the parent company of the group is listed on the Main Board of the Hong Kong Stock Exchange
Supplier G	18,839	5.0	two	A company incorporated in Taiwan which provided advertisement services to us
Supplier D	12,096	3.2	four	Group companies which provided advertisement and game distribution services to us and the parent company of the group is listed on NASDAQ
Total	<u><u>201,933</u></u>	<u><u>53.6</u></u>		

TECHNOLOGY INFRASTRUCTURE

Server Network

To support our domestic and overseas operations, we have deployed a robust server network comprising over 3,000 servers as at 31 March 2019. All of our leased servers are sourced from reputable server providers, such as Tencent Cloud, Alibaba Cloud and U Cloud. Please refer to the section headed “Business — Suppliers — Server and Other IT Services Providers” for more information. In terms of the number of servers, approximately 94.5% of our servers were cloud servers while the remaining were

physical servers as at 31 March 2019. In order to enhance the in-game experience and minimise any server failure or other technical difficulties arising from cross-country/region connections, our servers are located in various countries and regions globally.

We have exclusive access to the data and software run or stored on the servers. We have an IT support team of 26 employees who maintain our technology infrastructure and monitor the operation of our server network on a 24/7 basis with the support of our automatic server monitoring system. The system detects and sends alerts with respect to the status of our servers, including power, system operation status and resource utilisation. We can access our server network in real time to perform manual check procedures to inspect our server network routinely for any possible abnormality and to fix hardware and software problems on a timely basis if any problems are identified. Benefiting from our strict security control protocols, monitoring instrumentation and routine security checks, we had not encountered any security breach caused by hacking, virus or cyber-attack during the Track Record Period and up to the Latest Practicable Date. However, as an online game company, we are constantly exposed to such risks, please refer to the section headed “Risk Factors — Risks Relating to Our Business — Any failure or significant interruption in our technology, including servers and network could impact our operations and harm our business” for more information.

Core Proprietary Technologies

2D and 3D Game Engines

Our 2D game engine is a self-developed proprietary full-functioned game software programme providing comprehensive solutions to all working steps of a game development project from design, production, demo, testing to launch and update. Such integrated solutions significantly enhances the efficiency of our game development process in terms of time and costs.

Leveraging on the success in developing and utilising our proprietary 2D game engine, we further developed our proprietary 3D game engines in 2015 to keep up with the rapid market development and technology advancement of 3D games. Our 3D game engine is a highly functional framework programme that connects the player end and our servers with a multitude of core development tools supporting all key aspects of our game development process including 3D modelling, animation, light and shadow, special effects, resource management and networking. Our 3D game engine also featured its outstanding physically-based 3D rendering capabilities. Such physical simulation significantly enhances the quality of our artistic design and production and the visual experience of our games by enabling us to make the appearance of in-game characters and materials more vivid as in the real world through accurate calculation of light in the different in-game scenes.

After many times of software update and enhancement, our game engines have comprehensive functions and stable performance to support our strong development capabilities and rapid expansion of operations, which becomes one of our major competitive strengths. Over the past few years, we have successfully developed a number of our signature games, including *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游), leveraging on these strong proprietary game engines. For 2018, we filed 40 patent applications with respect to various innovative technologies applied in our game engines in the PRC.

Multi-channels Docking Platform

As a reputable game publisher and operator in the mobile game industry, we have established stable cooperation with a number of major distribution platforms as detailed in the section headed “Business — Game Distribution — Third-party Distribution Platforms”. A majority of these channels are operated under the proprietary systems developed by these distribution platforms which are not compatible to each other in many aspects. This creates an obstacle for game developers in connecting their game systems with the systems of these channels. Usually, game developers have to develop and build many different extensions in their game systems in order to connect to various distribution platforms. To overcome such technology obstacle, we have developed our universal docking platform for connection with the systems of various major distribution platforms.

The docking platform adopts our proprietary packaging technology to consolidate the connection modules of the systems of over 100 platforms in the PRC and overseas into one software development kit. It is customised for our game programmes and enables us to publish our games on the systems of various distribution platforms efficiently without repetitive development of the connection module for each game. As the docking platform is developed, upgraded and maintained by our technology supporting team and can be universally built into our game programmes with limited edit, it allows our game development team to focus its resources on the development of game contents rather than software and other supporting technologies, which in turn saves our development costs and enhances our development efficiency and lowers the development risks. Also, our technology supporting team monitors the version upgrade of the systems of various third-party distribution platforms and the advancement of any new technology on a regular basis to ensure that our docking platform can adapt to the quickly evolving market and technology development. As at 31 March 2019, we had filed two patent applications with respect to our multi-channels docking platform.

Auto Operation and Maintenance Management Platform

To support the stable, efficient and scalable game development, publishing and operations, we started to develop our proprietary auto operation and maintenance management platform. The first comprehensive version of this platform came into function in September 2013 and is under ongoing upgrades and maintenance in our daily operations.

Building upon a micro-service modular architecture and with the support of application programming interface technologies and connected with a number of external cloud, content delivery network and domain name service providers, our auto operation and maintenance management platform enables rapid and flexible deployment and integration as well as automatic operations of various internal operation and management software and systems, including server management, data management, log-in authorisation application, games strategic planning, games maintenance, games transfer, data analysis, and DNS domain name record management. The platform enables us to effectively manage the hardware and software infrastructure, to accurately control our operation actions and to properly allocate resources among different departments and projects. For instance, it allocates and deploys server capacity and resources based on its monitor of the workload of over 3,000 servers in our global server network on a real-time basis. Moreover, it actively manages the development of lifecycle of our games and supports automatic deployment of our game development, upgrades, promotion and operation resources to ensure our smooth and scalable operations.

BUSINESS

Data Collection and Analysis System

Data analytics play a critical role in supporting and driving our integrated operations. We have developed our proprietary data collection and analysis system to support our game development, publish and operations. Please refer to the section headed “Business — Data Analytics” for more information.

EMPLOYEES

As at 31 March 2019, we had 1,279 full time employees, all based in the PRC. The following table sets forth the number of our employees by function as at 31 March 2019:

Function	Number	% of total
Research and development		
— Game development	462	36.1
— Artistic design	264	20.6
— Social platform development	23	1.8
— Technology support	115	9.0
Game publishing and operation		
— Domestic publishing and operation	259	20.3
— Overseas publishing and operation	95	7.4
Finance, administration and supporting	61	4.8
Total	1,279	100

Our success depends on our ability to attract, retain and motivate qualified personnel. We believe we offer our employees competitive compensation packages and a creative working environment. We have generally been able to attract and retain qualified personnel and maintain a stable key employee team. As at 31 March 2019, our key employees consisted of 94 members who were at the manager level or above and had been working with us for over two years and the turnover rate of these employees was maintained at a low level at around 0.1% for the three months ended 31 March 2019. We compensate our employees with basic salaries and performance-based bonuses.

We recruit our employees based on a number of factors, including their work experience, educational background, personalities and the needs of our vacancies. We provide our employees with a variety of trainings. We design and implement in-house training programmes tailored to each job function and a set of responsibilities to enhance performance. Specific training is provided during orientation for new employees to familiarise them with our working environment and operational procedures. We also regularly provide to our existing employees with professional trainings, such as trainings on project management, general management skills, artistic trainings and programming trainings depending on which department the employee is in.

We have adopted a labour union for our employees. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any disruption to our business operations due to labour disputes. Our Directors consider that we have maintained good relationships with our employees.

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We use dispatched labour agencies to obtain certain services. The dispatched labour agency we engaged sends workers it employs to work at our company under our instructions. The dispatched workers are employees of the dispatched labour agency which is responsible for paying the salary, welfare and other benefits to the dispatched workers, including social insurance and housing funds and other similar employee benefits as required under the PRC law. Currently our dispatched workers consist primarily of customer service staff.

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 insurance, maternity insurance and unemployment insurance. We are required to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

Please refer to the section headed “Business — Legal Proceedings” for further details.

ENVIRONMENTAL, HEALTH AND WORKPLACE SAFETY COMPLIANCE

As a game publisher, we do not believe we are subject to any significant environmental, health and workplace safety regulation in any jurisdiction in which we conduct business. As a result, we did not incur any material environmental, health and workplace safety compliance cost during the Track Record Period and we expect our future annual costs in relation to environmental, health and workplace safety compliance to be nil or immaterial.

COMPETITION

We are a leading integrated and well-established mobile game developer, publisher and operator with particular success in female-oriented games. The mobile game industry is highly competitive with frequent introduction of new products and services, limited product lifecycles, rapid introduction of new technological and equipment advancements, evolving industry standards and constantly changing players’ demand and preference.

We compete primarily with other mobile game developers on our abilities to develop high quality games, attract new players to our games and monetise our game products. We further compete with our competitors in developing highly engaging mobile games with localised game features, expanding the lifecycle of game products, enhancing monetisation of game products and establishing player community to cultivate players loyalty. Please refer to the section headed “Industry Overview — Competitive Landscape Analysis” for more information.

We believe that we have distinguished ourselves in the competitive industry leveraging on our proprietary capability in developing, publishing and operating online games in both the PRC markets and overseas markets. However, some of our existing and potential competitors may have significantly greater financial, operational and marketing resources, a larger user base, stronger relationships with player and payment channels, a more diversified game portfolio, greater development, publishing and operating experience and resources than we do. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We may face increasingly intense competition which makes it difficult to evaluate our business and prospects” for more information on risks relating to competition.

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AWARDS AND RECOGNITIONS

During the Track Record Period, we have earned a number of awards and recognitions. The major awards and recognitions are sets forth as follows:

<u>Award</u>	<u>Issuing organisation</u>	<u>Issuing year</u>
National Key Cultural Export Enterprise (國家文化出口重點企業)	MOFCOM, MOF, MOC, SAPPRFT and Publicity Department of Central Committee of Communist Party of China* (中國共產黨中央委員會宣傳部)	2018
Key Software Enterprise of National Planning Scheme (國家規劃佈局內重點軟件企業)	Jiangsu Provincial Tax Service, State Taxation Administration	2018
Cultivated Unicorn Enterprise of Suzhou (蘇州市獨角獸培育企業)	Government of Suzhou City	2018
Suzhou Cultural Industry Demonstration Base (蘇州文化產業示範基地)	Government of Suzhou City	2018
Headquarter Enterprises in Suzhou City (蘇州市總部企業)	Development and Reform Commission of Suzhou City	2018
2017 Top 100 Growing Outsourced Service Provides in China (2017年中國服務外包成長型企業Top 100)	China Council for International Investment Promotion	2017
Key Cultural and Technological Enterprises in Jiangsu Province (江蘇省重點文化科技企業)	MOC of Jiangsu Province	2017
Advanced Technology Service Enterprise (技術先進型服務企業)	Government of Suzhou City	2017
Private Technology Enterprise of Jiangsu Province (江蘇省民營科技企業)	Jiangsu Private Science and Technology Enterprise Association	2016

INTELLECTUAL PROPERTIES

Our proprietary intellectual properties, including trademarks, patents, copyrights, domain names and other intellectual properties, are critical to our business operations.

As at the Latest Practicable Date, we had registered (i) 107 trademarks in the PRC and 8 trademarks overseas, (ii) 303 copyrights in the PRC, (iii) 24 domain names in the PRC and 8 domain names overseas and (iv) 6 patents in the PRC.

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As at the Latest Practicable Date, we had (i) 42 pending trademark applications in the PRC and 44 pending trademark applications overseas; and (ii) 53 pending patent applications in the PRC. Please refer to the section headed “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual property rights” in this prospectus for details of our material intellectual properties.

We had not been subject to any material dispute and claims for infringement of third-parties’ trademarks, patents, copyrights and other intellectual property rights during the Track Record Period and up to the Latest Practicable Date. However, please see the section headed “Risk Factors — Risks Relating to Our Business — Third parties may claim that we infringe their proprietary rights, which could cause us to incur significant legal expense and prevent us from promoting our products and services” for more information.

PROPERTIES

Our headquarters are located in Suzhou City, Jiangsu Province. As at 31 March 2019, we owned one parcel of land and leased seven premises. As at 31 March 2019, as none of our properties had a carrying amount of 15% or more of our total assets, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, we are exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our Group’s interests in land or buildings.

Owned Land

We own one parcel of land with a total site area of approximately 9,700 square metres. We have obtained the valid land use rights for this parcel of land. We are currently constructing a building with a gross floor area of approximately 50,000 square metres on this parcel of land, which is planned as our new headquarters and office spaces for daily business operations. The building will have 17 stories and three levels of basement providing car parking services after completion.

Leased Properties

As at the Latest Practicable Date, we leased eight properties from five Independent Third Parties with an aggregate leased area of approximately 11,726.7 square metres.

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The following table sets out a summary of our leased properties:

Address and description of location	Use of property	Leased area (square metres)	Lease period
1. Building 18 Scientific Park of Suhua 208 Tongyuan Road Suzhou Industrial Park	蘇州工業園區 通園路208號 蘇化科技園18棟	Office	3,552.11 1 December 2015 to 30 November 2020
2. Building 22 Scientific Park of Suhua 208 Tongyuan Road Suzhou Industrial Park	蘇州工業園區 通園路208號 蘇化科技園22棟	Office	2,878.27 1 July 2016 to 30 June 2021
3. Floor 2 Building 7 Scientific Park of Suhua 208 Tongyuan Road Suzhou Industrial Park	蘇州工業園區 通園路208號 蘇化科技園7棟2樓	Office	1,613 6 June 2018 to 5 June 2020
4. Rooms 507/512/519/608 No. 8 Dormitory Building Supporting Services Centre Technical Reform District 199 Xinghong Road Suzhou Industrial Park	蘇州工業園區 園區星紅路199號 技改小區配套便利 服務中心宿舍樓 8號樓507/512/519/608 室	Employees' residence	152 16 July 2019 to 31 December 2019 ⁽¹⁾
5. Room 1203 Building 20 958 Zhenbei Road Putuo District Shanghai	上海市普陀區 真北路958號 20幢1203室	Office	386 8 January 2018 to 31 December 2019 ⁽¹⁾
6. Room 1052 1st floor Building 21 958 Zhenbei Road Putuo District Shanghai	上海市普陀區 真北路958號 21幢1層1052室	Operation	15 17 January 2019 to 16 January 2021

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Address and description of location	Use of property	Leased area (square metres)	Lease period
7. Room 5272 Tianlong Building 378 Zhujiang South Road Mudu Town Wuzhong District Suzhou	蘇州市吳中區 木瀆鎮珠江南路378號 天隆大樓5272室	Office and research and development	100 20 March 2019 to 19 March 2020
8. Rooms 201, 202, 203, 205, 206, 207, 208, 209, 210, 211, 212, 215 55 Qunxing Road Suzhou Industrial Park	蘇州工業園區 群星路55號 201, 202, 203, 205, 206, 207, 208, 209, 210, 211, 212, 215室	Office	3,030.31 1 July 2019 to 30 June 2020 ⁽²⁾

Notes:

- (1) As those leases will expire in 2019, we have been discussing with the relevant lessors of the renewal of the relevant leases. Our PRC Legal Advisers have advised us that, there is no legal impediment for us to renew such leases, as long as the lessors shall still have the right to lease such properties to us and the relevant parties agree to renew the leases through mutual negotiation.
- (2) The renovation period for the properties is from 15 April 2019 to 30 June 2019 during which the rent is free of charge.

As at the Latest Practicable Date, none of the lease agreements had been filed with the local housing administration authorities by the landlords as required under the PRC law. As at the Latest Practicable Date, we had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of the landlord's failure to file the lease agreements described above.

During the Track Record Period and as at the Latest Practicable Date, the actual use of properties 5 and 6 above are inconsistent with the use registered on the Shanghai Real Estate Register (上海市不動產登記簿). If we are required to move out of the premises and relocate to other locations due to such inconsistency with the registered use, we believe relocation from such leased properties would not cause any material disruption to our operations since (i) such leased properties are only for office use and there are only employees and some light assets such as office devices in such offices, which can be easily moved; (ii) none of our servers and network facilities is kept in any of such leased properties; (iii) there is sufficient supply of properties for office use in the neighbouring area and we believe it will not incur significant time and costs to find alternative properties in such area; and (iv) our offices in other locations can adequately support our business operations in the event of temporary interruption of our offices at such leased properties. Although we may incur additional relocation costs, our Directors believe such sum to be immaterial and is not expected to have any material impact to our business, operations or financial position.

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Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We may not be able to continue to use certain properties that are currently used by us” for more information.

INSURANCE

We do not maintain (i) insurance policies covering risks including loss and theft of and damages to our assets, and (ii) business liability or interruption insurance, which we believe, is in line with the customary industry practise in China based on publicly available information available to us relating to online game companies based in China. Any uninsured occurrence of business disruption, litigation, natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — Our lack of insurance could expose us to significant costs and business disruption” for more information.

LICENCES, PERMITS AND APPROVALS

Operations in China

As advised by our PRC Legal Advisers, we have obtained all licences, permits and approvals which are material for our business operations in the PRC, including the ICP Licence, the Internet Cultural Operation Licence and the Internet Publishing Service Licence. The following table sets forth the details of our major licences:

<u>Licence</u>	<u>Holder</u>	<u>Grant Date</u>	<u>Expiration Date</u>	<u>Renewal Requirements</u>
ICP Licence	Suzhou FriendTimes	24 Oct 2018	24 Oct 2023	Submit renewal application 90 days prior to expiration
ICP Licence	GameFriend	20 Aug 2019	20 Aug 2024	Submit renewal application 90 days prior to expiration
ICP Licence	Purple Blaze	14 Mar 2018	14 Mar 2023	Submit renewal application 90 days prior to expiration
ICP Licence	Cheeryoo	30 Oct 2018	30 Oct 2023	Submit renewal application 90 days prior to expiration
Internet Cultural Operation Licence	GameFriend	6 Aug 2017	5 Aug 2020	Submit renewal application 30 days prior to expiration
Internet Cultural Operation Licence	Purple Blaze	7 Feb 2018	6 Feb 2021	Submit renewal application 30 days prior to expiration
Internet Cultural Operation Licence	Cheeryoo	12 Oct 2018	11 Oct 2021	Submit renewal application 30 days prior to expiration
Internet Cultural Operation Licence	Purple Wing	14 Nov 2018	14 Nov 2021	Submit renewal application 30 days prior to expiration
Internet Publishing Service Licence	GameFriend	29 Nov 2016	28 Nov 2021	Submit renewal application 60 days prior to expiration

OVERSEAS TAXATION

During the Track Record Period, major non-PRC regions where we earned revenues or derived profits, either through self-publishing or third-party publishing, included Hong Kong, Macao, South Korea, the United States, Canada, Japan, Taiwan, Thailand, Vietnam, Singapore and Malaysia.

Although our Group has established two overseas subsidiaries, one being in Hong Kong and another in South Korea, during the Track Record Period, our corporate income tax expenses mainly represented PRC corporate income tax and we did not incur overseas corporate income tax (except for a small amount of provision of Hong Kong tax), mainly because our subsidiaries in South Korea and Hong Kong have not incurred material taxable profit in such jurisdictions. Apart from corporate income tax, there is no other indirect tax requirement in Hong Kong and the VAT payable by our Korean subsidiary has been immaterial.

Besides, while some jurisdictions in which we earned revenues during the Track Record Period do impose withholding taxes and/or VAT on licensing or the provision of digital services, those revenues were either accounted for at an immaterial amount which falls below the thresholds for registration in the relevant jurisdictions, or the obligations were imposed on third party publishers or third party distribution platforms. Currently there are very few jurisdictions, where we do not have a legal entity or a permanent establishment, seeking to apply corporate income taxes or digital services taxes or equivalent taxes to revenues or profits earned by our Group through self-publishing or third-party publishing of our games in such jurisdictions. Specifically, we will be required to register and account for Japanese Consumption Tax, which is a flat 10% tax on sales to consumers located in Japan before taking into account any tax deductible amount, with effect from 1 January 2020 which our Directors believe is immaterial to our Group.

Because of the foregoing, during the Track Record Period, we have not identified any material tax exposure for corporate income taxes, withholding taxes, value added taxes (or similar) in relation to overseas jurisdictions. However, as the international tax environment is changing, we may have potential tax liabilities including new or additional taxes in the future. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We may have potential tax liabilities including new or additional taxes” for further details.

As a measure to manage our overseas tax exposure, we intend to engage an external tax advisor for future need to advise us on a periodic basis of any changes to the relevant regulations which may impact our tax compliance obligations and tax liabilities in the markets in which our players are based, or in respect of entering new markets, or offering new products. The external tax advisor will also be engaged to then manage any tax compliance obligations which are identified.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, our Directors confirmed that there had been no litigation or arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group’s financial condition or results of operations.

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Our Directors, as advised by our PRC Legal Advisers, have confirmed that as at the Latest Practicable Date, there were no breaches or violations of PRC laws applicable to our Group that would have a material adverse effect on our Group's business or financial condition taken as a whole.

RISK MANAGEMENT AND INTERNAL CONTROL

We are dedicated to the establishment and maintenance of a robust internal control system. We have adopted and implemented risk management and internal control systems in various aspects of our business operations such as financial reporting, information system, legal compliance and intellectual property rights management and human resources management.

Information System Risk Management

We consider sufficient maintenance, storage and protection of data and our network infrastructure and information technology system critical to our success. We have adopted relevant measures to ensure protection of our data and to prevent technical issues in our network infrastructure and information technology system. Our information technology team monitors the operating status of our network devices, servers, operating systems and database, and responds to and deals with any issues that may arise in a timely manner. During the Track Record Period, we did not experience any material information leakage or loss of data or disruption of our network infrastructure and information technology system. Please refer to the section headed "Business — Data Analytics — Data Collection" and "Risk Factors — Risks Relating to the Industry — 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 could be materially and adversely affected" for more information.

Intellectual Property Rights Risk Management

Compliance with laws and regulations, especially laws and regulations governing the mobile game industry, as well as the protection of our intellectual property rights and the prevention of liabilities resulting from potential intellectual properties and softwares infringement are major focus areas of our operational risk management. Our securities department is responsible for identifying legal risks and ensuring compliance of our operations with the relevant laws and regulations. We also have internal control policy to prevent infringement of third-party intellectual properties and software and set out the procedures for applying for intellectual property rights of our intellectual properties to ensure our intellectual properties are properly protected. We also engage external professional intellectual properties agencies to assist us in registering, applying and reviewing the relevant patent, trademarks and copy rights of our intellectual properties. Please refer to the section headed "Risk Factors — Risks Relating to our Business — Unauthorised 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" and "Risk Factors — Risks Relating to our Business — Third parties may claim that we infringe their proprietary rights, which could cause us to incur significant legal expense and prevent us from promoting our products and services" for more information.

Regulatory Risk Management

We have adopted internal measures to ensure regulatory compliance in our business operations in our major target international markets and in the PRC. Under these measures, our joint company secretary, Mr. Liu Gongyou, is responsible for monitoring the regulatory environment and developments of local laws and regulations to support our business expansion in our existing and future target markets. We will implement internal control measures to ensure our compliance with legal or regulatory requirements in respect of our business operations including but not limited to the following:

- establishing an in-house legal department to oversee the implementation of our internal control measures and support our business operation;
- compiling and reviewing the relevant laws and regulations in our major target international markets and in the PRC relating to our business operation on a quarterly basis by our in-house legal department;
- examining the contract terms and all relevant documents, including the licenses and permits obtained by the counterparties and all the necessary underlying due diligence materials, by our in-house legal department before we enter into any contract and reviewing our contracts on a monthly basis to ensure compliance with most updated laws and regulations;
- maintaining and updating requisite licenses, permits or approvals for online game operation and publishing in our major target international markets on a semi-annual basis by our in-house legal department;
- in respect of the games planned to be published in our target international markets, our in-house legal department will, prior to commencing business in those markets, (i) assist to compile and review the relevant local laws and regulations relating to our business; (ii) seek legal advice from the local legal advisers; and (iii) consider and implement procedures for obtaining the requisite licenses, permits or approvals for online game operation and publishing to ensure compliance with the local laws and regulations; and
- discussing regularly with our employees in relation to social insurance and housing provident funds contributions and liaising with local authorities on relevant requirements.

In addition to the general control measures mentioned above, we have established detailed measures to ensure that the content of our games is in compliance with the relevant rules and regulations in our major target international markets and in the PRC. Prior to entering into content distribution agreements with game developers, we will conduct comprehensive intellectual property rights search based on public domain information in our major target international markets and in the PRC to avoid potential infringement upon third parties' existing trademarks, copyrights or patents. Prior to the launch of a new game licensed from third-party game developer, we will review and reconfirm that the game is in full compliance with the relevant laws and regulations. Upon the launch of the game, the relevant development and operation team is responsible for the on-going monitoring to ensure the game operation, including the user activities in the game, is in compliance with all the relevant rules and regulations. In addition, we will follow our internal procedures and actively apply for registration for trademark, copyright or patent for games developed in-house and proprietary contents we may from time to time create in redesigning and optimizing games we publish in target international markets.

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In overseas jurisdictions, pursuant to our internal control policies, we will engage legal advisers when necessary to assess the impact of local laws and regulations on our existing or proposed business activities, and take measures to comply with such laws and regulations.

RECENT CHANGE IN REGULATORY ENVIRONMENT

Implementation Programme on Prevention of Juveniles Myopia

On 30 August 2018, eight PRC regulatory authorities at national governmental level released the Implementation Programme on Prevention of Juveniles Myopia. As a part of the plan to prevent myopia among children, the Implementation Programme on Prevention of Juveniles Myopia plans to (i) regulate the number of new online games and (ii) restrict the amount of time juveniles spend playing on electronic devices. As advised by our PRC Legal Advisers, the Implementation Programme on Prevention of Juveniles Myopia itself is merely a policy-oriented set of guidelines, which contains no specific provisions regarding online games and just stipulates that the number of new online games shall be regulated and the amount of time juveniles spent on electronic devices shall be restricted. As of the Latest Practicable Date, no detailed implementation rule has been issued to enforce the Implementation Programme on Prevention of Juveniles Myopia regarding online games and therefore its impact on our future business operations remains unclear. As such, our Directors consider that the Implementation Programme on Prevention of Juveniles Myopia has no direct regulatory impact on our business operations at this stage. Please refer to the section headed “Regulatory Overview — Regulations on Online Games — Anti-addiction System and Minor Protection” for further details. Please also refer to the section headed “Risk Factors — Risks Relating to the Industry — Rapidly evolving PRC regulatory environment of the mobile gaming industry could impact our ability to launch and publish new games and maintain our financial performance going forward” for further details on the risks associated with the Implementation Programme on Prevention of Juveniles Myopia.

We have in-game reminders to remind our players to properly arrange their time for playing games once they have reached a certain aggregate playing time on our games. Subsequent to the implementation of the relevant measures, we had not witnessed any material adverse impact due to the implemented measures on our financial performance, results of operations and businesses prospects as at the Latest practicable Date. Our Directors remain optimistic on our Company’s growth and do not expect the Implementation Programme will have any material adverse impact on our financial performance, results of operations and businesses prospects. Please refer to the section headed “Risk Factors — Risks Relating to the Industry — Rapidly evolving PRC regulatory environment of the mobile gaming industry could impact our ability to launch and publish new games and maintain our financial performance going forward” for more information.

Game Registration and Game Filing

Overview

As detailed in the sections headed “Regulatory Overview — Regulations on Online Games — Online Games Publication” and “Regulatory Overview — Regulations on Online Games — Regulatory Authorities”, (i) the official launch of mobile games in the PRC is subject to game registration and issuance of game publication numbers and (ii) the operations of mobile games in the PRC shall be filed with the relevant authorities. According to Frost & Sullivan, the NAPP at the national level suspended approval of game registration and issuance of publication numbers for online games since March 2018

and resumed to issue game publication numbers by batches periodically since December 2018. Beginning in December 2018, the PRC government authority started to approve new online games. According to the website of the SAPPRFT, since December 2018 till the Latest Practicable Date, the NAPP has issued over 1,000 game publication numbers. The MOCT at the national level closed the online filing system for online games since July 2018. According to the Notice on Adjusting Examination and Approval Scope released in May 2019, it specifies that the MOCT no longer assumes the responsibility for the administration of online games industry. On 10 July 2019, the MOCT 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 (文化和旅游部關於廢止〈網絡游戲管理暫行辦法〉和〈旅游發展規劃管理辦法〉的決定), which specifies that the Online Game Measures was abolished by the MOCT on 10 July 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 MOCT no longer requires online games to complete the post-filing procedure; (ii) as of the Latest Practicable Date, no PRC laws and regulations have been officially promulgated regarding whether the responsibility of the MOCT 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 online filing requirement or new supervision requirements for the distribution and operation of online games; and (iii) subject to point (ii) above, as long as there is no governmental authority requiring similar online filing requirement or new supervision requirements for the distribution and operation of online games, we could launch new games after obtaining the requisite publication numbers from the NAPP, which will not constitute any non-compliance issues.

Risks Associated with the Recent Change in Game Registration

As at the Latest Practicable Date, we had not obtained publication number for the simplified Chinese (PRC) version of one of our existing games and all of our pipeline games. However, we had received preliminary approvals from the NAPP at the provincial level for the simplified Chinese (PRC) version of such existing game and three of our pipeline games. We are pending for publication numbers to be issued by the NAPP at the national level for these games.

As the regulatory authorities have received a large number of game registration applications which are to be reviewed, it takes time for all of the existing game registration applications to complete the process and obtain the game publication numbers. Therefore, there is great uncertainty as to when we will be able to complete the game registration and obtain the game publication number for our pipeline games under application or we may not be able to complete the game registration and obtain the game publication number at all, 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 in the PRC. Please refer to the section headed “Risk Factors — Risks Relating to the Industry — Any regulatory changes in the approval and registration process of new online games by the PRC government may adversely affect our business” for further details.

Our Growth Prospects Amid the Recent Change in Game Registration

Although the recent regulatory uncertainty may affect the game registration of newly-developed mobile games in the PRC, our Directors are of the view that our Company's growth prospects remain optimistic for the following reasons:

Increased business and financial performance in 2018 and the three months ended 31 March 2019

Despite the negative change in regulatory environment in the online game industry since early 2018, our business and financial performance continued to grow. The aggregate revenue generated from our three signature games, namely *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游), in the PRC increased by 142.9% from 2017 to 2018 primarily as a result of the increase in revenue generated from the simplified Chinese (PRC) versions of *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游) and increased by 22.8% for the three months ended 31 March 2019 compared to the corresponding period in 2018 primarily as a result of the increase in revenue generated from the simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手游). The revenue generated from *Royal Chaos* (熹妃Q傳) increased by RMB455.8 million or 500.3% from RMB91.1 million in 2017 to RMB546.9 million as it remained in the growth stage in 2018 and has gained widespread popularity after its initial launch in September 2017. We launched the simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手游) in March 2018 and it generated a revenue of RMB275.1 million in 2018. The revenue generated from the simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手游) increased by RMB91.9 million or approximately 126 times from RMB729,800 for the three months ended 31 March 2018 to RMB92.7 million for the three months ended 31 March 2019. *Rise of Queendom* (宮廷計手游) has also become one of our most popular games shortly after its launch. Accordingly, we were still able to maintain growth in our business performance after the relevant change in regulatory environment. In 2018, our revenue from the PRC market achieved a growth rate of 102.5% from 2017 and we expect such growth to continue in the foreseeable future.

Sustainable lifecycle of existing games

As detailed in the section headed "Business — Our Games", there are typically three stages in the lifecycle of a mobile game, namely the early growth stage, the stable and mature stage and the recession stage. Our signature games generally have lifecycle ranging from two years to five years or above. As at the Latest Practicable Date, a majority of the language versions of our signature games, *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手游) were at either the early growth stage or the stable and mature stage. As such, we expect that these games will still be able to generate stable revenue in the foreseeable future which sustains our business operation.

Moreover, as a leading game developer, publisher and operator in the mobile game industry, we have strong capabilities in upgrading and enhancing our games and are able to regularly roll out version upgrades with new game content, series, characters and gameplays for our games. These refurbishment of our games together with our operational activities that aim to extend the lifecycle of our games such as (i) launching version upgrades with new contents and gameplays to reflect the latest market trend and to satisfy the evolving player demand based on our player and market surveys; and (ii) offering new and diversified virtual items and special virtual items which can only be obtained after the player has achieved certain advance level in the game to keep our games interesting to our existing players so as to enhance players' loyalty and to motivate and entice our players to continuously play our games. According to Frost & Sullivan, average life cycle in mid-core to hardcore mobile game industry is

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around 7 to 16 months. As compared to such industry average, we believe we successfully extended the life cycle of our signature games for around three to five years because of our aforesaid efforts. For example, we expect that *Rise of Queendom* (宮廷計手遊) will have a life cycle of about 72 months, *Royal Chaos* (熹妃Q傳) will have a life cycle of about 84 months and *Legend Empress* (熹妃傳) will have a life cycle of about 72 months. For further details, please refer to the section headed “Business — Our Games” in this prospectus. Please also refer to the section headed “Risk Factors — Risks Relating to Our Business — A small number of games have contributed a substantial majority of our revenue. Failure to maintain the continuous success of these games could materially and adversely affect our business and results of operations” in this prospectus on the risk that our games may not be operated in line with our expected life cycle.

Sufficient games that have received preliminary approvals

As at the Latest Practicable Date, we had not obtained publication number for the simplified Chinese (PRC) version of one of our existing games and all of our pipeline games. However, we had received preliminary approval from the NAPP at the provincial level for the simplified Chinese (PRC) version of such existing game and three of our pipeline games. Subject to us obtaining the publication numbers from the NAPP at the national level, we will be ready to launch these games in the PRC. Prior to obtaining the game publication numbers, we will launch these games in the overseas markets first. Indeed, we had launched that existing game in the overseas markets subsequent to Track Record Period. Further, as at the Latest Practicable Date, we have obtained the publication numbers for our two expected future signature games, *Fate of the Empress* (浮生為卿歌) and *Yokai Kitchen* (精靈食肆), and one of which has been launched in the PRC in August 2019 and the other is expected to be launched in the PRC in the second half of 2019. For these two expected future signature games, we had launched the simplified Chinese (Overseas) and traditional Chinese versions of *Fate of the Empress* (浮生為卿歌) and the English/simplified Chinese (Overseas), traditional Chinese, Korean and simplified Chinese (PRC) versions of *Yokai Kitchen* (精靈食肆) subsequent to the Track Record Period. As such, we expect these games will further expand our player base and market share which thereby backing the continuous growth of our business and financial performance.

As a reputable mobile game publisher, we are able to source and publish more third-party developed games that have already completed the game registration and obtained game publication numbers by third-party game developers. We believe the cooperation with third-party developers will supplement our self-developed game portfolio and allow us to sustain the negative regulatory environment change. According to the website of the SAPPRFT, since the resumption of the issuance of game publication numbers by the NAPP in December 2018 till the Latest Practicable Date, it has issued over 1,000 game publication numbers. Our Directors believe that with the existing stock of games with game publication numbers and the continuous periodic issuance of new game publication numbers by the NAPP, there are sufficient games with game publication numbers available in the market. Although according to Frost & Sullivan there is no market data on the number of games with game publication numbers in the market which are available for sale, we will review the games that are newly issued with game publication numbers on a regular basis and approach those game developers if we believe their new games are creative, attractive and profitable.

Moreover, according to Frost & Sullivan, it is common for small and medium game developers to rely on other mobile game companies to publish and promote their games, due to limited capital and resources. It is also common for game publishers and operators with operating capabilities to publish

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and operate game operated by third parties. According to Frost & Sullivan, there is a limited number of market players in the mobile game market in the PRC (and our Company is one of them) that have the capability of sourcing games from third party game developers as well as publishing their games. Major entry barriers for new entrants in the market includes (i) relationship with game distribution platform; (ii) monetization capability; (iii) operation ability; and (iv) relationship with game developers. Strong game operation capability is considered as one of major competitive edges for market players. In addition to implementing effective marketing and promotion strategies to promote games, having a systematic and sophisticated user data analysis capability would allow game publishers to obtain insights in terms of user preferences and user behaviour, and enhance the designs of games and operation strategies accordingly. As not all game developers of games with game publication numbers have game publishing and operation capabilities, we will be able to approach those game developers and publish and operate their games given that we have a good understanding of the mobile game industry in general and a unique advantageous position in female-oriented mobile game market in the PRC and are experienced with the publishing and operating processes due to our highly integrated business model. Our successful track record of game publishing capabilities can strengthen our ability to source games from other game developers. To illustrate, our strong game publishing and operating capability is supported by a dedicated team of over 160 employees for game publishing and a team of over 190 employees for game operations as at 31 March 2019. They have good understanding of the game publishing and operation processes including player analysis, competition analysis, cooperation with other industries, etc.

Furthermore, we also have wide experience in marketing and advertising. We adopt a combination of marketing strategies to promote our games including (i) promotion on our self-operated platforms and in-game promotions; (ii) promotion on leading third-party social network or promotional platforms; and (iii) promotion through offline channels such as advertisement on television channels and cinemas, physical advertisement in public places, and engagement of spokesperson to endorse our games. Further, our data analytic system enables us to analyse a wide array of players' game data. Our data analysis technicians analyse the data to enhance the designs of games and operations strategies accordingly. If certain advertisement strategies are found ineffective, we may adjust our advertisement strategies promptly. Data analysis also allows us to identify key performance drivers and non-performing virtual items, which thereby enhance monetisation and extend lifecycle of our games. In view of the above, our Directors believe that we are well positioned to publish and operate third-party developed games.

Growth potential of overseas operations

We have commenced our overseas operations through cooperation with local third-party publishers since 2011 and have started to adopt our self-publishing model in the overseas markets in 2014 through third-party distribution platforms with world-wide operations. During the Track Record Period, our revenue generated from the overseas markets amounted to RMB105.9 million, RMB113.0 million, RMB276.3 million and RMB101.4 million, accounting for 18.6%, 16.2%, 18.9% and 25.8% of our total revenue, respectively, in the same periods. As detailed in the section headed “Business — Business Strategies — Deepen and expand our overseas markets”, we plan to launch more localised versions of our existing games as well as future games in our existing overseas markets and to further expand into new markets, such as Germany and France. As disclosed in the section headed “Industry Overview — Analysis of Overseas Mobile Game Market — Summary of Overseas Mobile Game Markets” in this prospectus, certain overseas markets where Chinese game developers and publishers have not yet poured

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in, such as Germany, France, their mobile game markets are supported by mature internet infrastructure and stronger willingness to pay by the users. The mobile game markets in Germany and France were among the top five in terms of revenue in Europe in 2018.

In particular, a number of our existing games and pipeline games are in ancient Chinese style. While we currently are not aware of overwhelming popularity of ancient Chinese style games in such new overseas markets, we believe that we can bring in new game styles and genres to such markets and offer players with different choices of games. Besides, our existing and future game portfolio are not limited to ancient Chinese style games, but also include games with various features and backdrop other than those with Chinese style, such as *Tale: Love Forest* (戀人之森), *Fantasy: Pocket Pets* (幻寵大陸), *Story: Cyborg Fantasy* (化芯物語), *Wizardlord* (魔法交鋒) and *Project: Heartbeat* (心跳計劃). We believe that the market demand for such games is not bound by the cultural differences of overseas countries. Furthermore, as we only need to customise our games into different language versions for the specific overseas markets, the additional costs for localisation, translation and publication are substantially less than the initial research and development costs of these games and therefore we are of the view that it is worthwhile to explore new overseas markets.

As advised by our PRC Legal Advisers, we are not required to obtain any permits, licences or approvals from the PRC governmental authorities with respect to our offerings in overseas markets, the regulatory uncertainties in the PRC mobile game market would not affect the implementation of our overseas expansion plan. Our offerings in overseas markets will help to diversify our revenue source and also reduce the impact of such regulatory uncertainties. Therefore, even if the PRC regulatory uncertainties may persist for a longer period of time than we expect, we are still able to launch our newly-developed games first in the overseas markets to sustain our business growth. As our existing games have been published (either by ourselves through third-party game distribution platforms or by third party publishers) in a number of markets other than the PRC (such as Japan, South Korea, the United States, Canada, Vietnam, Thailand, Hong Kong, Macau and Taiwan) since 2015, we believe that our experience in existing games will help us in publishing new games in overseas markets other than the PRC.

Sufficient working capital

Having considered the recent regulatory uncertainty, our Directors are of the view that we have sufficient working capital for our operations and capital expenditures for at least the next 12 months from the date of this prospectus. Please refer to the section headed “Financial Information — Liquidity and Capital Resources — Working Capital” for more information.

As the game registration and game publication number issuance have been resumed, based on the aforementioned reasons, our Directors are of the view that the uncertainty in regulatory environment in the PRC has not and is not expected to have a material adverse impact on our financial performance, operations, business, sustainability and growth prospects.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

We are a leading integrated and well-established mobile game developer, publisher and operator. We are considered to be engaged in the provision of value-added telecommunications services, internet culture business and internet publishing business as a result of the operations of our business. We conduct online games business through our Operating Entities. Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting internet culture business and internet publishing business and are restricted to conduct value added telecommunications services. As advised by our PRC Legal Advisers, a summary of our business that is subject to foreign investment restriction and prohibition in accordance with the 2019 Negative List is set out below:

Categories	Our business
Prohibited	
Internet publishing business	GameFriend's principal business involves online game publishing through mobile and websites, and GameFriend holds an Internet Publishing Service Licence. According to the 2019 Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet publishing business.
Internet cultural business (except for music)	The principal business of GameFriend, Purple Blaze, Cheeryoo and Purple Wing involves online game operation through mobile and websites, which falls within the scope of "internet culture products" under the Internet Culture Measures. Each of GameFriend, Purple Blaze, Cheeryoo and Purple Wing holds an Internet Cultural Operation Licence. According to the 2019 Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music).
Restricted	
Value-added telecommunications services business	The principal business of Suzhou FriendTimes, GameFriend, Purple Blaze, Cheeryoo and Jingxiang Times involves internet information services provided through mobile and websites, which falls within the scope of "value-added telecommunications services" under the Telecommunications Regulations. According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business (except for electronic commerce). Each of Suzhou FriendTimes, GameFriend, Purple Blaze, Cheeryoo and Jingxiang Times holds an ICP Licence for the provision of the internet information services.

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For further details of the limitations on foreign ownership in PRC companies conducting online games business and value-added telecommunications services under applicable PRC laws and regulations, see “Regulatory Overview — Regulations on Online Games”.

As a result of the foregoing, on 20 February 2019 and 6 March 2019, a series of Contractual Agreements have been entered into by, among others, Suzhou FriendTimes Suzhou Eagle and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our Operating Entities. The existing agreements underlying such contractual arrangements with Suzhou FriendTimes include: (i) Exclusive Business Cooperation Agreement, (ii) Voting Rights Proxy Agreement and Powers of Attorney, (iii) Exclusive Option Agreement, (iv) Equity Pledge Agreement and (v) Framework Loan Agreement.

QUALIFICATION REQUIREMENTS UNDER THE FITE REGULATIONS

On 11 December 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “**FITE Regulations**”), which were amended on 10 September 2008 and 6 February 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including ICP services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations (the “**Qualification Requirements**”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirements for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for the past three years, satisfactory proof of the Qualification Requirements and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirements. Our PRC Legal Advisers have advised us that as at the Latest Practicable Date, no applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements. Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have taken and plan to continue to take specific steps to comply with the Qualification Requirements, including:

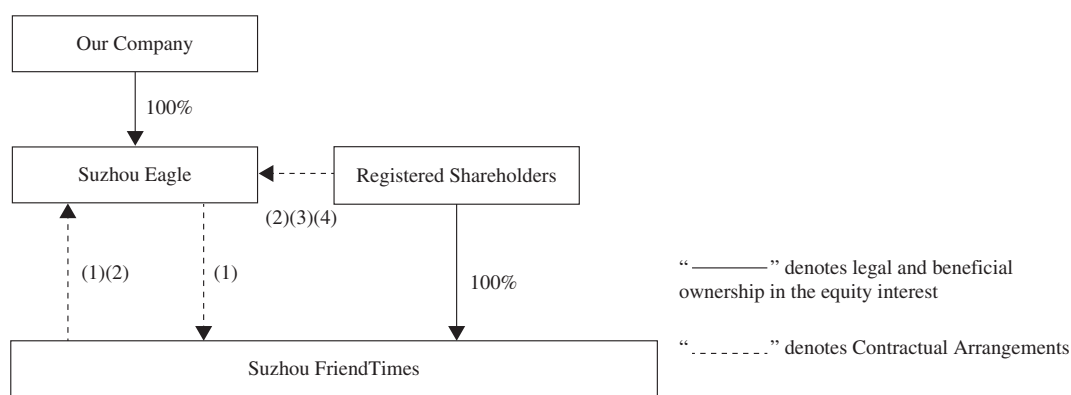
- i. as at the Latest Practicable Date, we have launched our games in various language versions worldwide through our own overseas subsidiaries or our international game publisher partners and third-party distribution platforms with world wide operation. We plan to continue to launch our games in multiple languages and geographical markets;
- ii. we have established a broad user base overseas. As at the Latest Practicable Date, our games had been published in plenty of overseas geographical markets. We plan to further expand our reach to other overseas markets; and
- iii. as at the Latest Practicable Date, we had registered trademarks, copyrights and domain names in overseas jurisdictions. We plan to register our intellectual property rights in more jurisdictions to enhance our brand recognition.

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Based on the foregoing, our PRC Legal Advisers are of the view that, subject to the discretion of the competent authority in determining whether our Group has fulfilled the Qualification Requirements, the above steps taken by us may be considered to be reasonable and appropriate in relation to the Qualification Requirements. We will maintain close contact with the relevant PRC regulatory authorities and seek specific guidance as to the Qualification Requirements. We shall provide updates in our annual and interim reports as and when necessary after the Listing to inform the investing public of our efforts and actions taken to comply with the Qualification Requirements as well as the progress of our efforts.

OUR CONTRACTUAL ARRANGEMENTS

The diagram below illustrates the relationships among the entities under the Contractual Arrangements:



Notes:

- (1) Payment of service fee from Suzhou FriendTimes to Suzhou Eagle in exchange of the provision of technical services, management support and consulting services. Please see “Exclusive Business Cooperation Agreement” below for details.
- (2) Exclusive call option to acquire all or part of the Registered Shareholders’ equity interest in Suzhou FriendTimes and/or all or part of the assets of Suzhou FriendTimes. Please see “Exclusive Option Agreement” below for details.
- (3) Entrustment of shareholders’ rights of the Registered Shareholders. Please see “Voting Rights Proxy Agreement and Powers of Attorney” below for details.
- (4) Pledge of equity interest by the Registered Shareholders of their equity interest in Suzhou FriendTimes. Please see “Equity Pledge Agreement” below for details.

CONTRACTUAL ARRANGEMENTS

SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

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

Exclusive Business Cooperation Agreement

Suzhou FriendTimes and Suzhou Eagle entered into the Exclusive Business Cooperation Agreement on 20 February 2019, pursuant to which Suzhou FriendTimes agreed to engage Suzhou Eagle as its exclusive provider of technical support, consultation and other services, including (1) technical assistance; (2) technical consultation; (3) network support; (4) business management consultation; (5) licence and authorisation of the use of intellectual properties owned by Suzhou Eagle; (6) rental or disposal of equipment and office properties; (7) market consultation; (8) system integration; (9) research and development of online game software and maintenance of the system; and (10) other relevant services requested by Suzhou FriendTimes from time to time to the extent permitted under PRC laws.

Pursuant to the Exclusive Business Cooperation Agreement, the service fee shall be equivalent to the total consolidated net profit of Suzhou FriendTimes, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Suzhou Eagle shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Operating Entities. Suzhou FriendTimes has agreed to pay the service fee to the bank account designated by Suzhou FriendTimes within five business days after Suzhou Eagle issues the payment notice. In addition, pursuant to the Exclusive Business Cooperation Agreement, without the prior written approval from Suzhou Eagle, Suzhou FriendTimes shall not, and shall procure the other Operating Entities not to, enter into any transactions (save as those transactions entered into in the ordinary course of business) that may materially affect its assets, obligations, rights or operation, including but not limited to (1) the sale, transfer, pledge or disposal of any assets in other means except for those within the amount of RMB1.0 million in the ordinary course of business of the Operating Entities; (2) the provision of any guarantee or any financial assistance to third parties or the occurrence of any indebtedness except for those within the amount of RMB1.0 million in the ordinary course of business of the Operating Entities, (3) the entering into of any material contracts except for those within the amount of RMB1.0 million in the ordinary course of business of the Operating Entities; (4) any merger, acquisition or restructuring; and (5) cause any conflict of interest between Suzhou FriendTimes and Suzhou Eagle as well as its shareholders. The Exclusive Business Cooperation Agreement also provides that Suzhou Eagle has the exclusive proprietary rights in any and all intellectual property rights developed or created by the Operating Entities during the performance of the Exclusive Business Cooperation Agreement. Our Directors consider that the above arrangements will ensure the economic benefits generated from the operations of the Operating Entities will flow to Suzhou Eagle and hence, our Group as a whole. The Exclusive Business Cooperation Agreement has an indefinite term commencing from 20 February 2019, the date of the agreement. The Exclusive Business Cooperation Agreement may be terminated by Suzhou Eagle (i) by giving Suzhou FriendTimes a 30 days' prior written notice of termination; (ii) upon the transfer of the entire equity interests in and the transfer of all assets of Suzhou FriendTimes to Suzhou Eagle or its designated person pursuant to the Exclusive Option Agreement; (iii) when Suzhou FriendTimes ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; or (iv) when it is legally permissible for Suzhou Eagle to hold equity interests

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directly or indirectly in Suzhou FriendTimes and Suzhou Eagle or its designated person is registered to be the shareholder of Suzhou FriendTimes. Suzhou FriendTimes is not contractually entitled to terminate the Exclusive Business Cooperation Agreement with Suzhou Eagle.

Voting Rights Proxy Agreement and Powers of Attorney

Each of Suzhou FriendTimes, the Registered Shareholders and Suzhou Eagle entered into the Voting Rights Proxy Agreement on 20 February 2019, pursuant to which, each Registered Shareholder, through the power of attorney (“**Power of Attorney**”), irrevocably and exclusively appointed Suzhou Eagle and/or its appointee, Mr. Liu Gongyou, but excluding any person who is not independent from the Registered Shareholders or may give rise to any conflict of interest, as his attorney-in-fact to exercise such shareholder’s rights in Suzhou FriendTimes, including without limitation to, the rights to (1) convene and participate in shareholders’ meeting in the capacity of a proxy of the Registered Shareholder; (2) exercise the voting rights pursuant to the relevant PRC laws and regulations and the articles of Suzhou FriendTimes, on behalf of the Registered Shareholder, and adopt and execute all written resolutions, on matters to be discussed and resolved at shareholders’ meetings, including without limitation to, the appointment and election of directors of Suzhou FriendTimes, the approval of dividends and the sale, transfer or pledge of all or part of the shares of Suzhou FriendTimes; (3) the right to deal with any asset of Suzhou FriendTimes and to manage its business and the right to revenue; (4) sign or submit any required document to any company registry or other authorities in the capacity of a proxy of each Registered Shareholder; (5) to nominate, elect, designate or appoint and remove the legal representative, directors, chief executive director, supervisors and other senior officers of Suzhou FriendTimes pursuant to the articles of association of Suzhou FriendTimes; to raise lawsuits or other legal proceedings against the directors and senior officers of Suzhou FriendTimes when their behaviours harm the interest of its shareholders; and to instruct the directors and senior officers to act in accordance with our intention; (6) to exercise the voting rights with regards to the decision of and the distribution of assets after the liquidation, bankruptcy or dissolution matters with regard to Suzhou FriendTimes. The Voting Rights Proxy Agreement has an indefinite term commencing from 20 February 2019 and will be terminated in the event that (i) the Voting Rights Proxy Agreement is unilaterally terminated by Suzhou Eagle; or (ii) it is legally permissible for Suzhou Eagle to hold equity interests directly or indirectly in Suzhou FriendTimes and Suzhou Eagle or its designated person is registered to be the shareholder of Suzhou FriendTimes.

The Registered Shareholders undertake that they shall not take or omit to take any actions which may lead to a conflict of interest with Suzhou Eagle or its subsidiaries. If there is any conflict of interest, Suzhou Eagle shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. If there is any conflict of interest, the Registered Shareholders will prioritize to protect and will hold harmless of Suzhou Eagle or the Company. If there is any conflict of interest, the Registered Shareholders should, with the consent of Suzhou Eagle, take action to eliminate such conflict of interest. In the event that the Registered Shareholders are directors of Suzhou Eagle or that of the Company, the Registered Shareholders will appoint Suzhou Eagle or appointees of Suzhou Eagle who are directors or senior management of the Company other than the Registered Shareholders to exercise the rights under the Voting Rights Proxy Agreement.

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Exclusive Option Agreement

Suzhou Eagle, Suzhou FriendTimes and the Registered Shareholders entered into the Exclusive Option Agreement on 20 February 2019, pursuant to which the Registered Shareholders jointly and severally granted Suzhou Eagle the irrevocable and exclusive rights, provided that it is permitted under the PRC laws and regulations, to require the Registered Shareholders to transfer their equity interests in Suzhou FriendTimes to Suzhou Eagle and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under the PRC laws and regulations. Suzhou FriendTimes granted Suzhou Eagle and/or a third party designated by it the irrevocable and exclusive rights, provided that it is permitted under the PRC laws and regulations, to acquire the assets in Suzhou FriendTimes, in whole or in part at any time and from time to time, at a minimum purchase price permitted under the PRC laws and regulations.

Suzhou FriendTimes and the Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Suzhou Eagle any consideration in such way required by Suzhou Eagle they receive in the event that Suzhou Eagle exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in Suzhou FriendTimes. Pursuant to the Exclusive Option Agreement, the Registered Shareholders and Suzhou FriendTimes have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior written approval from Suzhou Eagle, including but not limited to the following matters: (1) Suzhou FriendTimes shall not alter its constitutional documents or its registered capital; (2) Suzhou FriendTimes shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards and practises, obtain and maintain all necessary government licences and permits by prudently and effectively operating their business and handling their affair; (3) Suzhou FriendTimes shall not sell, transfer, create encumbrances or otherwise dispose of any assets with an amount of over RMB1.0 million of its legal income or allow any guarantee or security to be created on its assets; (4) Suzhou FriendTimes shall not incur, take up, guarantee or allow any indebtedness other than those in the ordinary course of business (not by way of loans) and having been disclosed to and consented by Suzhou Eagle in writing; (5) Suzhou FriendTimes shall not enter into any material contracts with an amount of over RMB1.0 million other than in the ordinary course of business or with our Company and/or our subsidiaries; (6) Suzhou FriendTimes shall operate its business in order to maintain its asset value or not allow any acts or omission which adversely affects its business or assets value; (7) Suzhou FriendTimes shall not engage in any mergers or acquisitions or make investment in any entities; (8) Suzhou FriendTimes shall immediately inform Suzhou Eagle if its assets or business involved in any disputes, litigations, arbitrations or administrative proceedings; (9) Suzhou FriendTimes shall sign all necessary or appropriate documents and take necessary or appropriate actions to raise complaints or defend against claims in order to maintain its ownership to all of its assets; (10) Suzhou FriendTimes shall not distribute any profits dividend to the Registered Shareholders. Each Registered Shareholder shall transfer all distributable dividends, capital dividend and other asset receivable by him at nil consideration to Suzhou Eagle as soon as practicable upon request; (11) the Registered Shareholders shall not sell, transfer, create encumbrances or otherwise dispose of their beneficial ownerships of Suzhou FriendTimes except as pursuant to the Equity Pledge Agreement; and (12) the Registered Shareholders shall not engage in business that may compete with the Operating Entities.

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The Registered Shareholders and Suzhou FriendTimes shall procure the subsidiaries of Suzhou FriendTimes to comply with the above undertakings as if they were parties to the Exclusive Option Agreement. The Exclusive Option Agreement is for an indefinite term of commencing on 20 February 2019, being the date of the agreement, until it is terminated (1) by Suzhou Eagle through giving Suzhou FriendTimes and the Registered Shareholders a prior written notice of termination; or (2) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Suzhou FriendTimes to Suzhou Eagle or its designated person. Neither Suzhou FriendTimes nor the Registered Shareholders is contractually entitled to terminate the Exclusive Option Agreement with Suzhou Eagle. Pursuant to the Exclusive Option Agreement, each of SEC Electric, Nanjing Liheng, Mr. Wang Jianyu, Suzhou Luoyuan, Mr. Lin Zhirong, Mr. Zhang Min, (each also being a pre-IPO investor) has undertaken to Suzhou FriendTimes that they will, within three months from our Company's Listing on the Hong Kong Stock Exchange, transfer the equity interests in Suzhou FriendTimes held by them to the person directed by Suzhou Eagle (being Mr. Jiang) according to the terms as stipulated in the Exclusive Option Agreement.

Equity Pledge Agreement

Suzhou Eagle, Suzhou FriendTimes and the Registered Shareholders entered into the Equity Pledge Agreement on 20 February 2019, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Suzhou FriendTimes to Suzhou Eagle as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Pledge Agreement, the Registered Shareholders represent and warrant to Suzhou Eagle to protect Suzhou Eagle interests in the event of death, bankruptcy or divorce of the Registered Shareholders to avoid any practical difficulties in enforcing the Equity Pledge Agreement and shall procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Suzhou FriendTimes declares any dividend during the term of the pledge, Suzhou Eagle is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or Suzhou FriendTimes breaches or fails to fulfil the obligations under any of the aforementioned agreements, Suzhou Eagle, as the pledgee, will be entitled to escrow of the pledged equity interests, entirely or partially. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken to Suzhou Eagle, among other things, not to transfer the interest in his equity interests in Suzhou FriendTimes and not to create or allow any pledge thereon that may affect the rights and interest of Suzhou Eagle without its prior written consent.

The equity pledge takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until (1) all the obligations under the Contractual Arrangements (other than the Equity Pledge Agreement) have been fulfilled; (2) each of the Registered Shareholders has transferred his equity interests in Suzhou FriendTimes in accordance with the Exclusive Option Agreement; (3) Suzhou FriendTimes has transferred all of its assets in accordance with the Exclusive Option Agreement; (4) the Equity Pledge Agreement has been unilaterally terminated by Suzhou Eagle; or (5) the Equity Pledge Agreement has been terminated in accordance with applicable PRC laws and regulations. The registration of the Equity Pledge Agreement as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and the PRC laws and regulations on 28 February 2019.

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Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreement), Suzhou Eagle shall have the right to exercise all such rights as a secured party under any applicable PRC laws and the Equity Pledge Agreement, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

Framework Loan Agreement

A Framework Loan Agreement was entered into between Suzhou Eagle and Suzhou FriendTimes on 6 March 2019 pursuant to which, Suzhou Eagle principally agreed to provide loans to our Operating Entities from time to time in accordance with the PRC laws and regulations and our Operating Entities principally agreed to utilise the proceeds of such loans for their business operations. The term of the loans to be made under the Framework Loan Agreement is no fixed term and repayable on demand. The interest of the loan will be determined by the parties and specified in the relevant loan agreement when the loan is made.

Confirmations from the Registered Individual Shareholders

Each of the Registered Individual Shareholders has confirmed to the effect that (i) her/his spouse does not have the right to claim any interests in the respective Registered Individual Shareholder (together with any other interests therein) or exert influence on the day-to-day management of the respective Registered Individual Shareholder; and (ii) in the event of her/his death, incapacity, divorce or any other events which causes her/his inability to exercise her/his rights as a shareholder of the respective Registered Individual Shareholder, her/his successors (including her/his spouse) will be deemed as a party of the Contractual Arrangements and undertake all the rights and liabilities under the Contractual Arrangements.

Spousal Undertakings

The spouse of each of the Registered Individual Shareholders has executed a written consent to the effect that (1) she/he acknowledges and consents that the respective Registered Individual Shareholders enter into the Contractual Arrangements and the amendments and termination of the Contractual Arrangements do not require her/his further consents under the Contractual Arrangements; (2) she/he waives any spousal rights or any other rights or entitlements to the interests of the respective Registered Individual Shareholder and the assets in Suzhou FriendTimes and the rights to involve in the management of Suzhou FriendTimes; and (3) she/he undertakes to be bound by the agreements under the Contractual Arrangements (as amended, supplemented or restated from time to time) in the event that she/he for any reason obtains any equity interests of Suzhou FriendTimes as the relevant Registered Individual Shareholder's spouse.

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Other Key Terms of the Contractual Arrangements

A description of other key terms that apply to the applicable agreements under the Contractual Arrangements is set out below:

Dispute Resolutions

In the event of any dispute with respect to the construction and performance of the provisions, each of the Contractual Arrangements stipulates that:

- (a) the parties shall negotiate in good faith to resolve the dispute;
- (b) in the event the parties fail to settle the dispute within 30 days of a negotiation request, any party may submit the relevant dispute to the Suzhou Arbitration Commission for arbitration, in accordance with the then effective arbitration rules of Suzhou Arbitration Commission. The arbitration shall be conducted in Suzhou. The arbitration ruling shall be final and binding on all parties;
- (c) the arbitral tribunal may award remedies over the equity interest and property interest and other assets of our Operating Entities, injunctive relief or order the winding up of our Operating Entities; and
- (d) upon the request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of arbitration pending information of the arbitral tribunal or in appropriate cases. The courts of Hong Kong, the Cayman Islands and other courts with jurisdiction, including but not limited to the place where the principal assets of our Company and our Operating Entities are located shall be considered as having jurisdiction for the above purposes.

In connection with the dispute resolution method as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Advisers that:

- (a) a tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Operating Entities pursuant to current PRC laws;
- (b) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and Cayman Islands may not be recognisable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over our Operating Entities.

As a result of the above, in the event that Suzhou FriendTimes 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 Suzhou FriendTimes and conduct our business could be materially and adversely affected. Please see “Risk Factors — Risks Relating to Our Company Structure — If the PRC government finds that the agreements that establish the structure for operating our online game businesses in China do not comply with applicable PRC laws and regulations,

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or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our VIE.” in this prospectus for details.

Protection in the Event of Death, Bankruptcy or Divorce of the Registered Individual Shareholders

Pursuant to the Contractual Arrangements, the Registered Individual Shareholders undertake to Suzhou Eagle that, in the event of death, loss of or restriction on capacity, divorce or other circumstances regarding the Register Shareholder which may affect the exercise of his direct or indirect equity interest in Suzhou FriendTimes, the Registered Individual Shareholder’s respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the equity interest or relevant rights directly or indirectly, and will be deemed as a signing party to the Contractual Arrangements and be obliged to the rights and liabilities under the Contractual Arrangements.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation of Suzhou FriendTimes required by the PRC laws, the Registered Shareholders shall give the proceeds they received from liquidation as a gift to Suzhou Eagle or its designee(s) to the extent permitted by the PRC laws.

Conflict of Interest

Each of the Registered Shareholders has given their irrevocable undertakings in the Voting Rights Proxy Agreement and Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see “— Voting Rights Proxy Agreement and Powers of Attorney” above.

Loss Sharing

In the event that Suzhou FriendTimes incur any loss or encounters any operational crisis, Suzhou Eagle may provide financial support to Operating Entities when deemed necessary.

None of the agreements constituting the Contractual Arrangements provide that our Company or its wholly-owned PRC subsidiary, namely Suzhou Eagle, is obligated to share the losses of Suzhou FriendTimes or provide financial support to Suzhou FriendTimes. Further, Suzhou FriendTimes is a company with limited liabilities 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 Suzhou Eagle, is not legally required to share the losses of Suzhou FriendTimes or provide financial support to Suzhou FriendTimes. Despite the foregoing, given that our Group conducts a substantial portion of its business operations in the PRC through our 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 condition and results of operations would be adversely affected if the Operating Entities suffer losses.

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However, as provided in the Exclusive Business Cooperation Agreement, Suzhou FriendTimes shall obtain the prior written approval from Suzhou Eagle when performing the following acts (save as those acts performed in the ordinary course of business) that may materially affect its assets, obligations, rights or operation, including but not limited to (1) the sale, transfer, pledge or disposal of any assets in other means except for those within the amount of RMB1.0 million in the ordinary course of business of the Operating Entities; (2) the provision of any guarantee or any financial assistance, the occurrence of any indebtedness except for those within the amount of RMB1.0 million in the ordinary course of business of the Operating Entities; (3) the entering into of any material contracts except for those within the amount of RMB1.0 million in the ordinary course of business of the Operating Entities; (4) any merger, acquisition or restructuring; and (5) the creation of any conflict of interest between Suzhou FriendTimes and Suzhou Eagle as well as its shareholders; (6) the payment of any fees to any third parties, the waiver of any debts owed by third parties or the creation of any loans, guarantees or any other encumbrances on the assets or equity interest of the Operating Entities; (7) the entering into of any joint venture or profit sharing arrangement or any other arrangement that would transfer the profit or benefit of Suzhou FriendTimes to any third parties. Further, Suzhou FriendTimes shall notify Suzhou Eagle in time when any event that may cause material adverse effect to its business operation occurs and make its best efforts to prevent the occurrence of such event or control the loss incurred due to such event. Therefore, due to the restrictive provisions contained in the Contractual Arrangements, the potential adverse effect on Suzhou Eagle and our Company in the event of any loss suffered from Suzhou FriendTimes can be limited to a certain extent.

Insurance

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

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

We believe that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable our Group to combine the financial results of our Operating Entities which engage or will engage in the operation of our mobile game operation business, which are subject to foreign investment restriction in accordance with applicable PRC laws.

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

Our PRC Legal Advisers are of the opinion that:

- (a) the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, enforceable under the PRC laws and regulations, and in particular, the Contractual Arrangements do not violate the provisions of the PRC Contract Law including “concealing illegal intentions with a lawful form”, and other applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body (i.e. Suzhou Arbitration Commission) may award remedies over the shares and/or assets or award injunctive relief and/or order the winding up of our Operating Entities, and that courts of competent jurisdictions (such as Hong Kong and Cayman Islands) are empowered to grant interim remedies in support of the arbitration

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pending the formation of an arbitral tribunal or in appropriate cases, while under the PRC laws, an arbitral body has no power to grant injunctive relief or to order an entity to wind up, and the aforesaid interim remedies granted by competent courts are only enforceable to the extent permitted under the relevant PRC laws and regulations and may not be recognisable or enforceable in the PRC;

- (b) each of the Contractual Arrangements is not in violation of provisions of the articles of association of our Operating Entities and Suzhou Eagle, respectively;
- (c) no approval or authorisation from the PRC governmental authorities are required for entering into and the performance of the Contractual Arrangements except that (i) the pledge of any equity interest in Suzhou FriendTimes for the benefit of Suzhou Eagle is subject to registration requirements with the relevant Bureau of Administration of Industry and Commerce which has been duly completed on 28 February 2019, (ii) the exercise of any exclusive option rights by Suzhou Eagle under the Exclusive Option Agreement may subject to the approval, filing or registration requirements with the relevant authorities under the then prevailing PRC laws and regulations.

The Internet Publishing Measures were jointly promulgated by the SAPPRFT and the MIIT on 4 February 2016 and became effective on 10 March 2016. Pursuant to the Internet Publication Measures, the GAPP, as the competent department of the internet publication services industry, is responsible for the prior approval, supervision and administration of the online publishing services nationwide.

The Internet Culture Measures, which were promulgated by the MOC on 10 May 2003, provide that internet cultural entities are classified into operational internet cultural entities and non-operational internet cultural entities. Operational internet cultural entities shall file application for establishment to the competent culture administration authorities for approval and must obtain the Internet Cultural Operating Licence.

Pursuant to the Notice of the State Commission Office for Public Sector Reform on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the “Three Provisions” jointly promulgated by the MOC, SARFT and the GAPP (Zhong Yang Bian Ban Fa [2009] No. 35) (《中央機構編製委員會辦公室關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋〉》) issued by the State Commission Office for Public Sector Reform (a division of the State Council) effective from 7 September 2009, the MOC is the competent government authority for the administration of online games in the PRC and the GAPP will have responsibility for the examination and approval of online games to be uploaded on the internet and that, after such upload, online games will be administered by the MOC.

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

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Notwithstanding the foregoing, our representatives, representatives of the Sole Sponsor and our PRC Legal Advisers conducted an interview with the Jiangsu Communications Administration (江蘇省通信管理局) on 22 January 2019, an interview with the Jiangsu Provincial Department of Culture and Tourism (江蘇省文化和旅遊廳) on 5 March 2019, and an interview with the Jiangsu Provincial Bureau of Press and Publication (江蘇省新聞出版局) on 22 January 2019, whom have provided oral confirmations that our Contractual Arrangements would not be challenged or subject to penalty due to violation of any PRC laws or regulations, and that they had never imposed any administrative penalties on any online game company which have adopted contractual arrangements similar to our Contractual Arrangements.

Our PRC Legal Advisers are of the view that the Jiangsu Communications Administration (江蘇省通信管理局), the Jiangsu Provincial Department of Culture and Tourism (江蘇省文化和旅遊廳) and the Jiangsu Provincial Bureau of Press and Publication (江蘇省新聞出版局) are competent government authorities for our Company's principal business.

We are aware of a Supreme People's Court ruling made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (1) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (2) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under the circumstance where an illegitimate purpose is concealed under the guise of legitimate acts. Our PRC Legal Advisers are of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance above under Article 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes.

For details in relation to the risks involved in the Contractual Arrangements, please see "Risk Factors — Risks Relating to Our Company Structure" in this prospectus.

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 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 Operating Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over our Operating Entities. The basis of combining the results of our Operating Entities is disclosed in note 2.1 to the Accountants' Report. Our Directors consider that our Company can combine the financial results of our Operating Entities as if they were our Group's subsidiaries.

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DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

On 19 January 2015, MOFCOM released the 2015 Draft FIL and the Explanatory Notes to the 2015 Draft FIL (the “**Explanatory Notes**”) for public consultation. The major changes that the 2015 Draft FIL introduces to the foreign investment regime in the PRC are as follows:

The Definitions of “foreign investors” and “foreign investment”

The 2015 Draft FIL introduces the concept of “control” and “actual control”. Under Article 18 of the 2015 Draft FIL, the term “control” means that any of the following conditions is met in respect of an enterprise:

- (a) holding, directly or indirectly, more than 50% of shares, equities, share of properties, voting power or other similar equities in the enterprise;
- (b) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting power or other similar equities in the enterprise, but are under any of the following circumstances:
 - (i) being entitled to, directly or indirectly, more than half of the members of the enterprise’s board of directors or the similar decision-making body;
 - (ii) being capable of ensuring that its nominated personnel can occupy more than 50% of seats of the enterprise’s board of directors or the similar decision-making body; and
 - (iii) the voting power it holds is sufficient to have significant influence on the resolutions of the meetings of shareholders, general assembly of shareholders, board of directors or other decision-making body; or
- (c) exerting decisive influence on the enterprise’s management, finance, human resources or technologies, among other things, by contracts, trust or other ways.

For the purposes of the 2015 Draft FIL, the determination of “actual control” is an exercise to identify the ultimate natural person or enterprise that controls the foreign-invested enterprise. Article 19 of the 2015 Draft FIL defined “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If the investment amount of a foreign investment enterprise (“**FIE**”) exceeds certain thresholds or the business it operates falls within a “negative list” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, and will be adopted by our Company in the form of the Contractual Arrangements, to establish control of our Operating Entities by Suzhou Eagle, through which our Group operate its business in PRC. Under the 2015 Draft FIL, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are “controlled” by

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foreign investors. For companies with a VIE structure in an industry category that is in the “restricted category” on the “negative list”, it is possible that the existing VIE structure may be deemed legitimate only if the actual controlling person(s) is/are of PRC nationalities (either PRC state-owned enterprises or agencies, or PRC citizens).

The Negative List — restrictions on foreign investment

The 2015 Draft FIL stipulates restrictions on foreign investment in certain industry sectors. The negative list classified the relevant prohibited and restricted industries into the catalogue of prohibitions (“**Catalogue of Prohibitions**”) and the catalogue of restrictions (“**Catalogue of Restrictions**”), respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sector set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfil certain conditions and apply for permissions before making such investment.

Notwithstanding the Explanatory Notes do not provide a clear direction in dealing with contractual arrangements in existence before the 2015 Draft FIL becomes effective, MOFCOM has proposed under the Explanatory Notes three possible approaches in dealing with foreign-invested enterprises with existing contractual arrangements and conducting business in an industry falling in the negative list:

- (a) to make a declaration to the competent authority of the State Council that the actual control is vested with Chinese investors, whereby contractual arrangements may be retained for its operation;
- (b) to apply to the competent authority of the State Council for certification that its actual control is vested with Chinese investors and upon verification by competent authority of the State Council, whereby the contractual arrangements may be retained for its operation; and
- (c) to apply to the competent authority of the State Council for permission, whereby the competent authority of the State Council together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

Where foreign investors and foreign-invested enterprises circumvent the provisions of the 2015 Draft FIL by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 (Investments in

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Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the 2015 Draft FIL, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions or Catalogue of Restrictions, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the central government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1.0 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the 2015 Draft FIL, including failing to perform on schedule, evading the performance of the information reporting obligation, concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the central government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the 2015 Draft FIL, including failing to perform on schedule, evading the performance of the information reporting obligation, concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the person-in-charge directly responsible and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

FOREIGN INVESTMENT LAW

On 23 December 2018, the 7th meeting of the 13th Standing Committee of the National People's Congress reviewed the 2018 Draft FIL, which was promulgated by the National People's Congress on its official website on 26 December 2018 to seek public comments, which has been closed on 24 February 2019. On 15 March 2019, the 2019 FIL was finally adopted by the second session of the 13th National People's Congress and will become effective on 1 January 2020. The 2019 FIL, when becomes effective on 1 January 2020, will replace the Law on Sino-foreign Equity Joint Ventures, the Law on Sino-foreign Contractual Joint Ventures and the Law on Foreign-capital Enterprises to become the legal foundation for foreign investment in the PRC.

Impact and Potential Consequences of the 2019 FIL on our Contractual Arrangements

We believe, as advised by our PRC Legal Advisers, that if future laws, administrative regulations and provisions of the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole will not be materially affected and will continue to

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be legal, valid and binding on the parties when the 2019 FIL becomes effective on 1 January 2020, and in that case, the 2019 FIL will not, by itself, have any material adverse effect on our corporate structure or, in turn, on our business operations on the basis that:

- (i) the 2019 FIL will become effective from 1 January 2020, and there is no provision for retroactive application. All of the Contractual Arrangements have been entered by our Group and other related parties and have become effective before the 2019 FIL becomes effective;
- (ii) the 2019 FIL does not mention the concepts including “de facto control” and “controlling through contractual arrangements”, nor does it specify the regulation on controlling through contractual arrangements;
- (iii) according to the 2019 FIL, foreign investments include three types of specific activities and other activities prescribed by laws, administrative regulations or State Council regulations. As of the Latest Practicable Date, contractual arrangements are not specified as foreign investments under the 2019 FIL.

For the details of risks relating to the 2019 FIL, see “Risk Factors — Risks Relating to Our Company Structure — Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 FIL, the status of the 2015 Draft FIL and how they may impact the viability of our current corporate structure, corporate governance and business operations — 2019 FIL” in this prospectus.

POTENTIAL IMPACT TO OUR COMPANY IN THE SCENARIO THAT THE CONTRACTUAL ARRANGEMENTS ARE NOT TREATED AS A DOMESTIC INVESTMENT

Our online game business may be in the Catalogue of Prohibitions or the Catalogue of Restriction and the Contractual Arrangements may be deemed as foreign investments on prohibited or restricted industry sector. If any future laws, administrative regulations or provisions of the State Council stipulate contractual arrangements as a way of foreign investment, the Contractual Arrangements may be regarded as invalid and illegal. As a result, our Group would not be able to operate its business through the Contractual Arrangements and our Company would have to terminate the Contractual Arrangements and lose the rights to receive the future economic benefits of our Operating Entities. As a result, the financial results of our Operating Entities would no longer be consolidated into our Group’s financial results and our Group would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such de-recognition.

However, there are uncertainties whether any new laws, administrative regulations or provisions of the State Council stipulating the contractual arrangements is a way of foreign investments will be adopted in the future, and the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisers’ understanding. In any event, our Company will take reasonable steps in good faith to seek to comply with the 2019 FIL and other related PRC laws, regulations and rules then effective.

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POTENTIAL MEASURES TO MAINTAIN CONTROL OVER AND RECEIVE ECONOMIC BENEFITS FROM OUR OPERATING ENTITIES

To ensure the Contractual Arrangements remain a domestic investment so that our Group can maintain control over our Operating Entities and receive all economic benefits derived from our Operating Entities, Mr. Jiang shall give an undertaking to our Company to:

- (a) continue to maintain his Chinese citizenship for as long as he holds a controlling interest in our Company;
- (b) maintain control of our Company for the purposes of the 2019 FIL (together with all its subsequent amendments or updates, as promulgated), or procure the transferee(s) who will become the new PRC controlling shareholder of our Company to provide an undertaking in the same terms and conditions as offered by him to our Company when Mr. Jiang makes any transfer or disposal which may result in him ceasing to have control of our Company for the purposes of the 2019 FIL (together with all its subsequent amendments or updates, as promulgated); and
- (c) prior to making any of the above transfer or disposal, Mr. Jiang shall demonstrate to the satisfaction of our Company that the Contractual Arrangements will not become a foreign investment for the purpose of the 2019 FIL (together with all its subsequent amendments or updates, as promulgated).

Based on the view of our PRC Legal Advisers and the aforesaid undertaking to be given by Mr. Jiang, the Directors are of the view that (i) the VIE structure under the Contractual Arrangements are likely to be deemed as a domestic investment and be permitted to continue; and (ii) our Group can maintain control over our Operating Entities and receive all economic benefits derived from our Operating Entities. The undertaking will become effective from the Listing Date and will remain effective until the earlier of the occurrence of the following events: (i) Mr. Jiang ceasing to have control of our Company for the purposes of the 2019 FIL (together with all its subsequent amendments or updates, as promulgated); (ii) compliance with the relevant requirements under the 2019 FIL (together with all its subsequent amendments or updates, as promulgated) as finally enacted is not required and the Hong Kong Stock Exchange has consented to this; (iii) compliance with the undertaking is no longer required, as advised by the Hong Kong Stock Exchange; or (iv) the Hong Kong Stock Exchange and any applicable Chinese regulatory departments have consented to such termination.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group will adopt the following measures to ensure effective operation and compliance with the Contractual Arrangements:

- (a) 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;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements annually;

CONTRACTUAL ARRANGEMENTS

- (c) 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 investors;
- (d) our Company will provide updates in an annual and interim report as and when necessary, after the Listing, regarding the Qualification Requirements and the status of compliance with the applicable laws and regulations, as well as the progress towards demonstrating compliance with the Qualification Requirements;
- (e) our Company will disclose, as soon as possible (i) any updates of changes to the applicable laws and regulations that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the relevant laws and regulations as implemented, specific measures taken by us to fully comply with the such laws and regulations supported by a PRC legal opinion and any material impact on our operations and financial position; and
- (f) 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 Suzhou Eagle and our Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that one of the Directors, Mr. Jiang, is also one of the Registered Shareholders, our Company believes that the Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

- (a) the decision-making mechanism of our Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of our Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;
- (c) our Company will appoint three independent non-executive Directors, comprising more than one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and the Shareholders as a whole; and
- (d) our Group will disclose in its announcements, circulars and annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Mr. Jiang, the founder of our Group and our ultimate Controlling Shareholder, through his control over a trust and a number of offshore holding companies (being Gorgeous Sunshine, Eternal Heart, Ling Long, Lucky Fish, Future Wisdom, Warm Sunshine, Agile Eagle, Purple Dream and Purple Crystal), will be entitled to control the exercise of voting rights of approximately 82.87% of the issued share capital of the Company. Accordingly, Mr. Jiang, Gorgeous Sunshine, Eternal Heart, Ling Long, Lucky Fish, Future Wisdom, Warm Sunshine, Agile Eagle, Purple Dream and Purple Crystal are our Controlling Shareholders.

DELINEATION OF BUSINESS

Each of our Directors and Controlling Shareholders have confirmed that none of them nor any of their respective close associates (other than members of our Group) has interests in any business, other than our business, which compete, or is likely to compete, either directly or indirectly, with our business. Furthermore, each of our Directors has confirmed that he/she is not interested in any business apart from our business (where relevant), which competes or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that we are capable of carrying out our business independently of and does not place undue reliance on, our Controlling Shareholders and their respective close associates (other than members of our Group) after the Listing.

Management Independence

Our Board comprises four executive Directors and three independent non-executive Directors. Although Mr. Jiang is an executive Director and also one of our Controlling Shareholders, our management and operational decisions are made by all our executive Directors and senior management, all of whom have in-depth experience and understanding of their respective departmental disciplines coupled with the general environment in which our Group operates.

Each of our Directors is aware of his/her fiduciary duties as a Director which requires, among other things, that he/she must act for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his or her personal interests. In the event that there is a potential conflict of interests arising out of any transactions to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum.

Our independent non-executive Directors have been appointed in compliance with the requirements under the Listing Rules to ensure that decisions of our Board will be made only after due consideration of independent and impartial opinions, and that they will bring independent judgement to the decision making process of our Board. Further, our Board acts collectively by majority decisions in accordance with the Articles of Association and the laws and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In addition, our Group has adopted certain corporate governance measures for conflict situation in order to the safeguard the interests of our Shareholders as a whole, details of which are set out in “Corporate Governance Measures” in this section below. Having considered the foregoing factors, our Directors believe that they are able to perform their roles in our Company independently and are capable of managing the business of our Company independently after the Listing.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and carry out, our business operations independently.

We have established our own organisational structure made of individual departments each with specific administrative and corporate governance infrastructure. We are also in possession of all necessary relevant licences, trademarks and copy rights materials to carry on our business and we have sufficient operational capacity in terms of capital, equipment and employees to operate our business independently. We do not rely on our Controlling Shareholders or his/its close associates for our operations and have independent access to customers and suppliers and our Group has established a set of internal control procedures independent from our Controlling Shareholders to facilitate the effective operation of our business.

In light of the circumstances as set out hereinabove, our Directors believe that our Group has operated independently of, and has not placed undue reliance in conducting our business during the Track Record Period and up to the Latest Practicable Date on, any of our Controlling Shareholders and/or any of their respective close associates and will continue to be operationally independent after the Listing.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, our Group has employed a team of financial accounting personnel to operate our own finance department and had established our own financial and accounting system independent of our Controlling Shareholders. Our Group has our own bank accounts and an independent treasury function for cash receipts and payments, as well as made our own tax registrations with the relevant regulatory authorities. Our source of funding is independent from our Controlling Shareholders.

As at the Latest Practicable Date, there were no loans, advances or balances due to our Controlling Shareholders and their close associates which have not been fully settled, nor were there any pledges and guarantees provided by any of our Controlling Shareholders and their close associates on our Group’s borrowing which have not been fully released or discharged.

Based on the above, our Directors believe that our Group has the ability to operate independently of our Controlling Shareholders and their respective close associates from the financial perspective and is able to maintain financial independence from our Controlling Shareholders and their respective close associates after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage potential conflicts of interests after the Listing. In particular, we will implement the following measures:

- as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;
- a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or any of his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- we are committed that our Board should include a balanced composition of executive and independent non-executive Directors. We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors, see “Directors and Senior Management — Directors — Independent non-executive Directors”;
- in the event that our independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Company shall disclose decisions on matters reviewed by our independent non-executive Directors in our annual report or by way of announcement;
- we have appointed Guotai Junan Capital Limited as our compliance adviser, which will, upon our consultation, provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules; and
- pursuant to the Corporate Governance Code in Appendix 14 to the Listing Rules, which our Company has adopted as its corporate governance code, our Directors will be able to seek independent professional advice from external parties in appropriate circumstances at our Company’s cost.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group, and to protect the interests of our Shareholders.

CONNECTED TRANSACTIONS

We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below details of the non-exempted continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Contractual Arrangements

Background

As disclosed in the section headed "Contractual Arrangements", due to regulatory restrictions on foreign ownership in mobile game business, in addition to imposing a qualification requirement on the foreign owners in the PRC, we cannot directly or indirectly, hold any equity interest in our Operating Entities, which hold certain licences and permits required for the operations of our business. As a result, our Group has entered into the Contractual Arrangements with Suzhou FriendTimes and its Registered Shareholders so that we can conduct our business operations indirectly in the PRC through our Operating Entities while complying with applicable PRC laws and regulations. The Contractual Arrangements, as a whole, are designed to provide our Group with effective control over the financial and operational policies of our Operating Entities, to the extent permitted by PRC laws and regulations, which enable us to, among others, (i) receive substantially all of the economic benefits from our Operating Entities in consideration for the services provided by Suzhou Eagle to our Operating Entities; (ii) exercise effective control over our Operating Entities; and (iii) hold an exclusive option to acquire all or part of the equity interests and/or assets in Suzhou FriendTimes when and to the extent permitted by PRC laws and regulations.

The Contractual Arrangements consist of a series of agreements, including (i) Exclusive Business Cooperation Agreement, (ii) Voting Rights Proxy Agreement and Powers of Attorney, (iii) Exclusive Option Agreement, (iv) Equity Pledge Agreement, and (v) Framework Loan Agreement, each of which is an integral part of the Contractual Arrangements. For detailed terms of these agreements, please refer to the section headed "Contractual Arrangements".

Listing Rules implementations

Mr. Jiang is a Director and the Controlling Shareholder of our Company upon the Listing, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules. As at the Latest Practicable Date, Suzhou FriendTimes was owned as to 70.14% by Mr. Jiang and hence an associate of Mr. Jiang. Therefore, Suzhou FriendTimes is a connected person of our Company under 14A.12(1)(c) of the Listing Rules. Accordingly, the transactions contemplated under the Contractual Arrangements, as a whole, constitute continuing connected transactions of our Company under the Listing Rules.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by Suzhou FriendTimes and any member of

CONNECTED TRANSACTIONS

our Group (the “**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent shareholders’ approval requirements.

APPLICATION FOR WAIVER

In view of the Contractual Arrangements, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent shareholders’ approval in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) setting annual caps for the transactions contemplated under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Hong Kong Stock Exchange subject to the following conditions:

- (i) *No change without independent non-executive Directors’ approval.*

No changes to the Contractual Arrangements will be made without the approval of our independent non-executive Directors.

- (ii) *No change without independent Shareholders’ approval.*

Save as described in paragraph (iv) below, no changes to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders.

Once the independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (v) below) will however continue to be applicable.

- (iii) *Economic benefits flexibility.*

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Operating Entities through: (i) our Group’s option to the extent permitted under PRC laws and regulations, to acquire, all or part of the entire equity interests and/or assets in Suzhou FriendTimes at the lowest possible amount permissible under the applicable PRC laws and regulations; (ii) the business structure under which the net profit generated by the Operating Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Suzhou Eagle under the Exclusive Business Cooperation Agreement; and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of Suzhou FriendTimes.

CONNECTED TRANSACTIONS

(iv) *Renewal and reproduction.*

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and our 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 executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(v) *Ongoing reporting and approvals.*

Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in the annual reports and accounts of our Company in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Group's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by Suzhou FriendTimes to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group; and (iii) the Contractual Arrangements and if any, any new contracts entered into, renewed or reproduced between our Group and Suzhou FriendTimes during the relevant financial period under paragraph (iv) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.
- Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Hong Kong Stock Exchange confirming that the transactions have received the approval of the Directors and have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Suzhou FriendTimes to the Registered Shareholders 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”, each of our Operating Entities will be treated as our Company’s subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of our Operating Entities and their respective associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Operating Entities will undertake that, for so long as the Shares are listed on the Hong Kong Stock Exchange, the 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.

In addition, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with the requirements of (i) the announcement, circular and independent shareholders’ approval in respect of the transactions contemplated under any New Intergroup Agreements (as defined above) pursuant to Rule 14A.105 of the Listing Rules; (ii) setting an annual cap for the transactions contemplated under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Hong Kong Stock Exchange. We will comply with the applicable requirements under the Listing Rules and will immediately inform the Hong Kong Stock Exchange if there are any changes to these continuing connected transactions. If there is any change to the terms of the Contractual Arrangements or the Group enter into any new agreement with any of its connected persons, the Group must fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless it apply for and obtain a separate waiver from the Hong Kong Stock Exchange.

New Transactions amongst Our Operating Entities and Our Company

Given that the financial results of our Operating Entities will be consolidated into our financial results and the relationship between our Operating Entities and our Company under the Contractual Arrangements that may be entered into between each of our Operating Entities and our Company in the future will also be exempted from the “continuing connected transactions” provisions of the Listing Rules.

VIEWS OF THE SOLE SPONSOR AND DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view and the Sole Sponsor concurs that the transactions contemplated under the Contractual Arrangements, which have been and will be entered into in the ordinary and usual course of business of our Group, are fundamental to our Group’s legal structure and business operations are on normal commercial terms or better, and are fair and reasonable in the interests of our Company and its Shareholders as a whole. With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practise to ensure that (i) the financial and operational policies of our Operating Entities can be effectively controlled by Suzhou Eagle or its designee; (ii) Suzhou Eagle or its designee can obtain the economic benefits derived from our Operating Entities; and (iii) any possible leakages of assets and values of our Operating Entities can be prevented, on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Upon the Listing, the Board will consist of seven Directors, comprising four executive Directors and three independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business, while our senior management is responsible for the day-to-day management of our business.

The following table sets out certain information about our Directors:

Name	Age	Position(s)	Roles and responsibilities	Time of joining our Group	Date of appointment as Director	Relationships with other Directors and Senior Management
Mr. Jiang (蔣孝黃)	37	Chairman, executive Director and chief executive officer	Overall management, decision-making and strategy planning	May 2010	21 February 2019	None
Mr. Xu Lin (徐林)	38	Executive Director and vice president	Assisting in overall management, strategic planning and decision- making of products research and development	November 2010	21 February 2019	None
Mr. Wu Jie (吳傑)	32	Executive Director and vice president	Assisting in overall management, strategic planning and decision- making of marketing	August 2013	21 February 2019	None
Mr. Sun Bo (孫波)	35	Executive Director and vice president	Assisting in overall management, strategic planning and decision- making of products operation	December 2010	21 February 2019	None
Mr. Zhu Wei (祝偉)	47	Independent non- executive Director	Supervising and providing independent advice to our Board	December 2015	11 September 2019	None

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Roles and responsibilities</u>	<u>Time of joining our Group</u>	<u>Date of appointment as Director</u>	<u>Relationships with other Directors and Senior Management</u>
Ms. Tang Haiyan (唐海燕)	48	Independent non-executive Director	Supervising and providing independent advice to our Board	April 2018	11 September 2019	None
Mr. Zhang Jinsong (張勁松)	49	Independent non-executive Director	Supervising and providing independent advice to our Board	September 2019	11 September 2019	None

Executive Directors

Mr. Jiang (蔣孝黃), aged 37, is an executive Director, the chairman of the Board and the chief executive officer of our Company. Mr. Jiang is responsible for the overall management, decision-making and strategy planning of our Group.

Mr. Jiang is the founder of our Group and he has near 15 years of experience in the game industry. Prior to founding our Group, from October 2004 to February 2009, Mr. Jiang served as the research and development director in Suzhou Snail Digital Technology Co., Ltd. (蘇州蝸牛數字科技股份有限公司), which is principally engaged in the development and operation of online games. Mr. Jiang founded Suzhou Bojoy, the predecessor of Suzhou FriendTimes, in May 2010 and currently serves as the chief executive officer of our Group. He is also a director of Friend World, Friend Century, Wish Interactive, Suzhou Eagle, Suzhou FriendTimes, GameFriend and Purple Blaze.

Mr. Jiang obtained his bachelor's degree (through online learning) in computer science and technology from Beihang University (北京航空航天大學) in July 2016 and his executive master of business administration (EMBA) from Tsinghua University (清華大學) in January 2017.

Mr. Xu Lin (徐林), aged 38, is an executive Director and the vice president of our Company. He is primarily responsible for assisting in the overall management, strategic planning and decision-making of products research and development of our Group.

Mr. Xu has over 13 years of experience in the technology industry. Prior to joining our Group, from July 2005 to June 2006, Mr. Xu had served as the art planner in Suzhou Industrial Park Jima Game Software Co., Ltd. (蘇州工業園區吉碼遊戲軟件有限公司), where Mr. Xu was responsible for the artworks and strategic planning of games. From October 2006 to October 2008, Mr. Xu had worked in Suzhou Zhuo Ao You Electronics Co., Ltd. (蘇州卓奧友電子有限公司), a company primarily engaged in the development and sales of computer hardware and software and educational products. Mr. Xu joined Suzhou FriendTimes in November 2010 and currently serves as the vice president of our Group. He is also a director of Suzhou FriendTimes.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu obtained his bachelor's degree in history from Suzhou University of Science and Technology (蘇州科技大學) in June 2005, and his master's degree in business administration (MBA) from Concordia University in March 2019.

Mr. Wu Jie (吳傑), aged 32, is an executive Director and the vice president of our Company. Mr. Wu is responsible for assisting in overall management, strategic planning and decision-making of marketing of our Group.

Mr. Wu has over six years of experience in the game industry. From August 2012 to August 2013, Mr. Wu had served as the head of mobile and web games department in Suzhou Le Peng Culture Communication Co., Ltd. (蘇州樂朋文化傳播有限公司), a company primarily engaged in the development and sale of game software, where Mr. Wu was responsible for the publishing and operation of the mobile and web games. Mr. Wu joined Suzhou FriendTimes in August 2013 and currently serves as the vice president of our Group. He is also a director of Suzhou FriendTimes.

Mr. Wu obtained his professional diploma in computer application and technology from Jinshan Vocational Technical College (金山職業技術學院) in June 2009, and his executive master's degree in business administration (EMBA) from University of Liege, Belgium in October 2017.

Mr. Wu was a director and shareholder of Hangzhou Yilian Culture Creative Co., Ltd. (杭州藝蓮文化創意有限公司), which was established in the PRC and principally engaged in the culture creativity planning business and was deregistered on 25 January 2018. Mr. Wu confirmed that, to the best of his knowledge, Hangzhou Yilian Culture Creative Co., Ltd was solvent at the time when deregistered on a voluntary basis and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of the deregistration.

Mr. Sun Bo (孫波), aged 35, is an executive Director and the vice president of our Company. Mr. Sun is responsible for assisting in overall management, strategic planning and decision-making of products operation of our Group.

Mr. Sun has over 14 years of experience in the game industry. Prior to joining our Group, from December 2004 to December 2008, Mr. Sun had served as the operation manager in Suzhou Snail Digital Technology Co., Ltd. (蘇州蝸牛數字科技股份有限公司), a company primarily engaged in the development and operation of online games, where Mr. Sun was responsible for game operation. From February 2009 to November 2009, Mr. Sun had served as the game operation director of game operation department in Hangzhou Yi Te Wangwang Network Technology Co., Ltd. (杭州易特旺旺網絡技術有限公司), which is principally engaged in the development of computer software, where Mr. Sun was responsible for the game operation. From December 2009 to November 2010, Mr. Sun had worked in Hangzhou Jiushang Technology Co., Ltd. (杭州久尚科技有限公司), which is principally engaged in the development of computer software and internet technology. Mr. Sun joined Suzhou FriendTimes in December 2010 and currently serves as the vice president of our Group.

Mr. Sun obtained his professional diploma in network engineering and management from Anhui Wenda University of Information Engineering (安徽文達信息工程學院) in July 2005 and he is currently studying for his master's degree in business administration (MBA) in Asia Metropolitan University (亞洲城市大學) in Shanghai.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Zhu Wei (祝偉), aged 47, is our independent non-executive Director. Mr. Zhu is responsible for supervising and providing independent advice to our Board.

Mr. Zhu has over 15 years of experience in accounting and taxation. Prior to joining our Group, Mr. Zhu worked in various companies being responsible in the finance and accounting aspects. From December 2003 to December 2006, Mr. Zhu had worked in Jiangsu Welsen CPA Co., Ltd. (江蘇華星會計師事務所). From December 2006 to November 2009, Mr. Zhu had worked in Jiangsu Xinzhongda CPA Co., Ltd. (江蘇新中大會計師事務所有限公司). From November 2009 until present, Mr. Zhu has been serving as a partner in Suzhou Newgrand Certified Public Accountants (蘇州仲華會計師事務所) where he is responsible for the operation and management. Since August 2016, Mr. Zhu has been serving as an independent director of Jiangsu Yunyi Electric Co., Ltd. (江蘇雲意電氣股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 300304.SZ). Since May 2017, he has been serving as an independent director of Beijing Jetsen Technology Co., Ltd. (北京捷成世紀科技股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 300182.SZ). Mr. Zhu joined Suzhou FriendTimes in December 2015 and has been serving as independent director since then.

Mr. Zhu was qualified as a registered tax agent in China (中國註冊稅務師) in September 1999. Mr. Zhu was admitted as a certified accountant of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in August 2002 and he was admitted as a member of the Institute of Public Accountants, Australia in January 2011. Mr. Zhu also obtained the senior accountant qualification (高級會計師資格) in September 2006. Mr. Zhu obtained the Independent Director Qualification of Shenzhen Stock Exchange (深圳證券交易所) and Shanghai Stock Exchange (上海證券交易所) in March 2016 and April 2016, respectively.

Mr. Zhu obtained his professional diploma in financial accounting from Suzhou Radio and Television University (蘇州市廣播電視大學) in July 1992 and his bachelor's degree in international finance from Nanjing University (南京大學) in April 1999.

Mr. Zhu was a supervisor of the following company established in the PRC which had its business licence revoked and was subsequently dissolved during his tenure:

<u>Name of company</u>	<u>Nature of business</u>	<u>Reasons of revocation of business licence and dissolution</u>	<u>Date of revocation of business licence</u>
Suzhou Five Stars Car Rental Services Co., Ltd (蘇州五星汽車租賃服務有限公司)	Provision of car rental business	Failure to complete statutory annual inspection as required under the relevant PRC laws and regulation	3 January 2014

Mr. Zhu confirmed that, to the best of his knowledge, the above dissolved company which planned to discontinue its operation was solvent and had ceased operation at the time of revocation of its business licence.

Mr. Zhu confirmed that there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of the above dissolution.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Tang Haiyan (唐海燕), aged 48, is our independent non-executive Director. Ms. Tang is responsible for supervising and providing independent advice to our Board.

Ms. Tang has over 25 years of experience as a PRC qualified lawyer. Since July 1995, Ms. Tang has been working in Y & T Lawyers (江蘇益友天元律師事務所) where she is currently a partner. Since February 2015, Ms. Tang has been serving as an independent director of Suzhou Thvow Technology Co., Ltd. (蘇州天沃科技股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002564.SZ). Since February 2016, Ms. Tang has been serving as an independent director of Sufa Technology Industry Co., Ltd. (中核蘇閥科技實業股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 000777.SZ). Since August 2016, Ms. Tang has been serving as a director of Tibet Summit Resources Co., Ltd. (西藏珠峰資源股份有限公司) (a company listed on Shanghai Stock Exchange, stock code: 600338.SH). Ms. Tang joined Suzhou FriendTimes in April 2018 and has been serving as independent director since then.

Ms. Tang became a qualified PRC lawyer in May 1993. Ms. Tang is currently an arbitrator of the fifth Suzhou Arbitration Commission (蘇州仲裁委員會) and a member of the legal experts in Political-Legal Committee of Suzhou Municipal Committee (蘇州市委政法委員會法律專家庫成員). Ms. Tang has obtained the Independent Director Qualification in Shanghai Stock Exchange (上海證券交易所) and Shenzhen Stock Exchange (深圳證券交易所) in September 2008 and September 2016, respectively.

Ms. Tang obtained her bachelor's degree in economic law from East China University of Political Science and Law (華東政法大學) in July 1992, her master's degree in international economic law from University of Canberra, Australia in July 2004, and her master's degree in business administration (MBA) from China Europe International Business School (中歐國際工商學院) in September 2008.

Ms. Tang was a shareholder and supervisor of Suzhou Zhongda Huachuang Investment Management Co., Ltd. (蘇州中大華創投資管理有限公司), which was established in the PRC and principally engaged in investment and asset management and was deregistered on 5 September 2018. Ms. Tang confirmed that, to the best of her knowledge, Suzhou Zhongda Huachuang Investment Management Co., Ltd was solvent at the time when deregistered on a voluntary basis and there was no wrongful act on her part leading to the dissolution and she is not aware of any actual or potential claim which has been or will be made against her as a result of the deregistration.

Mr. Zhang Jinsong (張勁松), aged 49, is our independent non-executive Director. Mr. Zhang is responsible for supervising and providing independent advice to our Board.

Mr. Zhang has over 11 years of experience in business management. Since June 2007, Mr. Zhang has been serving as the general manager of merchant sales department of Suzhou Industrial Park Commercial Tourism Development Co., Ltd. (蘇州工業園區商業旅遊發展有限公司) where he is primarily responsible for the daily sales operation and management.

Mr. Zhang obtained his professional diploma in trade economics from Suzhou Vocational University (蘇州市職業大學) in July 2003 and his bachelor's degree in economic information management from Naval Aeronautical and Astronautical University (中國人民解放軍海軍航空工程學院) in June 2006.

DIRECTORS AND SENIOR MANAGEMENT

Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this prospectus, each of our Directors confirms that (i) he/she did not hold any other positions or short positions in the Shares, underlying Shares, debentures of our Company and/or any associated corporation (with the meaning of Part XV of the SFO) as at the Latest Practicable Date; (ii) he/she had no other relationship with any Directors, senior management and/or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; (iii) he/she did not hold any directorships in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas during the three years immediately preceding the date of this prospectus; and (iv) he/she is not interested in any business apart from our Company's business, which competes or is likely to compete, either directly or indirectly, with our Company's business.

Save as disclosed in this prospectus, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there is no additional information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter with respect to their appointments as Directors that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

In addition to our executive Directors, our Group also has the following senior management members to assist in our operation. Our senior management is responsible for the day-to-day management of our business.

The following table sets out certain information relating to members of our senior management team:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Roles and responsibilities</u>	<u>Time of joining our Group</u>	<u>Relationships with other Directors and Senior Management</u>
Ms. Li Ya (李婭)	37	Chief financial officer	Providing financial management and formulating financial strategies	December 2010	None
Mr. Liu Gongyou (劉功友)	38	Joint company secretary	Overseeing the matters relating to the Listing, legal and compliance issues	August 2015	None

Ms. Li Ya (李婭), aged 37, is the chief financial officer of our Company. Ms. Li is responsible for providing financial management and formulating financial strategies of our Group.

Ms. Li has over 11 years of experience in accounting and finance. From February 2007 to December 2008, Ms. Li worked as an accountant in the finance department of Suzhou Xinrui Meiwen Computer Engineering Co., Ltd. (蘇州新銳美文計算機工程有限公司). From January 2009 to October

DIRECTORS AND SENIOR MANAGEMENT

2010, Mr. Li worked as a finance manager of Jiangsu Century Ark Culture Development Co., Ltd. (江蘇世紀方舟文化發展有限公司). Ms. Li joined our Group in December 2010 and currently serves as the chief financial officer of Suzhou FriendTimes.

Ms. Li was admitted as a member of the Institute of Public Accountants Australia in December 2016 and she obtained the intermediate accountant qualification certificate of PRC (中級會計職稱) in February 2017. Ms. Li is an associate of the Association of International Accountants. Ms. Li also obtained the Board Secretary Qualification of Shenzhen Stock Exchange in May 2016.

Ms. Li obtained her professional diploma in accounting from Nanjing University of Finance & Economics (南京財經大學) in January 2009 and her master's degree in business administration (MBA) from Hong Kong Asia Business College (香港亞洲商學院) in December 2017.

Mr. Liu Gongyou (劉功友), aged 38, has been appointed as one of our joint company secretaries on 21 February 2019. Mr. Liu is responsible for overseeing the matters relating to the Listing, legal and compliance issues of our Group.

Mr. Liu has over eight years of experience in legal and compliance. From September 2010 to March 2012, Mr. Liu worked as a PRC qualified lawyer in Jiangsu Zheng & Zheng Partners (江蘇正和正律師事務所). From March 2012 to August 2013, Mr. Liu had served as securities affairs representative in Shanghai Beite Technology Co., Ltd. (上海北特科技股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 603009.SH). From January 2014 to October 2014, Mr. Liu had served as the assistant to the chairman in Jiangsu Zhonghong Investment Industrial Co., Ltd. (江蘇中宏投資實業有限公司). From November 2014 to July 2015, Mr. Liu had served as the legal manager in Wuzhou International Holdings Limited (五洲國際控股有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 1369.HK). Mr. Liu joined our Group in August 2015 and currently serves as the board secretary of Suzhou FriendTimes.

Mr. Liu obtained the Legal Professional Qualification Certificate of PRC (中華人民共和國法律職業資格證書) in March 2010. Mr. Liu obtained the Board Secretary Qualification of Shenzhen Stock Exchange and Shanghai Stock Exchange in July 2013 and February 2017, respectively. Mr. Liu obtained the securities qualification certificate (證券從業資格) in June 2011 and the futures qualification certificate (期貨從業資格) in July 2011.

Mr. Liu obtained his professional diploma in economic law from Anhui University of Technology (安徽工業大學) in July 2001, his bachelor's degree in politics education from Huaibei Normal University (淮北師範大學) in July 2003 and his master's degree in law from Shanghai Jiao Tong University (上海交通大學) in December 2009.

Each of the members of our senior management has not held any directorship in the three years prior to the Latest Practicable Date in other public companies the securities of which are listed in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Liu Gongyou (劉功友), see “— Senior Management” above for details.

Ms. Fung Wai Sum (馮慧森), aged 37, has been appointed as one of our joint company secretaries on 21 February 2019. Ms. Fung is a senior manager of Corporate Services of Tricor Services Limited.

Ms. Fung has over ten years of experience in providing professional corporate secretarial services to private and listed companies. Ms. Fung is currently the company secretary of two listed companies on the Hong Kong Stock Exchange, namely, Wise Talent Information Technology Co., Ltd (stock code: 6100.HK) and Greenland Hong Kong Holdings Limited (stock code: 0337.HK).

Ms. Fung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Fung obtained her bachelor’s degree in business administration in operations management and economics from The Hong Kong University of Science and Technology in November 2004, and her master’s degree in professional accounting and corporate governance from City University of Hong Kong in November 2008.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules in relation to the qualifications of one of our joint company secretaries, Mr. Liu Gongyou. For details of the waiver, see “Waivers from Strict Compliance with the Listing Rules” in this prospectus.

BOARD COMMITTEES

We have established the following committees within our Board of Directors: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board.

Audit Committee

An audit committee was established by our Company pursuant to a resolution of the Board on 11 September 2019 with written terms of reference in compliance with the Rule 3.22 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to make recommendations to our Board on the appointment, re-appointment and removal of external auditors; review the financial statements; provide material advice in respect of our financial reporting process; oversee our internal control and risk management systems and audit process; and provide advice and comment to our Board on matters related to corporate governance. The members of the audit committee are Mr. Zhu Wei, Mr. Zhang Jinsong and Ms. Tang Haiyan, all of whom are independent non-executive Directors. Mr. Zhu Wei is the chairman of the audit committee.

Remuneration Committee

A remuneration committee was established by our Company pursuant to a resolution of the Board on 11 September 2019 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties

DIRECTORS AND SENIOR MANAGEMENT

of the remuneration committee are to review and make recommendations to our Board on the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group. The members of the remuneration committee are Mr. Zhang Jinsong, Mr. Zhu Wei and Mr. Jiang. Mr. Zhang Jinsong is the chairman of the remuneration committee.

Nomination Committee

A nomination committee was established by our Company pursuant to a resolution of the Board on 11 September 2019 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to review the structure, size and composition of our Board; and review and make recommendations to the Board on appointment of Directors and the management of the Board succession. The members of the nomination committee are Mr. Jiang, Mr. Zhang Jinsong and Mr. Zhu Wei. Mr. Jiang is the chairman of the nomination committee.

CORPORATE GOVERNANCE CODE

Mr. Jiang is our founder, chairman of the Board and chief executive officer. With extensive experience in the game industry, Mr. Jiang is responsible for the overall management, decision-making and strategy planning of our Group and is instrumental to our Group's growth and business expansion since the establishment of our Group. Since Mr. Jiang is the key person for our Group's establishment and development, our Board considers that vesting the roles of chairman of the Board and chief executive officer in the same person, Mr. Jiang, would not create any potential harm to the interest of our Group and it is, on the contrary, beneficial to the management of our Group. In addition, the operation of the senior management and our Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Jiang, as both the chairman of the Board and chief executive officer of our Group. Our Board currently comprises four executive Directors (including Mr. Jiang), and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Save as disclosed above, we are in compliance with the requirements under all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of appointment will be based on merit and the contribution which the selected candidates will bring to our Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, human resources, information technology, accounting and financial management, risk management, corporate governance and evaluation of properties and assets. They obtained degrees in various majors including computer sciences, history, network engineering, financial accounting, economic law and trade economics. We have three independent non-executive Directors with different

DIRECTORS AND SENIOR MANAGEMENT

industry backgrounds, representing more than one-third of the Board. Furthermore, our Board has a wide range of age, ranging from 32 years old to 49 years old. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

Our Nomination Committee is responsible for ensuring the diversity of our Board members. After the Listing, our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser upon the proposed Listing pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use proceeds of the Global Offering in a manner different from that detailed in this prospectus or our business activities, developments or results deviate from any estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date, and such appointment may be subject to mutual agreement.

REMUNERATION AND COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation from our Group in the form of salaries, allowances, discretionary bonus, share-based compensations, contributions to retirement benefits schemes and other benefits in kind.

The aggregate amount of remuneration (including directors' fees, salaries, allowances, discretionary bonuses, share-based compensations, contributions to retirement benefits schemes and other benefits in kind) paid to our Directors were approximately RMB3.4 million, RMB4.1 million, RMB4.6 million and RMB1.2 million for the three years ended 31 December 2018 and the three months ended 31 March 2019, respectively.

The aggregate amount of remuneration (including directors' fees, salaries, allowances, discretionary bonuses, share-based compensations, contributions to retirement benefits schemes, and other benefits in kind) paid to our Company's five highest paid individuals were approximately RMB31.0 million, RMB5.1 million, RMB5.7 million and RMB1.5 million for the three years ended 31

DIRECTORS AND SENIOR MANAGEMENT

December 2018 and the three months ended 31 March 2019, respectively. Excluding that Director, the aggregate amount of remuneration (including directors' fees, salaries, allowances, discretionary bonuses, contributions to retirement benefits scheme and other benefits in kind) paid to the remaining three, two and two highest paid individuals of our Group were approximately RMB29.0 million, RMB1.9 million, RMB2.1 million and RMB0.6 million for the three years ended 31 December 2018 and the three months ended 31 March 2019, respectively.

Pursuant to the arrangements currently in force, the aggregate amount of remuneration (excluding discretionary bonus) payable to and the benefits in kind receivable by our Directors for the year ending 31 December 2019 is estimated to be approximately RMB5.8 million.

The independent non-executive Directors receive fees from the Company. All Directors receive reimbursements from the Company for expenses which are necessary and reasonably incurred for providing services to the Company or executing matters in relation to the operations of the Company and are paid out of the funds of the Company by way of fees for their services as directors, such sums (if any) as the Directors may from time to time determine (not exceeding in aggregate an annual sum excluding other amounts payable (e.g. expenses as remuneration for employment) or such larger amount as the Company may by ordinary resolution determine). Save as disclosed above, the Directors are not entitled to receive any other special benefits from the Company. The compensation of the Directors is determined by the Board which, following the Listing, will receive recommendation from the Remuneration Committee which will take into account applicable laws, regulations and rules.

No remuneration was paid by our Group to our Directors as an inducement to join, or upon joining our Group or as compensation for loss of office. Further, none of our Directors had waived any remuneration during the same period.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), each of the following persons will have an interest or short position in Shares or the underlying Shares of our Company which would be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Shares held as at the Latest Practicable Date ⁽¹⁾		Shares held immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised) ⁽¹⁾	
		Number	Approximate percentage	Number	Approximate percentage
		Mr. Jiang ⁽²⁾⁽³⁾⁽⁴⁾	Interest in controlled corporations/Founder of a discretionary trust	42,813,225	82.87%
Ms. Mao Yuyan ⁽⁵⁾	Interest of spouse	42,813,225	82.87%	1,549,762,500	70.44%
TMF (Cayman) Ltd. ⁽²⁾	Trustee of a trust	33,653,261	65.14%	1,218,188,116	55.37%
Gorgeous Sunshine ⁽²⁾	Interest in a controlled corporation	33,653,261	65.14%	1,218,188,116	55.37%
Eternal Heart	Beneficial owner	25,904,261	50.14%	937,688,116	42.62%
Ling Long	Beneficial owner	5,166,000	10.00%	187,000,000	8.50%
Lucky Fish	Beneficial owner	2,583,000	5.00%	93,500,000	4.25%
Future Wisdom ⁽³⁾	Interest in a controlled corporation	5,166,000	10.00%	187,000,000	8.50%
Warm Sunshine	Beneficial owner	5,166,000	10.00%	187,000,000	8.50%
Agile Eagle ⁽⁴⁾	Interest in a controlled corporation	3,993,964	7.73%	144,574,384	6.57%
Purple Dream ⁽⁴⁾	Interest in a controlled corporation	3,993,964	7.73%	144,574,384	6.57%
Purple Crystal	Beneficial owner	3,993,964	7.73%	144,574,384	6.57%

Notes:

- (1) All interests stated are long positions.
- (2) Eternal Heart, Ling Long and Lucky Fish are wholly-owned by Gorgeous Sunshine which is the holding vehicle wholly-owned by TMF (Cayman) Ltd, the trustee of Jiang Family Trust. Jiang Family Trust is a discretionary trust established by Mr. Jiang as the settlor and protector. Accordingly, each of Mr. Jiang, Gorgeous Sunshine and TMF (Cayman) Ltd. is deemed to be interested in such number of Shares held by Eternal Heart, Ling Long and Lucky Fish.
- (3) Warm Sunshine is wholly-owned by Future Wisdom which is in turn wholly-owned by Mr. Jiang. Accordingly, each of Mr. Jiang and Future Wisdom is deemed to be interested in such number of Shares held by Warm Sunshine.

SUBSTANTIAL SHAREHOLDERS

- (4) Purple Crystal is wholly-owned by Purple Dream which is in turn owned as to 71.35% by Agile Eagle which is in turn wholly-owned by Mr. Jiang. Accordingly, each of Mr. Jiang, Agile Eagle and Purple Dream is deemed to be interested in such number of Shares held by Purple Crystal.
- (5) By virtue of the SFO, Ms. Mao Yuyan is the spouse of Mr. Jiang and therefore she is deemed to be interested in all the Shares held by Mr. Jiang.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalisation Issue and Global Offering (assuming that the Over-allotment Option is not exercised), have an interest or short positions in Shares or the underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately prior to and following the completion of the Capitalisation Issue and the Global Offering:

AUTHORISED SHARE CAPITAL

	<u>Nominal Value</u> (US\$)
5,000,000,000 Shares of US\$0.00001 each	50,000

ISSUED AND TO BE ISSUED, FULLY PAID OR CREDITED TO BE FULLY PAID UPON COMPLETION OF THE CAPITALISATION ISSUE AND THE GLOBAL OFFERING

Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering will be as follows:

	<u>Nominal Value</u> (US\$)
51,660,000 Shares in issue at the date of this prospectus	516.6
1,818,340,000 Shares to be issued pursuant to the Capitalisation Issue	18,183.4
<u>330,000,000</u> Shares to be issued pursuant to the Global Offering	<u>3,300</u>
<u>2,200,000,000</u> Shares in total	<u>22,000</u>

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. The above table does not take into account any Shares which (i) may be allotted and issued pursuant to the exercise of the Over-allotment Option, or (ii) may be allotted and issued or repurchased by our Company under the general mandate for the allotment and issuance of Shares or the general mandate for repurchase of Shares granted to our Directors as referred to below or otherwise.

MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, at least 25% of the total issued share capital of our Company shall be held by the public (as defined in the Listing Rules).

SHARE CAPITAL

RANKING

The Offer Shares of our Company will rank equally with all of the Shares currently in issue or to be issued and, in particular, will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus except for the entitlement under the Capitalisation Issue.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or share capital redemption reserve by its shareholders passing a special resolution. For details, see “Appendix III — Summary of the Constitution of the Company and Cayman Companies Law — 2. Articles of Association — 2.5 Alteration of capital”.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the shares or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourth in nominal value of the issued shares of that class or with the sanction of special resolution passed at a separate general meeting of the holders of the shares of that class. For details, see “Appendix III — Summary of the Constitution of the Company and Cayman Companies Law — 2. Articles of Association — 2.4 Variation of rights of existing shares or classes of shares”.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed “Appendix III — Summary of the Constitution of the Company and Cayman Companies Law”.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warranties or similar rights to subscribe for Shares of such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (i) the exercise of any subscription rights, warrants which may be issued by our Company from time to time;
- (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association;

SHARE CAPITAL

(iii) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (i) 20% of the total number of our Shares in issue upon completion of the Global Offering; and
- (ii) the total number of the Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed “Share Capital — General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) on the date by which our Company is required by any applicable law of the Cayman Islands or the Articles of Association to hold our next annual general meeting; or
- (iii) when the authority given to our Directors is renewed, varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, see “A. Further Information about Our Group — 4. Written resolutions of the shareholders passed on 11 September 2019” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase the Shares with a total number of not more than 10% of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or any other stock exchange on which the securities of our Company may be listed (and recognised by the SFC and the Hong Kong Stock Exchange for this purpose), and otherwise in accordance with the rules and regulations of the SFC, the Hong Kong Stock Exchange, the Cayman Companies Law and all other applicable laws. Further information required by the Hong Kong Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in “A. Further Information about Our Group — 4. Written resolutions of the shareholders passed on 11 September 2019” in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) on the date by which our Company is required by any applicable law of the Cayman Islands or the Articles of Association to hold our next annual general meeting; or

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- (iii) when the authority given to our Directors is renewed, varied or revoked by any ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, see “A. Further Information about Our Group — 4. Written resolutions of the shareholders passed on 11 September 2019” in Appendix IV to this prospectus.

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You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements, including the notes thereto, included in the Accountants' Report set out in Appendix I to this prospectus and other financial information appearing elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis and other parts of this prospectus contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual future results could differ significantly from those anticipated in these forward-looking statements due to various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.

For the purpose of this section, unless the context otherwise requires, references to 2016, 2017 and 2018 refer to our financial year ended 31 December of such year. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a leading integrated and well-established mobile game developer, publisher and operator with particular success in female-oriented games. Since our inception in 2010, we have been strategically focusing on mobile games targeting female players in the PRC to capture the significant growth potential in both the mobile game industry and the female-oriented game market. According to Frost & Sullivan, we ranked the third in the PRC female-oriented mobile game market as measured by revenue from female-oriented mobile games in 2018, which accounted for approximately 2.9% of the female-oriented mobile game market in the PRC in 2018, and the first in the PRC ancient Chinese style female-oriented mobile game market as measured by revenue from ancient Chinese style female-oriented mobile games in 2018. We accounted for approximately 31.5% of the revenue of ancient Chinese style female-oriented mobile game market in the PRC in 2018. The revenue from ancient Chinese style female-oriented mobile game market accounted for only 9.1% of the revenue from female-oriented mobile game market in the PRC in 2018.

Leveraging on our success in the PRC market, we first expanded into overseas market in 2011 through licencing arrangements with local third-party publishers to publish our games in targeted overseas markets. Since 2016, we commenced our self-publishing operations in overseas markets by distributing our games through third-party distribution platforms with worldwide operations. During the Track Record Period, our revenue generated from overseas markets had accounted for a recognisable and relatively stable percentage of our total revenue from games.

During the Track Record Period, substantially all of our games offered in both the PRC and overseas markets were self-developed games. In terms of publishing model, substantially all of our games offered in the PRC market and a majority of our games offered in the overseas markets were self-published games while only one game offered in the PRC market and a limited number of games offered

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in the overseas markets were published by third-party publishers under licencing arrangements. Over the years, we successfully developed, published and operated a number of popular female-oriented mobile games, such as *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊), each of which has achieved a high ranking in the best-selling games board for iPhone on Apple's App Store.

As a result of the success of our popular games and our integrated business model, we have experienced significant growth during the Track Record Period. Our cumulative registered players increased from approximately 30.5 million in 2016 to approximately 99.5 million as at 31 July 2019, and our average monthly paying players increased from approximately 186,600 in 2016 to approximately 234,900 for the seven months ended 31 July 2019. In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, our revenue was RMB568.8 million, RMB700.2 million, RMB1,464.3 million, RMB274.7 million and RMB393.5 million, respectively, representing a CAGR of 60.4% from 2016 to 2018. During the same periods, our profit for the year/period was RMB80.7 million, RMB117.9 million, RMB336.7 million, RMB24.6 million and RMB86.6 million, respectively, representing a CAGR of 104.3% from 2016 to 2018.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 16 November 2018 as an exempted company with limited liability under the Cayman Companies Law. Our Company is an investment holding company and our Operating Entities are primarily engaged in the development, publishing and operation of mobile games business (the “**Core Business**”). During the Track Record Period, the Core Business was conducted through our Operating Entities. As a result of the Reorganisation and through the Contractual Arrangements, all of the Operating Entities and the Core Business are effectively controlled by Suzhou Eagle and ultimately by our Company and the financial results of these Operating Entities have been consolidated into our Company. Please refer to the sections headed “History, Reorganisation and Corporate Structure” and “Contractual Arrangements” for more information in relation to the Reorganisation and the Contractual Arrangements.

The Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) has issued a number of new and revised HKFRSs. For the purpose of preparing our historical financial information, we have adopted all applicable new and revised HKFRSs, including HKFRS 15 Revenue from contracts with customers and HKFRS 9 Financial Instruments, which are mandatory for the accounting year beginning on 1 January 2018, and HKFRS 16 Leases, which is mandatory for the accounting year beginning on 1 January 2019, throughout the Track Record Period. We do not believe the adoption of (i) HKFRS 15, compared to HKAS 18; (ii) HKFRS 9, compared to HKAS 39; and (iii) HKFRS 16, compared to HKAS 17, has a significant impact on our consolidated financial position and performance. The adoption of HKFRS 16 throughout the Track Record Period has had no significant impact on our key financial ratios as compared to that of HKAS 17. The revised and new accounting standards and interpretations which have been issued but not yet effective for the accounting year beginning 1 January 2019 and have not been adopted in our historical financial information are set out in Note 29 to the Accountants' Report included as Appendix I to this prospectus.

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SIGNIFICANT 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, which primarily include the following:

Development of the mobile game industry and the female-oriented mobile game market

The mobile game industry has grown rapidly in China in recent years, primarily driven by diversified demands from different users, formation of paying habits and lower cost in accessing internet. In 2018, revenue of the mobile game market in the PRC reached RMB158.0 billion, representing a CAGR of 68.3% from 2013 to 2018 according to Frost & Sullivan. Such market size is estimated to grow to RMB339.8 billion in 2023, representing a CAGR of 16.6% from 2018 to 2023.

In addition, as the social status and purchasing power of Chinese females have risen steadily over the past decade, the segmentation of female-oriented mobile game genre, which better satisfies the increasing female players demand for more emotive satisfaction from playing games, has grown robustly in recent years. In 2018, revenue of the female-oriented mobile game market in the PRC reached RMB41.1 billion, representing a CAGR of 84.9% from 2013 to 2018 according to Frost & Sullivan. Such revenue is estimated to further grow to RMB95.8 billion in 2023, representing a CAGR of 18.4% from 2018 to 2023.

To capture the significant growth potential in the female-oriented game market, we have been strategically focusing on games targeting female players in the PRC since our inception in 2010. With over eight years of experience in developing and operating this genre of games and along with the expansion of our operational scale, we are now one of the leading female-oriented game developers, publishers and operators in the PRC with rapid growth in our scale of operations and financial performance during the Track Record Period.

Expansion and monetisation of our player base

The size of our player base reflects the popularity of our games and forms the basis of a sustainable growth. We experienced significant growth in our player base which is represented primarily by our cumulative registered players, average DAUs and average MAUs. The following tables set forth our cumulative registered players, average DAUs and average MAUs for our entire game portfolio as at the dates and during the periods indicated:

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands)</i>				
Cumulative registered players ⁽¹⁾	30,482.3	56,171.1	86,718.4	92,638.8	99,490.1

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	For the year ended 31 December			For the three months ended 31 March	For the seven months ended 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands)</i>				
Average DAUs	470.7	813.1	760.0	615.3	635.5
Average MAUs	2,627.4	4,203.5	3,987.1	3,019.4	3,155.4

Note:

- (1) Cumulative registered players are calculated with reference to the number of game roles registered in our games. It may not represent the exact number of our cumulative registered players as a player may have registered multiple game roles with any of our games.

Our games are offered on a free-to-play basis and we generate our revenue from games from the purchase of in-game virtual items by our players. Our results of operations depend on our ability to monetise our player base, i.e., to increase the number and spending of our paying players. The following table sets forth the number of average monthly paying players and monthly ARPPU for our entire game portfolio during the periods indicated:

	For the year ended 31 December			For the three months ended 31 March	For the seven months ended 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands for average monthly paying players and in RMB for monthly ARPPU)</i>				
Average monthly paying players	186.6	340.6	323.5	234.7	234.9
Monthly ARPPU	240.1	201.4	395.4	533.9	544.9

Please refer to the section headed “Business — Our Players” for data of cumulative registered players, average DAUs, average MAUs, average monthly paying players and monthly ARPPU of our major 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 monthly ARPPU on our revenue from games and profit for the year:

	Increase/decrease by 10%	Increase/decrease by 20%	Increase/decrease by 30%
	<i>(in thousands of RMB)</i>		
Change in revenue from games			
2016	56,814/(56,814)	113,627/(113,627)	170,441/(170,441)
2017	69,945/(69,945)	139,891/(139,891)	209,836/(209,836)
2018	146,416/(146,416)	292,832/(292,832)	439,248/(439,248)
Three months ended 31 March 2018	27,467/(27,467)	54,933/(54,933)	82,400/(82,400)
Three months ended 31 March 2019	39,354/(39,354)	78,708/(78,708)	118,061/(118,061)
Change in profit for the year			
2016	17,692/(17,692)	35,384/(35,384)	53,076/(53,076)
2017	21,127/(21,127)	42,253/(42,253)	63,380/(63,380)
2018	48,353/(48,353)	96,705/(96,705)	145,058/(145,058)
Three months ended 31 March 2018	6,484/(6,484)	12,968/(12,968)	19,453/(19,453)
Three months ended 31 March 2019	15,321/(15,321)	30,643/(30,643)	45,964/(45,964)

Our future growth will largely depend on whether we are able to retain our existing players, to attract new players, to maintain active player base and to enhance game monetisation. We will continue to stimulate player interest and drive in-game purchases by improving the quality of our games, introducing new game features and services and virtual items, launching additional in-game promotions and other activities.

Ability to offer highly engaging and popular mobile games

As our revenue from games is derived from the purchase of virtual items by our players, our results of operations depend on our ability to develop and operate highly engaging games that appeal to a broad base of players. As at the Latest Practicable Date, we had 12 mobile games in various language versions that were in operation. Our signature ancient Chinese style female-oriented games, *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊) had achieved a highest ranking of no. 20 on 5 January 2016, no. 14 on 8 March 2019 and no. 15 on 3 August 2018, respectively, in the best-selling games board for iPhone on Apple's App Store shortly after their initial launch and ranked the top 66, 32 and 48 best-selling games for iPhone in Apple's App Store, respectively, on 8 February 2019. In general, the more popular a game is, the greater number of players are attracted and the higher revenue is generated from such game.

While we are consolidating our leading position by offering more female-oriented games, we also seek to enrich our game portfolio and service offerings by developing other genres of games that target a wider audience of players. In addition to the PRC market, we also plan to offer our existing games as well as pipeline games in more overseas markets with more local language versions. As at the Latest Practicable Date, we had a pipeline of five new mobile games, 16 new language versions of existing games and five H5 games. Please refer to the sections headed "Business — Strategies — Further

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expanding and enriching our game portfolio to strengthen our market position”, “Business — Strategies — Deepen and expand our overseas markets” and “Business — Our Games — Game Pipeline” for more information.

Revenue sharing arrangements with third-party distribution platforms

During the Track Record Period, our games were mainly published under our self-publishing model through third-party distribution platforms, which primarily include Apple’s App Store, Google Play, Mobile Hardcore Alliance and third-party application marketplaces, such as Xiaomi’s App Store, Tencent App Store and 360 platform.

The third-party distribution platforms typically charge us 30% to 55% of the sales proceeds of the relevant games as distribution costs consisting of revenue sharing, and applicable payment channel and other service fees. During the Track Record Period, such revenue sharing is the most significant component contributing to our cost of sales, which in turn affected the gross profit and gross profit margin of our games. In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, the distribution costs charged by distribution platforms amounted to RMB190.2 million, RMB239.7 million, RMB504.1 million, RMB93.6 million and RMB129.0 million, respectively, accounting for 90.3%, 89.4%, 92.3%, 91.3% and 91.3% of our total cost of sales and 33.4%, 34.2%, 34.4%, 34.0% and 32.8% of our total revenue during the same periods. As these third-party distribution platforms are the mainstream game distribution platforms in the mobile game section, any material change on the fee arrangements or contract terms or the business relationship with these business partners would have a significant impact on our results of operations.

Promotion and marketing of our games and brand

We depend on effective marketing strategies to promote our games and brand. In addition to our self-operated platforms and in-game promotions, we cooperate with a number of online third-party advertising platforms and offline third-party advertising service providers to facilitate the implementation of our marketing strategies. The online third-party advertising platforms generally charge service fees with reference to the amount of advertisement posts or the number of users actions, such as cost per day, cost per click, cost per million impressions, cost per try and cost per action, while the offline advertising service providers charge service fees depending on the type and content of services provided which are generally negotiated on a case-by-case basis.

The promotion and marketing expenses of a game will also fluctuate along with the progression of its lifecycle. Typically, at the early growth stage, the promotion and advertising 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 players within a relatively short period of time. At the stable and mature stage, the overall promotion and advertising expenses of a game tend to be stable and lower than the early growth stage as we maintain regular promotion and marketing efforts for a game. When a game enters into its recession stage, the overall promotion and advertising expenses of a game further decreased as we maintain only basic game operations for existing players.

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In 2016, 2017, 2018 and the three months ended 31 March 2018 and 2019, we incurred promotion and advertising expenses of RMB161.4 million, RMB174.8 million, RMB399.3 million, RMB98.1 million and RMB81.1 million, respectively, accounting for 95.7%, 91.8%, 94.6%, 95.2% and 92.9% of our total sales and marketing expenses and 28.4%, 25.0%, 27.3%, 35.7% and 20.6% of our total revenue during the same periods. Therefore, any significant change in our promotion and advertising expenses would have a significant impact on our results of operations.

Research and development

As substantially all of our games offered are self-developed games, game development plays a critical role in supporting our business growth since our inception. We have therefore committed significant resources in building up our in-house research and development team as well as our independent capabilities to develop engaging and popular mobile games. In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, we incurred research and development expenses of RMB63.6 million, RMB89.4 million, RMB136.4 million, RMB24.8 million and RMB48.2 million, respectively, accounting for 11.2%, 12.8%, 9.3%, 9.0% and 12.2% of our total revenue during the same periods.

Our research and development expenses primarily consist of (i) employee benefits expenses for our research and development employees, (ii) audio, animation and artistic production fees, and (iii) commissioned research and development expenses. During the Track Record Period, changes in the number and the compensation package of our research and development employees had directly impacted on the fluctuations of our research and development expenses. For instance, the number of our research and development employees increased from 419 as at 31 December 2016 to 487 as at 31 December 2017 and further to 757 as at 31 December 2018 and to 864 as at 31 March 2019 and the compensation package of our research and development employees were also in increasing trend during the Track Record Period. Accordingly, our employee benefits expenses for research and development employees increased by RMB19.5 million or 36.5% from 2016 to 2017 and further increased by RMB44.9 million or 61.4% from 2017 to 2018 and by RMB17.3 million or 77.7% from the three months ended 31 March 2018 to the three months ended 31 March 2019, which in turn contributed to the increase in our total research and development expenses during the same periods. We recognised all of our expenditures with respect to research and development as expenses and did not capitalise any part of our research and development expenses incurred during the Track Record Period. Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Research and Development Expenses” for more information.

As we continue to roll out new mobile games to further consolidate our leading position in the female-oriented game market and to diversify our product offerings, we expect that we will continue to incur recognisable amount of research and development expenses in the coming years. Accordingly, any significant change in the composition and compensation of our research and development team and the research and development expenses would have a significant impact on our results of operations.

Preferential tax treatment

During the Track Record Period, we have benefited from a series of preferential tax treatment, which had contributed to our results of operations. Suzhou FriendTimes, one of our Operating Entities, has obtained the approval of “High and New Technology Enterprises” in 2016 with an effective period of three years and therefore was entitled to a preferential EIT rate of 15% from 2016 to 2018. Suzhou

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FriendTimes obtained the approval of Advanced Technology Service Enterprises in 2018 with an effective period of three years and is entitled to a preferential EIT rate of 15% from 2018 to 2020. Suzhou FriendTime is also qualified as a “Key Software Enterprise” with an effective period of one year and therefore was entitled to a preferential EIT rate of 10% for 2017. GameFriend, another Operating Entity, was recognised as a “Software Enterprise” in 2015 and therefore is entitled to a preferential tax treatment of two years of full tax exemption and three years of a 50% deduction in its applicable EIT rate from its first profitable year, resulting in a preferential EIT rate of 12.5% from 2017 to 2019. Purple Blaze, also one of our Operating Entities, was recognised as a “Software Enterprise” in 2018 and therefore its EIT for 2018 and 2019 has been waived and is entitled to a 50% deduction in its applicable EIT rate, resulting in a preferential EIT rate of 12.5% from 2020 to 2022. Further, Cheeryoo and Purple Wing were both qualified as a “Software Enterprise” in 2019, and are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years. In addition, 50% additional tax deduction is allowed for qualified research and development costs in 2016 and 2017 and 75% additional tax deduction is allowed for qualified research and development costs in 2018 and for the three months ended 31 March 2019 for all of our PRC entities other than Purple Blaze, which is entitled to 75% additional tax deduction for qualified research and development costs from 2017 because it has also been qualified as a “Small and Medium-sized Technological Enterprise” in 2017.

These preferential tax treatment have lowered our income tax expenses. The tax effect of the preferential tax rates amounted to RMB13.1 million, RMB19.8 million, RMB57.2 million, RMB3.2 million and RMB16.6 million in 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively. 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 — Risks Relating to Our Business — Any termination of, or changes to, the preferential tax treatment and government grants that we have enjoyed could adversely affect our profitability” for more information.

CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The discussion and analysis of our results of operations and financial condition are based on our audited consolidated financial information prepared in accordance with HKFRSs. Our results of operations and financial condition are sensitive to the accounting estimates, judgments and underlying assumptions used in the preparation of our consolidated financial information. These estimates, judgements and underlying assumptions are reviewed on an ongoing basis based on our historical experience and other factors, including expectations of future events, which we currently believe to be reasonable.

Our significant accounting policies are set forth in detail in Note 2 to the Accountants’ Report included in Appendix I to this prospectus and our critical accounting judgements and key sources of estimation uncertainty are set out in Note 3 to the Accountants’ Report included in Appendix I to this prospectus. Actual results may differ from these estimates as facts, circumstances and conditions change, or as a result of different assumptions. We believe the following accounting policies and estimates are

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critical to an understanding of our financial condition and results of operations, because the application of these policies requires significant management judgements, estimate and assumptions, and the reported amount can be materially different if different judgements was made or different estimates or assumptions were used.

Revenue Recognition and Contract Liabilities

All of our games are free-to-play and our revenue is primarily derived from the sales of virtual items in our games. Most of the games we offered are self-developed games, a majority of which were self-published while only a small number of games were licenced to third-party publishers for publishing. Please refer to the section headed “Business — Our Revenue Model” for more information.

Revenue from games is recognised when control over the service is transferred to the customer, which in the case of self-publishing games, generally means control over the enhanced game experience service is transferred to game players, while in the case of third party publishing games, generally means control over the licence service relating to our game intellectual property is transferred to the third-party publishers.

Contract liabilities primarily consist of the unamortised revenue from sales of virtual items for games (in the case of self-publishing games) and unamortised initial lump-sum licence fee (in the case of third-party publishing games), where there is still an implied obligation to be provided by us over time.

Revenue recognition for games published by ourselves

Revenue from games published by ourselves are derived principally from (i) games distributed through third-party distribution platforms and (ii) games distributed through our proprietary platforms. Please refer to the section headed “Business — Game Distribution” for further details.

Principal versus Agent Considerations

In determining the basis to record our revenue for games published by ourselves, management’s judgement is required in determining whether we are the principal or agent in providing the relevant services to paying players, which in turn would result in the revenue being recognised on a gross basis or a net basis. We consider ourselves the principal in the transaction if we obtain control of the services provided before they are transferred to customers, in which case we record revenue on a gross basis. If the control is unclear but we are primarily obligated in a transaction, or has latitude in establishing prices, or otherwise has several but not all of these indicators, we record revenue on a gross basis. Otherwise, we consider ourselves the agent in the transaction and record revenue on a net basis.

Under our self-publishing model, as we take the primary responsibilities of game development and game publishing, including (i) providing game product, technical support and upgrades, hosting and maintenance of game servers, selecting the distribution platforms, promotion activities, customer service and other daily game operation, and (ii) having the right to determine the pricing of virtual items, we consider ourselves as a principal in such arrangements. Accordingly, we record revenue derived from this model on a gross basis. The relevant service fees charged by distribution platforms and payment channels are recorded as “cost of sales”.

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Estimate of Player Relationship Period

Upon the sales of virtual items, we typically have an implied obligation to provide the enhanced game experience service to the paying players. As a result, the proceeds received from sales of virtual items are initially recognised as contract liabilities and are then recognised over the related service period estimated to be the average playing period of paying players, i.e., the player relationship period. During the Track Record Period, the player relationship period of our games ranged from one to four months.

We estimate and re-assess the player relationship period for each of our games on a quarterly basis. Such estimate is based on our analysis of the historical game data and player data of the relevant game. We typically consider the game portfolio, target audience and its popularity among players of different demographic groups in estimating the player relationship period. If there is insufficient data to determine the player relationship period, such as in the case of a newly launched game, we estimate the player relationship period based on the historical game data and player data of other similar existing games developed by ourselves, until the newly launched game establishes its own patterns and history. As future player consumption pattern and behaviour may vary from historical player consumption pattern and behaviour, our estimate of the player relationship period may change in the future. We will continue to monitor the change of the player relationship period on a regular and ongoing basis.

Revenue recognition for games published by third-party publishers

During the Track Record Period, one of our games offered in the PRC market and certain of our games offered in the overseas markets were licenced to third-party publishers for publishing in the relevant markets. Under this model, we grant our self-developed games to the publishers, who in turn pay licence fees to us for the exclusive right to operate our games in the specified geographic areas. The licence fees normally comprise of a fixed lump sum fee and sales-based royalty calculated based on a predetermined percentage of the cash paid by game players collected by the publishers related to the licenced games.

The fixed lump sum portion of the license fees is initially recorded as contract liabilities and then recognised as revenue ratably over the service period, which is usually three years and can be extended upon mutual agreement. The revenue for the sales-based royalty is recognised when cash is paid by game players and collected by the third-party publishers related to the licenced games.

Contract Costs

Where we self-publish games in third-party distribution platforms, we incurred contract costs. Contract costs are mainly related to contract acquisition costs, which primarily consist of unamortised distribution costs charged us by the distribution platforms. Under our arrangements with third-party distribution platforms, distribution costs charged by these platforms include revenue sharing and applicable payment channel and other service fees charged by third-party distribution platforms for our games. Contract costs are amortised over the player relationship period consistent with the recognition pattern of the related revenue and recorded as part of “cost of sales”. Please refer to the section headed “Financial Information — Critical Accounting Policies, Judgements and Estimates — Revenue Recognition and Contract Liabilities — Revenue Recognition for Games Published by Ourselves — Estimate of Player Relationship Period” for further information on the uncertainties in estimating the player relationship period by our management.

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Equity-settled Share-based Compensation Expenses

When equity shares are granted as considerations for past services received by our Group, the grant is regarded as equity-settled share-based compensation transaction and the fair value of the equity shares transferred is subject to evaluation, the determination of which requires management's judgement and estimate.

On 25 December 2016, Mr. Jiang transferred certain of his equity interests in our Group at cash consideration of RMB1,033,200 to Mr. Song Huan, the senior technology director of Suzhou FriendTimes who is responsible for the research and development of our technology infrastructure. Upon completion of such share transfer, Mr. Song Huan holds a total of 2.0% equity interests in our Group. Such a transfer is regarded as equity-settled share-based payment transaction because Mr. Song Huan received the transferred shares in return for his past services to our Group. The fair value of the transferred shares amounted to RMB27,880,000, which was determined with reference to the valuation results appraised by an independent valuer as at the base date of the valuation, which is 31 December 2016. As the share transfer came into immediate effect after the share transfer agreement was entered into in December 2016 and does not have any vesting period or restriction for future transfer, the difference of RMB26,846,800 between the fair value of the transferred shares and the cash consideration paid by Mr. Song Huan was considered as a compensation for his past services to our Group and therefore was accounted for as a share-based compensation expenses under the general and administrative expenses in 2016.

The fair value of the transferred shares is determined using discounted cash flow method, based on a six-year financial budget for the period from 2017 to 2022 prepared by our management. Significant judgements on key assumptions are required to be made by the management. These key assumptions used in determining the fair value mainly included: (i) revenue growth rate of 10%–94% per annum adopted in the relevant years during the budget period, (ii) gross profit margin rate of 62% per annum adopted for each of the years during the budget period and (iii) discount rate of 23.6% per annum adopted for each of the relevant years during the budget period, which are estimated based on our past performance and management's expectations for market development and risks.

Recognition of Income Taxes and Deferred Tax Assets

The amount of income tax expenses consists of current income tax provision for the year and the recognition of deferred tax assets. The determination of income tax provision involves judgement on the future tax treatment of certain transactions. Our management will evaluate the tax implications of transactions under the applicable tax laws and determine the relevant tax provision amount. The tax implications of the transactions are reconsidered by the management periodically to take into account new changes in tax laws.

Deferred tax assets are recognised in respect of deductible temporary differences and tax losses to the extent that it is probable for future taxable profits to be utilised against by such deductible temporary differences and tax losses. Therefore, management's judgement is required to assess the probability of future taxable profits, which is made based on our past performance and the management's expectation of our prospects after considering a number of factors, including the market growth and the expansion of our operational scale. Such assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table below sets forth our consolidated statements of comprehensive income, with line items in absolute amounts and as percentages to our total revenue for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Revenue	568,802	100.0	700,247	100.0	1,464,290	100.0	274,685	100.0	393,538	100.0
Cost of sales	(210,540)	(37.0)	(267,973)	(38.3)	(546,000)	(37.3)	(102,525)	(37.3)	(141,298)	(35.9)
Gross profit	358,262	63.0	432,274	61.7	918,290	62.7	172,160	62.7	252,240	64.1
Other income/(losses)	13,937	2.5	11,548	1.6	36,016	2.5	(10,646)	(3.9)	(3,757)	(1.0)
Sales and marketing expenses	(168,671)	(29.7)	(190,436)	(27.2)	(422,076)	(28.8)	(103,057)	(37.5)	(87,291)	(22.2)
Research and development expenses	(63,586)	(11.2)	(89,435)	(12.8)	(136,420)	(9.3)	(24,786)	(9.0)	(48,197)	(12.2)
General and administrative expenses	(44,175)	(7.8)	(16,622)	(2.3)	(32,481)	(2.3)	(5,309)	(2.0)	(17,437)	(4.4)
Profit from operations	95,767	16.8	147,329	21.0	363,329	24.8	28,362	10.3	95,558	24.3
Finance costs	(743)	(0.1)	(431)	(0.1)	(1,242)	(0.1)	(100)	(0.0)	(80)	(0.0)
Share of loss of an associate	—	—	(970)	(0.1)	(803)	(0.0)	(147)	(0.1)	(70)	(0.0)
Changes in fair value of financial assets measured at fair value through profit or loss	(5,534)	(1.0)	(2,699)	(0.3)	—	—	—	—	1,403	0.3
Profit before taxation	89,490	15.7	143,229	20.5	361,284	24.7	28,115	10.2	96,811	24.6
Income tax expense	(8,802)	(1.5)	(25,326)	(3.7)	(24,581)	(1.7)	(3,508)	(1.2)	(10,164)	(2.6)
Profit for the year	80,688	14.2	117,903	16.8	336,703	23.0	24,607	9.0	86,647	22.0
Attributable to:										
Equity shareholders of the Company	81,367	14.3	117,977	16.8	336,650	23.0	24,673	9.0	86,647	22.0
Non-controlling interests	(679)	(0.1)	(74)	(0.0)	53	0.0	(66)	(0.0)	—	—

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we derived substantially all of our revenue from our games, including our self-developed games and third-party developed games, either published by ourselves through third-party distribution platforms or by third-party publishers under licencing arrangements.

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

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Revenue from games	568,137	99.9	699,454	99.9	1,464,161	100.0	274,667	100.0	393,538	100.0
Others ⁽¹⁾	665	0.1	793	0.1	129	0.0	18	0.0	—	—
Revenue	568,802	100.0	700,247	100.0	1,464,290	100.0	274,685	100.0	393,538	100.0

Note:

⁽¹⁾ Others primarily represent advertising income.

The following table sets forth a further breakdown of revenue from games by geographic markets, development models and publishing models in absolute amounts and as percentages to our total revenue from games for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
PRC market	462,196	81.4	586,435	83.8	1,187,818	81.1	245,684	89.4	292,115	74.2
Self-developed games	458,374	80.7	582,509	83.3	1,187,689	81.1	245,575	89.4	291,821	74.2
— self-publishing	456,783	80.4	582,509	83.3	1,187,689	81.1	245,575	89.4	291,821	74.2
— third-party publishing	1,591	0.3	—	—	—	—	—	—	—	—
Third-party developed games	3,822	0.7	3,926	0.5	129	0.0	109	0.0	294	0.0
— self-publishing	3,822	0.7	3,926	0.5	129	0.0	109	0.0	294	0.0
Overseas markets	105,941	18.6	113,019	16.2	276,343	18.9	28,983	10.6	101,423	25.8
Self-developed games	105,941	18.6	112,043	16.1	276,221	18.9	28,867	10.5	101,423	25.8
— self-publishing	23,713	4.2	43,338	6.2	221,812	15.2	17,766	6.5	83,736	21.3
— third-party publishing	82,228	14.4	68,705	9.9	54,409	3.7	11,101	4.0	17,687	4.5
Third-party developed games	—	—	976	0.1	122	0.0	116	0.1	—	—
— self-publishing	—	—	976	0.1	122	0.0	116	0.1	—	—
Revenue from games	568,137	100.0	699,454	100.0	1,464,161	100.0	274,667	100.0	393,538	100.0

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Revenue by games

During the Track Record Period, our top four major female-oriented games, *Legend of Empress* (熹妃傳), *Royal Chaos* (熹妃Q傳), *Rise of Queendom* (宮廷計手遊) and *Fate: Royal Revenge* (京門風月), which was initially launched in June 2015, September 2017, March 2018 and June 2016, respectively, had attracted a substantial portion of our active players and paying players and became our stable revenue sources during the Track Record Period. In 2016, 2017 and 2018 and the three months ended 31 March 2019, the average monthly paying players of these four games in aggregate amounted to approximately 178,100, 332,000, 316,400 and 233,200, respectively, accounting for 95.4%, 97.5%, 97.8% and 99.3% of our total average monthly paying players during the same periods. Accordingly, the revenue generated from these four games in aggregate amounted to RMB530.4 million, RMB678.7 million, RMB1,456.7 million and RMB391.8 million, accounting for 93.4%, 97.0%, 99.5% and 99.5% of our total revenue from games in 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively.

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

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in thousands of RMB, except for percentages)									
	(unaudited)									
<i>Legend of Empress</i> (熹妃傳)	479,830	84.5	473,053	67.6	443,482	30.3	113,869	41.5	97,361	24.7
<i>Royal Chaos</i> (熹妃Q傳)	—	—	91,120	13.0	691,790	47.2	141,305	51.4	182,362	46.3
<i>Rise of Queendom</i> (宮廷計手遊)	—	—	—	—	275,226	18.8	730	0.3	105,415	26.8
<i>Fate: Royal Revenge</i> (京門風月)	50,525	8.9	114,545	16.4	46,203	3.2	16,821	6.1	6,674	1.7
Others ⁽¹⁾	37,782	6.6	20,736	3.0	7,460	0.5	1,942	0.7	1,726	0.5
Revenue from games	568,137	100.0	699,454	100.0	1,464,161	100.0	274,667	100.0	393,538	100.0

Note:

- (1) Others include revenue generated from 17, 11, 12, nine and eight other games and our social platform application, *Game Friend* (好玩友) in 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively. None of the games or application in “others” individually contributed to more than 5% of our total revenue from games for the respective year/period.

Revenue by geographic markets

During the Track Record Period, the PRC is the primary market from which we generated a majority of our revenue. Since 2011, we started generating revenue from overseas markets when we licenced our games to local third-party publishers to publish in Taiwan, Hong Kong and Macau. Since

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then, we had generated revenue from a number of countries and regions and our revenue generated from overseas markets had accounted for a recognisable and relatively stable percentage of our total revenue from games during the Track Record Period.

The following table sets forth a breakdown of our revenue from games derived from the PRC and overseas markets in absolute amounts and as percentages to our total revenue from games for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in thousands of RMB, except for percentages)									
	(unaudited)									
PRC market	462,196	81.4	586,435	83.8	1,187,818	81.1	245,684	89.4	292,115	74.2
Overseas markets	105,941	18.6	113,019	16.2	276,343	18.9	28,983	10.6	101,423	25.8
Revenue from games	568,137	100.0	699,454	100.0	1,464,161	100.0	274,667	100.0	393,538	100.0

PRC market

Our revenue from the PRC market increased by RMB124.2 million or 26.9% from RMB462.2 million in 2016 to RMB586.4 million in 2017 primarily as a result of the increase in revenue generated from the simplified Chinese (PRC) versions of *Royal Chaos* (熹妃Q傳) and *Fate: Royal Revenge* (京門風月). We launched the simplified Chinese (PRC) version of *Royal Chaos* (熹妃Q傳) in September 2017, which generated a revenue of RMB91.1 million in 2017. We launched the simplified Chinese (PRC) version of *Fate: Royal Revenge* (京門風月) in June 2016. Its revenue increased by RMB44.9 million from RMB49.2 million in 2016 to RMB94.1 million in 2017 after it progressed into the stable and mature stage beginning from April 2017. In the meantime, revenue generated from the simplified Chinese (PRC) version of *Legend of Empress* (熹妃傳) remained stable in 2016 and 2017, amounting to RMB383.6 million and RMB383.3 million, respectively.

Our revenue from the PRC market increased by RMB601.4 million or 102.5% from RMB586.4 million in 2017 to RMB1,187.8 million in 2018 primarily as a result of the increase in revenue generated from the simplified Chinese (PRC) versions of *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊). The revenue generated from *Royal Chaos* (熹妃Q傳) increased by RMB455.8 million or 500.3% from RMB91.1 million in 2017 to RMB546.9 million as it remained in the growth stage in 2018 and has gained widespread popularity after its initial launch in September 2017. It achieved a highest ranking of no. 14 in both the best-selling games board on 8 March 2019 and the top free games board for iPhone on Apple's App Store on 25 February 2018 and remained on average within the top 33 best-selling games during 2018. Also, it helped expand our player base to a wider range of players as it adopts more lively and humorous artistic style. We launched *Rise of Queendom* (宮廷計手遊) in March 2018 and it generated a revenue of RMB275.1 million in 2018. *Rise of Queendom* (宮廷計手遊) has also become one of our most popular games shortly after its launch. It achieved a highest ranking of no. 15 in the best-selling games board on 3 August 2018 and no. 7 in the top free games board both for iPhone on Apple's App Store on 21 May 2018 and remained on average within the top 55 best-selling games during 2018.

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However, such increase in revenue was partially offset by the decrease in revenue generated from *Fate: Royal Revenge* (京門風月) and *Legend of Empress* (熹妃傳). As we gradually reduced our promotion and marketing efforts for *Fate: Royal Revenge* (京門風月) before it entered into the recession stage in January 2019, its revenue was decreased by RMB65.3 million or 69.4% from RMB94.1 million in 2017 to RMB28.8 million in 2018. Our revenue from *Legend of Empress* (熹妃傳) slightly decreased by RMB53.1 million or 13.9% from RMB383.3 million in 2017 to RMB330.2 million in 2018 during its stable and mature stage.

Our revenue from the PRC market increased by RMB46.4 million or 18.9% from RMB245.7 million for the three months ended 31 March 2018 to RMB292.1 million for the three months ended 31 March 2019 primarily due to the substantial increase in revenue generated from the simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手游) by RMB91.9 million or approximately 126 times from RMB729,800 for the three months ended 31 March 2018 to RMB92.7 million for the three months ended 31 March 2019. The game was launched in March 2018 and had been receiving wide popularity by our players since its launch. It remained on average within the top 55 of the best-selling games on Apple's App Store during the first quarter of 2019. However, such increase in revenue was partially offset by the decrease in revenue generated from simplified Chinese (PRC) version of *Legend of Empress* (熹妃傳) and *Fate: Royal Revenge* (京門風月) which had reached stable and mature stage in 2015 and 2017 respectively.

Overseas market

In overseas markets, we offer various local language versions of our games in various countries and regions. Besides, we also offer simplified Chinese (Overseas) version and English/simplified Chinese (Overseas) version universally for a number of countries and regions. The following table sets forth a breakdown of our revenue generated from various language versions offered in overseas for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in thousands of RMB, except for percentages)									
	(unaudited)									
Traditional Chinese	76,516	72.2	58,485	51.7	46,349	16.8	9,261	32.0	14,177	14.0
Korean	23,713	22.4	22,200	19.6	88,921	32.2	4,773	16.5	38,238	37.7
Japanese	—	—	—	—	28,164	10.2	—	—	14,657	14.5
Vietnamese	239	0.2	4,846	4.3	5,356	1.9	993	3.4	2,554	2.5
Thai	—	—	1,266	1.1	1,137	0.4	336	1.1	956	0.9
International versions ⁽¹⁾	5,473	5.2	26,222	23.3	106,416	38.5	13,620	47.0	30,841	30.4
Revenue from overseas markets	105,941	100.0	113,019	100.0	276,343	100.0	28,983	100.0	101,423	100.0

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Note:

- (1) Revenue generated from international versions represents the revenue generated from the simplified Chinese (Overseas) version and English/simplified Chinese (Overseas) version (the language of which is interchangeable anytime by the players at game setting) of the relevant games which are universally offered in a number of overseas countries and regions.

We also set out the following table with a breakdown of our revenue generated by our major games from overseas markets for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
<i>Legend of Empress (熹妃傳)</i>	96,257	90.9	89,748	79.4	113,324	41.0	18,382	63.4	30,886	30.5
<i>Royal Chaos (熹妃Q傳)</i>	—	—	—	—	144,851	52.4	4,612	15.9	55,502	54.7
<i>Rise of Queendom (宮廷計手遊)</i>	—	—	—	—	140	0.1	—	—	12,751	12.6
<i>Fate: Royal Revenge (京門風月)</i>	1,364	1.3	20,415	18.1	17,376	6.3	5,705	19.7	2,283	2.2
<i>Others⁽¹⁾</i>	8,320	7.8	2,856	2.5	652	0.2	284	1.0	1	0.0
Revenue from overseas markets	105,941	100.0	113,019	100.0	276,343	100.0	28,983	100.0	101,423	100.0

Note:

- (1) Others include revenue generated from six, seven, five, five and one other games in overseas markets for 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively. None of the games in “others” individually contributed to more than 5% of our total revenue from games from overseas markets for the respective year/period.

Our revenue generated from the overseas markets increased by RMB7.1 million or 6.7% from RMB105.9 million in 2016 to RMB113.0 million in 2017 primarily due to (i) the increase in revenue generated from the Vietnam market by RMB4.6 million from RMB0.2 million in 2016 to RMB4.8 million in 2017 and (ii) the increase in revenue generated from the international versions of our games by RMB20.7 million or 379.1% from RMB5.5 million in 2016 to RMB26.2 million in 2017. The increase in revenue from the Vietnam market was primarily due to the increase in revenue generated from the Vietnamese version of *Legend of Empress (熹妃傳)* offered in the Vietnam market. It was launched in December 2016 and its revenue increased by RMB4.6 million from RMB0.2 million in 2016 to RMB4.8 million in 2017. The increase in revenue generated from other overseas markets was primarily due to the increase in revenue generated from the simplified Chinese (Overseas) version of *Legend of Empress (熹妃傳)* offered in the United States and Canada markets. It was launched in the United States and Canada in November 2016 and its revenue increased by RMB20.2 million from RMB35,900 in 2016 to RMB20.2 million in 2017.

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However, such increase was partially offset by the RMB18.0 million or 23.6% decrease in revenue generated from the Taiwan, Hong Kong and Macau markets from RMB76.5 million in 2016 to RMB58.5 million in 2017 as a result of the combined effect of (i) the decrease by RMB28.2 million in revenue generated from the traditional Chinese version of *Legend of Empress* (熹妃傳) offered in the Taiwan, Hong Kong and Macau markets as a result of the adjustment of cooperation arrangements with the third-party publisher since February 2017, which lowered our revenue sharing ratio with the third-party publisher due to the increase in the work responsibilities of the third-party publisher and (ii) the increase by RMB15.8 million in revenue generated from the traditional Chinese version of *Fate: Royal Revenge* (京門風月) offered in the Taiwan, Hong Kong and Macau markets as it progressed into the stable and mature stage in February 2017.

Our revenue generated from the overseas markets increased significantly by RMB163.3 million or 144.5% from RMB113.0 million in 2017 to RMB276.3 million in 2018 primarily due to (i) the RMB66.7 million or 300.5% increase in revenue generated from the South Korea market, (ii) the RMB28.2 million revenue generated from the newly developed Japan market and (iii) the RMB80.2 million or 305.8% increase in revenue generated from the international versions of our games. The increase in revenue generated from the South Korea market was resulted from (i) the RMB50.7 million revenue generated from the Korean version of *Royal Chaos* (熹妃Q傳) which was launched in July 2018 and (ii) the RMB13.5 million or 66.3% increase in revenue generated from the Korean version of *Legend of Empress* (熹妃傳) from RMB20.5 million in 2017 to RMB34.0 million in 2018. Both games are our signature female-oriented games and have gained widespread popularity among players after its launch in the South Korea market. As at 31 March 2019, *Legend of Empress* (熹妃傳), had achieved a highest ranking of no. 15 on 17 September 2016 and no. 40 on 10 September 2016 in the best-selling games board in South Korea for iPhone on Apple's App Store and Google Play, respectively. *Royal Chaos* (熹妃Q傳), had achieved a highest ranking of no. 22 on 31 July 2018 and no. 23 on 27 August 2018 in the best-selling games board in South Korea for iPhone on Apple's App Store and Google Play, respectively. We expanded into the Japan market through the launch of the Japanese version of *Legend of Empress* (熹妃傳) in May 2018 and generated a revenue of RMB28.2 million in 2018. The increase in revenue generated from other overseas markets was primarily due to the launch of the English/simplified Chinese (Overseas) version of *Royal Chaos* (熹妃Q傳) in January 2018 in Singapore, Malaysia, the United States and Canada markets which generated a revenue of RMB79.7 million in 2018. Shortly after its launch, *Royal Chaos* (熹妃Q傳) has achieved a highest ranking of no. 3 on 2 September 2018 and no. 5 on 9 October 2018 in the best-selling games board in Singapore for iPhone on Apple's App Store and Google Play, respectively.

Our revenue generated from overseas markets increased by RMB72.4 million or 250.0% from RMB29.0 million for the three months ended 31 March 2018 to RMB101.4 million for the three months ended 31 March 2019 due to (i) the RMB33.4 million or 701.1% increase in revenue generated from the Korean version of our games, (ii) the RMB14.7 million revenue generated from the the Japanese version of our games; and (iii) the RMB17.2 million or 126.5% increase in revenue generated from the international versions of our games. The increase in revenue generated from the Korean version of our games was resulted from (i) the RMB21.1 million revenue generated from the Korean version of *Royal Chaos* (熹妃Q傳) which was launched in July 2018; (ii) the RMB9.4 million revenue generated from the Korean version of *Rise of Queendom* (宮廷計手游) which was launched in January 2019; and (iii) the RMB4.9 million or 174.8% increase in revenue generated from the Korean version of *Legend of Empress* (熹妃傳). The revenue generated from the Japanese version of our games was primarily contributed by the Japanese version of *Legend of Empress* (熹妃傳) which was launched in May 2018 and generated

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revenue of RMB14.5 million for the three months ended 31 March 2019. The increase in revenue generated from the international version of our games was primarily resulted from the RMB24.5 million or 530.7% increase in revenue from the English/simplified Chinese (Overseas) version of *Royal Chaos* (熹妃Q傳). The launch of our signature games have gained widespread popularity overseas. For instance, the Korean version of *Rise of Queendom* (宮廷計手遊) has been recommended by Google Play under the “coming soon to Google Play” category on its South Korea homepage before the official launch of the game and under the “new recommended games” category with banners on the top of its homepage after it was officially launched. Its cumulative registered players reached approximately 323,800 within the three months from its launch in January 2019 to 31 March 2019.

Revenue by development models

Substantially all of our games offered during the Track Record Period were our self-developed games. The following table sets forth a breakdown of our revenue from games developed by ourselves and third-party game developers in absolute amounts and as percentages to our total revenue from games for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Self-developed games	564,315	99.3	694,552	99.3	1,463,910	100.0	274,442	99.9	393,244	99.9
Third-party developed games	3,822	0.7	4,902	0.7	251	0.0	225	0.1	294	0.1
Revenue from games	568,137	100.0	699,454	100.0	1,464,161	100.0	274,667	100.0	393,538	100.0

Apart from developing games by our in-house team, we occasionally commission third-party game developers with specialty in new types or genres of games that we wanted to expand into to develop new games exclusively for us. As we provide the game concepts and ideas to such commissioned third-party developers and we own the IP rights under the commission arrangements, we considered games developed under the commissioned arrangements as our self-developed games. Please refer to the section headed “Business — Game Development — Commissioned Development” for more information.

Revenue by publishing models

We adopt both self-publishing through third-party distribution platforms and third-party publishing models for our games. For the PRC market, except for one self-developed game which was published by a third-party publisher in 2016, all of our games, including our self-developed games and third-party developed games, were published by ourselves during the Track Record Period. For the overseas markets, we started with the third-party publishing of mobile games under licencing arrangements in 2014, and then started to publish mobile games through third-party distribution platforms with world wide operation since 2016.

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The following table sets forth a breakdown of our revenue from games published by ourselves and third-party publishers in absolute amounts and as percentages to our total revenue from games for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in thousands of RMB, except for percentages)									
	(unaudited)									
Self-publishing games	484,318	85.2	630,749	90.2	1,409,752	96.3	263,566	96.0	375,851	95.5
Third-party publishing games	83,819	14.8	68,705	9.8	54,409	3.7	11,101	4.0	17,687	4.5
Revenue from games	568,137	100.0	699,454	100.0	1,464,161	100.0	274,667	100.0	393,538	100.0

Our revenue generated from third-party publishing games decreased by RMB15.1 million, or 18.0% from RMB83.8 million in 2016 to RMB68.7 million in 2017 primarily due to the RMB28.2 million decrease in revenue generated from the traditional Chinese version of *Legend of Empress* (熹妃傳) in the Hong Kong, Macau and Taiwan market as a result of the adjustment of cooperation arrangements with the third-party publisher due to the increase in the work responsibilities of the third-party publisher. However, such decrease in revenue was partially offset by the RMB15.8 million increase in revenue generated from the traditional Chinese version of *Fate: Royal Revenge* (京門風月) which was launched in the Hong Kong, Macau and Taiwan market in November 2016.

Our revenue generated from third-party publishing games further decreased by RMB14.3 million, or 20.8% to RMB54.4 million in 2018 primarily due to the RMB10.7 million decrease in revenue generated from the traditional Chinese version of *Fate: Royal Revenge* (京門風月) in the Hong Kong, Macau and Taiwan market as it had reached stable and mature stage in February 2017.

Cost of Sales

Our cost of sales primarily consists of (i) distribution costs, which comprise revenue sharing and payment channel and other service fees, charged by third-party distribution platforms for our self-published games, (ii) internet data centre expenses, which include cloud server rental expenses, physical server custody fees and accelerated content delivery network expenses, (iii) employee benefits expenses, which primarily include wages, salaries, bonuses, social insurance costs, housing provident funds and other employee benefits of our employees for game and social platform operation, and (iv) others. Others primarily include (i) licencing fees charged by third-party developers for games developed by them but published by us, (ii) game publication number application service fees charged by third-party service providers before we obtained the Online Publication Service Licence in November 2016, (iii) amortisation of IP licences we acquired for use in our games for the period after the relevant games that utilise the IP licences are launched, and (iv) costs of payment channels for games distributed through our proprietary distribution platforms.

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

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Distribution costs charged										
by distribution										
platforms	190,167	33.4	239,734	34.2	504,090	34.4	93,571	34.0	129,007	32.8
Internet data centre										
expenses	7,355	1.3	10,470	1.5	20,602	1.4	4,534	1.7	6,715	1.7
Employee benefits										
expenses	6,398	1.1	11,727	1.7	16,291	1.1	3,336	1.2	4,657	1.2
Others	6,620	1.2	6,042	0.9	5,017	0.4	1,084	0.4	919	0.2
Cost of sales	210,540	37.0	267,973	38.3	546,000	37.3	102,525	37.3	141,298	35.9

During the Track Record Period, we incurred internet data centre expenses amounted to RMB7.4 million, RMB10.5 million, RMB20.6 million and RMB6.7 million for each of the year ended 31 December 2016, 2017 and 2018 and for the three months 31 March 2019, representing 1.3%, 1.5%, 1.4% and 1.7% of our revenue of the corresponding year or period, which according to Frost & Sullivan is in line with the industry average. Much of such expenses were rental for cloud server and cloud storage. Cloud server is mainly used for data transmission and communication to players and cloud storage is mainly used for storing data. A substantial portion of data usage is incurred when the players download our games to their mobile devices from the distribution platforms, and the distribution platforms bear the burden on such data usage. We, as a mobile game developer and operator, require less data usage when operating the games and thus had a lower cost in the rental of cloud servers. Further, given the nature of our games and business model, generally the data stored by us included players' purchase records and types and quantities of virtual items purchased. The resulting statistic is structural data base that does not consume substantial storage or processing capacity. In addition to the leased cloud servers, we also own equipment related to servers and data processing and storage which included over 160 servers and are included in property, plant and equipment in our statement of financial position. As such, our internet data centre expenses only accounted for less than 2% of our revenue for each of the year or period during the Track Record Period.

Other Income

Our other income consists of (i) government grants received by us as encouragement of our contribution in mobile game business development which were unconditional, (ii) interest income from bank deposits, (iii) income from short-term wealth management products, (iv) net exchange gain/(loss) arising from transactions mainly in U.S. dollars or HK dollars by our Operating Entities which adopted RMB as their functional currencies, and (v) others.

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The following table sets forth a breakdown of the components of other income/(losses) in absolute amounts and as percentages to our total other income/(losses) for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Government grants	6,715	48.2	17,267	149.5	22,804	63.3	1,030	9.7	1,114	29.7
Interest income from bank deposits	443	3.2	4,491	38.9	4,315	12.0	1,049	9.9	870	23.2
Income from wealth management products	433	3.1	228	2.0	944	2.6	63	0.6	—	—
Net exchange gain/(loss)	6,480	46.5	(10,480)	(90.8)	8,374	23.3	(12,758)	(119.8)	(5,733)	(152.6)
Others	(134)	(1.0)	42	0.4	(421)	(1.2)	(30)	(0.4)	(8)	(0.3)
Other income/(losses)	13,937	100.0	11,548	100.0	36,016	100.0	(10,646)	(100.0)	(3,757)	(100.0)

During the Track Record Period, we invested in certain short-term wealth management products issued by commercial banks for our short-term cash flows and treasury management purposes. In 2016, 2017, 2018 and the three months ended 31 March 2018 and 2019, our income from wealth management products amounted to RMB0.4 million, RMB0.2 million, RMB0.9 million, RMB63,000 and nil, respectively, which represented the income from our short-term investment in wealth management products issued by creditworthy major PRC commercial banks.

These wealth management products included one type of medium risk and non-principal protected products and three types of low-risk and principal protected products. These products had maximum annual interest rate ranging from 2.5% to 4.6% and a maturity term ranging from one day to 150 days.

We are subject to interests risk, default risk and market risk associated with our investments in wealth management products. Any material non-performance of our counterparties with respect to the wealth management products we invested in could materially and adversely affect our financial position and cash flow. Furthermore, the returns on our investments in the wealth management products are subject to the overall market conditions and are not guaranteed. Any volatility in the market or fluctuations in interest rates may negatively affect our financial position or cash flow, which in turn, could materially and adversely impact our financial condition.

We have formalised our capital and investment management policies to monitor and control the potential risks relating to these investment activities. In determining whether and which product to invest, our management team will consider, on a case-by-case basis and among other things, the level of risk, return on investment, liquidity and the term to maturity of the relevant wealth management products. Our investment portfolio and policies will be reviewed by our Directors and management team on a regular basis. Investments in wealth management products are primarily in charged by our chief financial officer, Ms. Li Ya, who has over 11 years of experience in finance and accounting and is a member of the Institute of Public Accountants in Australia. Prior to joining our Group in 2010, she has accumulated experiences in accounting and finance in various private companies in the PRC. In addition,

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she has in depth understanding of our business operations, financial condition and cash flow position and has around three years of experience in reviewing investment performance of wealth management products. Please refer to the section headed “Directors and Senior Management — Senior Management” for further details of Ms. Li Ya’s biography and qualifications. For future investments in wealth management products, we will continue to primarily invest in low-risk and principal protected products.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of (i) promotion and advertising expenses paid to our online and offline advertising service providers, (ii) employee benefits expenses, which primarily include wages, salaries, bonuses, social insurance costs, housing provident funds and other employee benefits of our marketing employees, and (iii) others. Others primarily include professional service fees paid to overseas advertising traffic statistic service providers, SMS service fees and travelling expenses incurred by our marketing employees.

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

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Promotion and advertising expenses	161,379	28.4	174,833	25.0	399,336	27.3	98,056	35.7	81,054	20.6
Employee benefits expenses	6,050	1.1	14,075	2.0	18,640	1.3	4,084	1.5	5,442	1.4
Others	1,242	0.2	1,528	0.2	4,100	0.2	917	0.3	795	0.2
Sales and marketing expenses	168,671	29.7	190,436	27.2	422,076	28.8	103,057	37.5	87,291	22.2

Research and Development Expenses

Research and development expenses primarily consist of (i) employee benefits expenses, which primarily include wages, salaries, bonuses, social insurance costs, housing provident funds and other employee benefits of our research and development employees, (ii) audio, animation and artistic production fees paid to third-party service providers, (iii) research and development expenses paid to third-party game developers we commissioned to undertake certain research and development work for our self-developed games, and (iv) others. Others primarily include amortisation of IP licences we acquired for use in our games for the period before the relevant games which utilise the IP licences are launched, rental and utilities shared by our research and development employees, depreciation of office equipment used by our research and development employees and training fees.

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

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Employee benefits expenses	53,549	9.4	73,081	10.4	117,955	8.1	22,328	8.1	39,677	10.1
Audio, animation and artistic production fees	419	0.1	1,847	0.3	6,195	0.4	594	0.2	5,344	1.4
Commissioned research and development expenses	5,457	1.0	9,092	1.3	3,012	0.2	396	0.1	39	0.0
Others	4,161	0.7	5,415	0.8	9,258	0.6	1,468	0.6	3,137	0.7
Research and development expenses	<u>63,586</u>	<u>11.2</u>	<u>89,435</u>	<u>12.8</u>	<u>136,420</u>	<u>9.3</u>	<u>24,786</u>	<u>9.0</u>	<u>48,197</u>	<u>12.2</u>

General and Administrative Expenses

General and administrative expenses primarily consist of (i) employee benefits expenses, which primarily include wages, salaries, bonuses, social insurance costs, housing provident funds and other employee benefits of our senior management personnel and administrative employees, (ii) equity-settled share-based compensation expenses, (iii) professional service fees, which primarily include the PRC auditors fees, intellectual property rights application related fees and corporate management consulting service fees, (iv) listing expenses, (v) rental and utilities which are shared by our senior management personnel and administrative employees and (vi) others. Others primarily include depreciation of office equipment used by our senior management personnel and administrative employees, cleaning supplies and office maintenance expenses. Please refer to the section headed “Financial Information — Critical Accounting Policies, Judgement and Estimates — Equity-settled Share-based Compensation Expenses” for detailed analysis of our equity-settled share-based compensation expenses.

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

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(in thousands of RMB, except for percentages)</i>									
	<i>(unaudited)</i>									
Employee benefits expenses	7,178	1.3	9,100	1.3	12,200	0.8	2,712	1.0	3,388	0.9
Equity-settled share-based compensation expenses	26,847	4.7	—	—	—	—	—	—	—	—
Professional service fees	1,669	0.3	1,017	0.1	2,677	0.2	283	0.1	454	0.1
Listing expenses	—	—	—	—	7,180	0.5	—	—	9,834	2.5
Rental and utilities	1,334	0.2	1,183	0.2	1,135	0.1	246	0.1	257	0.1
Others	7,147	1.3	5,322	0.7	9,289	0.7	2,068	0.7	3,504	0.8
General and administrative expenses	44,175	7.8	16,622	2.3	32,481	2.3	5,309	1.9	17,437	4.4

Finance Costs

Our finance costs represents (i) interest expenses on bank loans and (ii) unwinding of finance costs on lease liabilities, which amounted to RMB0.7 million, RMB0.4 million, RMB1.2 million, RMB0.1 million and RMB80,000, respectively, in 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019.

Share of Loss of an Associate

Share of loss of an associate represents our share of loss of our investment in 30.16% of the equity interest of Jingxiang Times made in April 2017. Our share of loss of an associate amounted to nil, RMB1.0 million, RMB0.8 million, RMB0.1 million and RMB70,000 in 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively.

Changes in fair value of financial assets measured at fair value through profit or loss

We recorded losses in changes in fair value of financial assets measured at fair value through profit or loss in the amount of RMB5.5 million and RMB2.7 million for 2016 and 2017, respectively and such losses were resulted from our investment in 10.0% of the equity interest of Suzhou Leji which was made in 2016. Such equity interest was disposed in December 2018 as the performance of Suzhou Leji did not meet our expectation. We recorded a gain in changes in fair value of financial assets measured at fair value through profit or loss in the amount of RMB1.4 million for the three months ended 31 March 2019, and such gain was resulted from the increase in the fair value of our investment in TV series

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based financial instrument as at 31 March 2019. For details of the valuation of this TV-series based financial instrument, please refer to the section headed “Financial Information — Liquidity and Capital Resources — Financial Assets Measured at Fair Value Through Profit or Loss”.

TAXATION

Cayman Islands and BVI

We were not subject to any income tax in the Cayman Islands or the BVI pursuant to the tax laws and regulations of the Cayman Islands or the BVI during the Track Record Period.

Hong Kong

Friend Century and Wish Interactive are subject to a profit tax of 16.5% on the estimated assessable profit derived from its Hong Kong operations.

South Korea

Friend Times Korea is subject to progressive tax rates ranging from 10% to 25% of its annual taxable profits.

PRC

Pursuant to the EIT Law, a uniform 25% CIT rate is generally applied to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. During the Track Record Period, several of our Operating Entities, including Suzhou FriendTimes, GameFriend and Purple Blaze, have enjoyed various preferential tax treatment and thus have adopted preferential CIT rates. Please refer to the section headed “Financial Information — Significant Factors Affecting Our Results of Operations — Preferential tax treatment” for details of our preferential tax treatment.

In 2016, 2017, 2018 and for the three months ended 31 March 2018 and 2019 our income tax expense was RMB8.8 million, RMB25.3 million, RMB24.6 million, RMB3.5 million and RMB10.2 million, respectively. Our effective tax rate was 9.8%, 17.7%, 6.8%, 12.5% and 10.5% for 2016, 2017, 2018 and for the three months ended 31 March 2018 and 2019, respectively. The increase in our effective tax rate in 2017 compared to 2016 was primarily due to (i) the increase in the EIT rate of GameFriend from 0% in 2016 to 12.5% in 2017 as it was recognised as a “Software Enterprise” in 2015 and its the EIT for 2015 and 2016 has been waived and is entitled to a preferential EIT rate of 12.5% from 2017 to 2019, and (ii) the part of the promotion and advertising expenses incurred by GameFriend exceeding 15% of its revenue not being eligible for tax deduction under the PRC tax laws and regulations. Our effective tax rate decreased in 2018 compared to 2017 primarily due to (i) the additional tax deduction allowed for qualified research and development costs increased from 50% in 2017 to 75% in 2018 for all our PRC entities other than Purple Blaze whose additional tax deduction allowed for qualified research and development costs was 75% in both 2017 and 2018, (ii) all of the promotion and advertising expenses incurred by GameFriend being eligible for tax deduction in 2018 as its amount did not exceed the amount allowed under the PRC laws and regulations, and (iii) the EIT of Purple Blaze being waived in 2018 as it was recognised as a “Software Enterprise” in 2018. The decrease in our effective tax rate for the three months ended 31 March 2019 compared to the three months ended 31 March 2018 was primarily due to Purple Blaze, which operated one of our signature

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games, *Rise of Queendom* (宮廷計手遊), became profit making for the three months ended 31 March 2019 as compared to its loss-making position for the three months 31 March 2018. Purple Blaze was recognised as a “Software Enterprise” in 2018 and therefore its EIT for 2018 and 2019 has been waived.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Period Ended 31 March 2019 Compared to Period Ended 31 March 2018

Revenue

Our revenue increased by RMB118.8 million or 43.3% from RMB274.7 million for the three months ended 31 March 2018 to RMB393.5 million for the three months ended 31 March 2019 due to the significant increase in revenue generated from our signature games, *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊). Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Revenue” for detailed analysis.

Cost of sales

For the three months ended 31 March 2018 and 2019, our cost of sales accounted for a stable percentage of our total revenue. Our cost of sales increased by RMB38.8 million or 37.8% from RMB102.5 million for the three months ended 31 March 2018 to RMB141.3 million for the three months ended 31 March 2019, which was generally in line with the increase in our revenue during the same periods due to the success of our games launched in the relevant period.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB80.1 million or 46.5% from RMB172.2 million for the three months ended 31 March 2018 to RMB252.2 million for the three months ended 31 March 2019. Our gross profit margin remained stable at 62.7% and 64.1% for the three months ended 31 March 2018 and the three months ended 31 March 2019, respectively as a result of the parallel increase in our revenue and cost of sales.

Other losses

Our other losses decreased by RMB6.8 million or 64.7% from RMB10.6 million for the three months ended 31 March 2018 to RMB3.8 million for the three months ended 31 March 2019, which was primarily due to the RMB7.1 million decrease in net exchange loss from RMB12.8 million for the three months ended 31 March 2018 to RMB5.7 million for the three months ended 31 March 2019 mainly as a result of less appreciation of RMB against U.S. dollars for the three months ended 31 March 2019 compared to the three months ended 31 March 2018.

Sales and marketing expenses

Our sales and marketing expenses decreased by RMB15.8 million or 15.3% from RMB103.1 million for the three months ended 31 March 2018 to RMB87.3 million for the three months ended 31 March 2019 which was primarily due to the decrease in the promotion and advertising expenses by RMB17.0 million or 17.3% from RMB98.1 million for the three months ended 31 March 2018 to

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RMB81.1 million for the three months ended 31 March 2019 mainly as a result of one of the simplified Chinese (PRC) version of our signature games, *Royal Chaos* (熹妃Q傳), entering into stable and mature stage which reduced the promotion and marketing efforts required to attract new players compared to its early growth stage during the three months ended 31 March 2018. On the other hand, our promotion and advertising expenses increased for several overseas language versions of our signature games, in particular, the Korean version of *Rise of Queendom* (宮廷計手遊), which was launched in January 2019 and was at an early growth stage. It required a significant promotion and marketing effort to attract players, and such increase in our promotion and advertising expenses for our overseas games was in line with the increase in our revenue generated from overseas markets.

Research and development expenses

Our research and development expenses increased by RMB23.4 million or 94.5% from RMB24.8 million for the three months ended 31 March 2018 to RMB48.2 million for the three months ended 31 March 2019, primarily due to (i) the increase in employee benefits expenses by RMB17.4 million or 77.7% from RMB22.3 million for the three months ended 31 March 2018 to RMB39.7 million for the three months ended 31 March 2019 and (ii) the increase in audio, animation and artistic production fees by RMB4.7 million or 799.7% from RMB0.6 million for the three months ended 31 March 2018 to RMB5.3 million for the three months ended 31 March 2019.

The continued increase in employee benefits expenses was primarily as a result of the continued increase in the number of our research and development employees from 526 as at 31 March 2018 to 864 as at 31 March 2019 to facilitate the development of our newly launched and pipeline games as well as the ongoing maintenance and upgrades of our existing games.

The increase in audio, animation and artistic production fees was because we outsourced certain relevant production work to professional third-party producers to enhance the presentation quality of our new games.

General and administrative expenses

Our general and administrative expenses increased by RMB12.1 million or 228.4% from RMB5.3 million for the three months ended 31 March 2018 to RMB17.4 million for the three months ended 31 March 2019 primarily as a result of the non-recurring listing expenses of RMB9.8 million incurred during the three months ended 31 March 2019.

Finance cost

Our finance costs remained relatively stable, amounting to RMB0.1 million for the three months ended 31 March 2018 and RMB80,000 for the three months ended 31 March 2019. Please refer to the section headed “Financial Information — Indebtedness and Contingent Liabilities — Bank Borrowings” for more information.

Share of loss of an associate

Our share of loss of an associate remained relatively stable, amounting to RMB0.1 million for the three months ended 31 March 2018 and RMB70,000 for the three months ended 31 March 2019.

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Changes in fair value of financial assets measured at fair value through profit or loss

Our changes in fair value of financial assets measured at fair value through profit or loss was nil for the three months ended 31 March 2018 and RMB1.4 million for the three months ended 31 March 2019. Please refer to the section headed “Financial Information — Description of Major Components of our Results and Operation — Changes in fair value of financial assets measured at fair value through profit or loss” for more information.

Income tax expense

Our income tax expense increased significantly by RMB6.7 million or 189.7% from RMB3.5 million for the three months ended 31 March 2018 to RMB10.2 million for the three months ended 31 March 2019, which was generally in line with the increase in our profit before taxation.

Profit for the period

As a result of the foregoing, our profit for the period increased by RMB62.0 million or 252.1% from RMB24.6 million for the three months ended 31 March 2018 to RMB86.6 million for the three months ended 31 March 2019.

Period Ended 31 December 2018 Compared to Period Ended 31 December 2017

Revenue

Our revenue increased by RMB764.1 million or 109.1% from RMB700.2 million in 2017 to RMB1,464.3 million in 2018 primarily due to the significant increase in revenue generated from our signature games, *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊), which was launched in September 2017 and March 2018, respectively. Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Revenue” for detailed analysis.

Cost of sales

In 2017 and 2018, our cost of sales accounted for a stable percentage of our total revenue. Our cost of sales increased significantly by RMB278.0 million or 103.8% from RMB268.0 million in 2017 to RMB546.0 million in 2018, which was generally in line with the increase in our revenue during the same periods due to the success of our games launched in the relevant periods.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB486.0 million or 112.4% from RMB432.3 million in 2017 to RMB918.3 million in 2018. Accordingly, our gross profit margin remained stable at 61.7% and 62.7% in 2017 and 2018, respectively, as a result of the parallel increase in our revenue and cost of sales.

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Other income

Our other income increased by RMB24.5 million or 211.9% from RMB11.5 million in 2017 to RMB36.0 million in 2018, which was primarily due to (i) the increase in government grants by RMB5.5 million or 32.1% from RMB17.3 million in 2017 to RMB22.8 million in 2018 because we received RMB8.5 million government grants as a result of the National Key Cultural Export Enterprise recognition and (ii) the RMB8.4 million net exchange gain recorded in 2018 compared to RMB10.5 million net exchange loss recorded in 2017 as a result of the depreciation of RMB against U.S. dollars during 2018 compared to the appreciation of RMB against U.S. dollars in 2017.

Sales and marketing expenses

Our sales and marketing expenses increased by RMB231.7 million or 121.6% from RMB190.4 million in 2017 to RMB422.1 million in 2018 which was generally in line with the expansion of our operational scale and the increase in our revenue during the same periods. Such increase was primarily as a result of (i) the RMB224.5 million or 128.4% increase in promotion and advertising expenses and (ii) the RMB4.6 million or 32.4% increase in employee benefits expenses.

The 128.4% increase in promotion and advertising expenses was higher than the 109.1% increase in our revenue from 2017 to 2018 primarily because *Rise of Queendom* (宫廷計手游), which was launched in March 2018, was in its early growth stage in 2018 and would generally incur significant promotion and marketing expenses as a result of the comprehensive marketing and promotion campaigns at the beginning stage.

The increase in employee benefits expenses was primarily due to the increase in the number of our marketing employees to facilitate the establishment of our overseas publishing department in our headquarter in May 2018.

Research and development expenses

Our research and development expenses increased by RMB47.0 million or 52.5% from RMB89.4 million in 2017 to RMB136.4 million in 2018 primarily due to (i) the RMB44.9 million or 61.4% increase in employee benefits expenses and (ii) the increase by double in the amount of RMB4.3 million in audio, animation and artistic production fees.

The continued increase in employee benefits expenses was primarily as a result of (i) the continued increase in the number of our research and development employees and their compensation package to facilitate the development of our newly launched and pipeline games as well as the ongoing maintenance and upgrades of our existing games in 2018 and (ii) the associated increase in the social insurance costs and housing provident funds for these employees.

The increase in audio, animation and artistic production fees was because we outsourced the relevant production work to professional third-party producers to enhance the presentation quality of our games in general and in particular, we engaged third-party producers to produce game previews for *Rise of Queendom* (宫廷計手游) and *Fate of the Empress* (浮生為卿歌) in 2018 in preparation for their launch in March 2018 and June 2019, respectively.

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General and administrative expenses

Our general and administrative expenses increased by RMB15.9 million or 95.4% from RMB16.6 million in 2017 to RMB32.5 million in 2018 primarily as a result of (i) the increase in employee benefits expenses by RMB3.1 million or 34.1% from RMB9.1 million in 2017 to RMB12.2 million in 2018 as a result of the increase in both the number of our administrative employees and their compensation package and (ii) the non-recurring listing expenses of RMB7.2 million incurred in 2018.

Finance costs

Our finance costs increased by RMB0.8 million or 188.2% from RMB0.4 million in 2017 to RMB1.2 million in 2018 primarily as a result of the increase in interest expenses on bank loans from RMB5,000 in 2017 to RMB0.8 million in 2018 due to the increase in our bank borrowings in 2018. Please refer to the section headed “Financial Information — Indebtedness and Contingent Liabilities — Bank Borrowings” for more information.

Share of loss of an associate

Our share of loss of an associate remained relatively stable, amounting to RMB1.0 million and RMB0.8 million in 2017 and 2018, respectively.

Changes in fair value of financial assets measured at fair value through profit or loss

Our loss on financial assets measured at fair value through profit or loss decreased from RMB2.7 million in 2017 to nil in 2018 because we disposed our investment in 10.0% of the equity interest of Suzhou Leji, the only financial assets measured at fair value we had, in December 2018.

Income tax expense

Although our profit before taxation increased significantly by RMB218.1 million or 152.2% from 2017 to 2018, our income tax expense decreased by RMB0.7 million or 2.9% from RMB25.3 million in 2017 to RMB24.6 million in 2018 primarily because of (i) the additional tax deduction allowed for qualified research and development costs increased from 50% in 2017 to 75% in 2018 for all our PRC entities other than Purple Blaze whose additional tax deduction allowed for qualified research and development costs was 75% in both 2017 and 2018, and (ii) all of the promotion and advertising expenses were eligible for tax deduction in 2018 as its amount did not exceed the amount allowed under the PRC laws and regulations.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB218.8 million or 185.6% from RMB117.9 million in 2017 to RMB336.7 million in 2018.

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Year Ended 31 December 2017 Compared to Year Ended 31 December 2016

Revenue

Our revenue increased by 23.1% or RMB131.4 million from RMB568.8 million in 2016 to RMB700.2 million in 2017 primarily due to the significant increase in revenue generated from *Royal Chaos* (熹妃Q傳) and *Fate: Royal Revenge* (京門風月), which was launched in September 2017 and June 2016, respectively. Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Revenue” for detailed analysis.

Cost of sales

In 2016 and 2017, our cost of sales accounted for a stable percentage of our total revenue. Our cost of sales increased by RMB57.5 million or 27.3% from RMB210.5 million in 2016 to RMB268.0 million in 2017, which was generally in line with the increase in our revenue during the same periods due to the success of our games launched in the relevant periods.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB74.0 million or 20.7% from RMB358.3 million in 2016 to RMB432.3 million in 2017. Accordingly, our gross profit margin remained stable at 63.0% and 61.7% in 2016 and 2017, respectively, as a result of the parallel increase in our revenue and cost of sales.

Other income

Our other income decreased by RMB2.4 million or 17.1% from RMB13.9 million in 2016 to RMB11.5 million in 2017, which was the combined effect of (i) the net exchange loss of RMB10.5 million recorded in 2017 compared to net exchange gain of RMB6.5 million in 2016 due to the appreciation of RMB against U.S. dollars during 2017 as opposed to the depreciation of RMB against U.S. dollars in 2016, and (ii) the increase in government grants by RMB10.6 million or 157.1% from RMB6.7 million in 2016 to RMB17.3 million in 2017.

Sales and marketing expenses

Our sales and marketing expenses increased by RMB21.7 million or 12.9% from RMB168.7 million in 2016 to RMB190.4 million in 2017, which was generally in line with the expansion of our operational scale and was in line with the increase in our revenue during the same periods. Such increase was primarily as a result of (i) the RMB13.5 million or 8.3% increase in promotion and advertising expenses and (ii) the RMB8.0 million or 132.6% increase in employee benefits expenses.

The 8.3% increase in our promotion and advertising expenses was lower than the 23.1% increase in our revenue from 2016 to 2017 primarily because (i) the traditional Chinese version of *Legend of Empress* (熹妃傳), which was launched in December 2015 in the Taiwan, Hong Kong and Macau markets, entered into the stable and mature stage in the second half of 2016 and remained in the stable and mature stage in 2017; therefore, its promotion and advertising expenses incurred during the early growth stage in the first half of 2016 was more significant as compared with its stable and mature stage, and (ii) the simplified Chinese (PRC) version of *Legend of Empress* (熹妃傳), which was launched in

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June 2015 in the PRC market, entered into the mature and stable stage in September 2015 and remained in the stable and mature stage in 2016 and 2017, and its promotion and advertising expenses was relatively higher in the early mature and stable stage in 2016 than in the late mature and stable stage as the marketing strategy gradually changed from attracting large amount of new players to maintaining and monetising the existing players which generally require relatively lower promotion and advertising expenditures.

The increase in employee benefits expenses was primarily due to the increase in the number and compensation package of our marketing employees to facilitate the enhanced promotion of our existing and newly launched games in the PRC and overseas markets.

Research and development expenses

Our research and development expenses increased by RMB25.8 million or 40.7% from RMB63.6 million in 2016 to RMB89.4 million in 2017 primarily due to (i) the RMB19.5 million or 36.5% increase in employee benefits expenses and (ii) the RMB3.6 million or 66.6% increase in commissioned research and development expenses.

The increase in employee benefits expenses was primarily as a result of (i) the increase in the number of our research and development employees and their compensation package to facilitate the development of our newly launched and pipeline games as well as the ongoing maintenance and upgrades of our existing games in 2017 and (ii) the associated increase in the social insurance costs and housing benefits for these employees.

The increase in commissioned research and development expenses was primarily resulted from the commissioned development of three games, namely, (i) *Tale: Love Forest* (戀人之森), the commissioned development of which started from August 2016 and completed in May 2017 and the game was launched in September 2017, (ii) *Battle Kingdom* (格斗三國), the commissioned development of which started from September 2016 but was terminated in July 2017 as the development progress and quality of the game did not meet our expectation, and (iii) *Pantheon's War* (諸神幻想), the commissioned development of which started from August 2016 and the game was launched in June 2019.

General and administrative expenses

Our general and administrative expenses decreased by RMB27.6 million or 62.4% from RMB44.2 million in 2016 to RMB16.6 million in 2017 primarily because we recognised equity-settled share-based compensation expenses of RMB26.8 million incurred for the shares transferred to our senior technology officer, Mr. Song Huan in 2016.

Finance costs

Our finance costs decreased by RMB0.3 million or 42.0% from RMB0.7 million in 2016 to RMB0.4 million in 2017 primarily as a result of the decrease in interest expenses on bank loans from RMB0.3 million in 2016 to RMB5,000 in 2017 due to our repayment of bank borrowings in 2017. Please refer to the section headed “Financial Information — Indebtedness and Contingent Liabilities — Bank Borrowings” for more information.

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Share of loss of an associate

Our share of loss of an associate increased from nil in 2016 to RMB1.0 million in 2017 because of our investment in 30.16% of the equity interest of Jingxiang Times made in April 2017.

Changes in fair value of financial assets measured at fair value through profit or loss

Our loss on financial assets measured at fair value decreased by RMB2.8 million or 51.2% from RMB5.5 million in 2016 to RMB2.7 million 2017 as a result of the decrease in the fair value of our investment in the equity interest of Suzhou Leji.

Income tax expense

Our income tax expense increased by RMB16.5 million or 187.7% from RMB8.8 million in 2016 to RMB25.3 million in 2017, which far outpaced the RMB53.7 million or 60.1% increase in our profit before taxation from 2016 to 2017, primarily because of (i) the increase in the EIT rate of GameFriend from 0% in 2016 to 12.5% in 2017 as it was recognised as a “Software Enterprise” in 2015 and its EIT for 2015 and 2016 has been waived and is entitled to a preferential EIT rate of 12.5% from 2017 to 2019, and (ii) the part of the promotion and advertising expenses incurred by GameFriend exceeding 15% of its revenue not being eligible for tax deduction under the PRC tax laws and regulations.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB37.2 million or 46.1% from RMB80.7 million in 2016 to RMB117.9 million in 2017.

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LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

The following table sets forth our current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands of RMB)</i>				
	(unaudited)				
Current assets					
Contract costs	6,593	11,473	15,758	15,885	19,506
Trade and other receivables	70,752	115,413	132,282	225,115	179,362
Pledged bank deposits	13,500	836	2,506	2,468	2,487
Cash and cash equivalents	225,786	305,316	472,605	314,720	445,209
Financial assets measured at fair value through profit or loss	—	—	—	37,554	17,554
Subtotal	316,631	433,038	623,151	595,742	664,118
Current liabilities					
Bank loans	12,090	—	—	293	4,000
Trade and other payables	36,009	51,876	82,156	95,922	129,556
Contract liabilities	23,497	38,140	54,869	53,873	59,490
Current taxation	4,021	19,542	6,936	104	1,396
Lease liabilities	2,625	2,812	4,580	4,543	5,508
Deferred income	—	—	—	—	500
Subtotal	78,242	112,370	148,541	154,735	200,450
Net current assets	238,389	320,668	474,610	441,007	463,668

Note:

- (1) Financial assets measured at fair value through profit or loss as at 31 March 2019 and 31 July 2019 represented amounts invested in (i) low-risk and principal protected wealth management products; and (ii) principal-protected TV series under production.

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Contract Costs

As at 31 December 2016, 2017 and 2018 and 31 March 2019, our contract costs were RMB6.6 million, RMB11.5 million, RMB15.8 million and RMB15.9 million, respectively. The increase was in line with the expansion in our game portfolio and scale of operation during the Track Record Period. Please refer to the section headed “Financial Information — Critical Accounting Policies, Judgement and Estimates — Contract Costs” for more information. The following table sets forth the movement of our contract costs as at the dates indicated:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>31 March</u>
	<i>(in thousands of RMB)</i>			
Balance as at 1 January	5,516	6,593	11,473	15,758
Addition	191,244	244,614	508,375	129,134
Charged to profit or loss	<u>(190,167)</u>	<u>(239,734)</u>	<u>(504,090)</u>	<u>(129,007)</u>
Balance as at 31 December/ 31 March	<u><u>6,593</u></u>	<u><u>11,473</u></u>	<u><u>15,758</u></u>	<u><u>15,885</u></u>

Trade and Other Receivables

The following table sets forth a breakdown of our trade and other receivables as at the dates indicated:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>31 March</u>
	<i>(in thousands of RMB)</i>			
Trade receivables	58,854	98,422	109,240	170,769
Less: Loss allowance	<u>(17)</u>	<u>(63)</u>	<u>(421)</u>	<u>(451)</u>
Trade receivables, net	58,837	98,359	108,819	170,318
Deposits and prepayments	7,108	5,970	9,308	8,710
VAT deductible	3,406	3,841	4,997	7,233
Income tax recoverable	1	4,025	6,463	6,049
Amounts due from shareholders				
— non-trade	—	—	3	4
Structured deposits measured at amortised cost	—	—	—	30,000
Other receivables	<u>1,400</u>	<u>3,218</u>	<u>2,692</u>	<u>2,801</u>
	<u><u>70,752</u></u>	<u><u>115,413</u></u>	<u><u>132,282</u></u>	<u><u>225,115</u></u>

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Trade receivables

Our trade receivables primarily represent (i) the sale proceeds that collected by certain of our third-party distribution platforms from players but yet to be paid to us and (ii) the licencing fees and share of revenue that we are entitled to from the third-party publishers in the overseas markets but had yet to be paid to us. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had RMB58.8 million, RMB98.4 million, RMB109.2 million and RMB170.8 million of trade receivables, respectively.

The credit terms granted to our third-party distribution platforms and third-party publishers generally range from 15 to 45 days. The following table sets forth an ageing analysis of our net trade and other receivables based on the invoice date and net of allowance as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>(in thousands of RMB)</i>			
Within 3 months	58,161	97,842	108,758	168,816
After 3 months but within 1 year	693	538	85	1,556
After 1 year but within 2 years	—	42	397	397
Less: Loss allowance	(17)	(63)	(421)	(451)
Trade receivables, net	58,837	98,359	108,819	170,318

We record trade receivables less any loss allowance made. We provided loss allowance for trade receivables based on the expected credit losses, which is calculated using a provision matrix based on our historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions. As at 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, loss allowance for trade receivables of RMB17,000, RMB63,000, RMB421,000 and RMB451,000 were provided, respectively. As at the Latest Practicable Date, RMB170.0 million or 99.5% of our trade receivables as at 31 March 2019 had been subsequently recovered.

The following table sets forth the average turnover days of trade receivables for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2016	2017	2018	2019
Average turnover days of trade receivables ⁽¹⁾	31.0	41.0	25.8	31.9

Note:

- (1) Average turnover days of trade receivables equal the average of the opening and closing balances of trade receivables for the relevant period, divided by revenue and multiplied by the number of days contained in that period.

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During the Track Record Period, the average turnover days of trade receivables are generally within the credit period granted to our third-party distribution platforms and third-party publishers. We recorded longer average turnover days of trade receivables in 2017 than 2016, 2018 and the three months ended 31 March 2019 primarily due to the payment of the sale proceeds for November 2016 and 2018 by one of our major third-party distribution platforms ahead of the scheduled payment time, which reduced the balances of our trade receivables as at 31 December 2016 and 2018. Our average turnover days for the three months ended 31 March 2019 was longer than 2018, which was primarily due to a higher revenue recorded by our Group in the first quarter in 2019 as compared to that of the last quarter of 2018 leading to a higher ending trade receivables balance as at 31 March 2019.

Prepayments

Prepayments primarily represent the prepayments to our commissioned research and development service providers, advertising service providers and other professional service providers.

VAT deductible

VAT deductible was primarily resulted from the unclaimed VAT input tax incurred from the construction costs of our office building.

Income tax recoverable

Income tax recoverable primarily represents our prepaid income tax which can be recovered after the relevant tax deduction expenses and items are recognised at a later point of time.

Amounts due from shareholders

Amounts due from shareholders were non-trade in nature and has been fully settled as at the Latest Practicable Date.

Structured deposits measured at amortised cost

Structured deposits measured at amortised cost represent of our term investment in low-risk fixed return and principal protected wealth management products issued by a creditworthy major PRC commercial bank.

Other receivables

Other receivables primarily represent the receivables from interest income, rental deposits and sale proceeds that collected by certain of our online payment channel providers from players but yet to be paid to us.

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Pledged Bank Deposits

As at 31 December 2016, 2017, 2018 and 31 March 2019, our pledged deposits was RMB13.5 million, RMB0.8 million, RMB2.5 million and RMB2.5 million, respectively. The pledged deposits were provided by our Operating Entities to secure bank borrowings raised by our offshore subsidiaries and credit cards issued to our offshore subsidiaries for overseas operations purposes. Please refer to the section headed “Financial Information — Indebtedness and Contingent Liabilities — Bank Borrowings” for more information.

Financial Assets Measured at Fair Value Through Profit or Loss

Our financial assets measured at fair value through profit or loss consist of investments in (i) unlisted equity securities; (ii) TV-series-based financial instrument; and (iii) wealth management product. The following table sets out the details of our financial assets measured at fair value through profit or loss as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>(in thousands of RMB)</i>			
Non-current				
Unlisted equity securities	3,466	767	—	—
Investment in TV-series-based financial instrument	—	—	—	3,849
Sub-total	3,466	767	—	3,849
Current				
Investment in wealth management product	—	—	—	20,000
Investment in TV-series-based financial instrument	—	—	—	17,554
Sub-total	—	—	—	37,554
Total	3,466	767	—	41,403

Unlisted equity securities

Unlisted equity securities represent our investment in 10.0% of the equity interest of Suzhou Leji, which was principally engaged in mobile game development in the PRC. Such equity interest was disposed in December 2018 as the performance of Suzhou Leji did not meet our expectation.

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TV-series-based financial instrument

On 18 January 2019, we entered into a TV-series production investment agreement (the “**TV-series Investment Agreement**”) with an independent third party licensed production house based in the PRC (the “**Licensed Production House**”) for co-financing the production of the TV-series. The TV-series is a drama based on the history of an ambassador in the Tang Dynasty, with the theme of promoting the culture of Chinese nation (the “**TV-Series**”). The Licensed Production House is a project company established by certain investors mainly for the production of the TV-Series. As at 31 March 2019, filming of the TV-Series was completed and was undergoing some post-production processes. The Licensed Production House is responsible for the filming, production and management of the TV-Series as well as obtaining the necessary broadcasting approval according to relevant applicable laws and regulations.

In accordance with the terms of the TV-series Investment Agreement, we made a principal-protected investment in the amount of RMB20.0 million, which represented 20% of the expected total budgeted production cost of the TV-Series of RMB100.0 million and we are entitled to receive (i) the principal amount of investment on or before 31 December 2019 regardless of the future performance of the TV-Series as we were granted the first right of repayment; and (ii) a fixed percentage of profits that exceeds the total production cost of the TV-Series based on the performance of TV-series within two years after its initial broadcasting. Based on the valuation report on the TV-series investment which is based on discounted cashflow methodology (as detailed below), the estimated expected return of our investment in the TV-Series is 7.0% as at 31 March 2019.

As our investment in the TV-Series is principal protected, we consider that it bears a relatively low-level of risk. Our Directors considered that in case the TV-Series gain overwhelming popularity, we would be well-positioned to obtain the related IP for potential game development.

Regarding the commercialization and prospects of the TV-Series, the Directors have reviewed the content and theme of the TV-Series and noted that it is based on the history of an ambassador in the Tang Dynasty, with the theme of promoting the culture and unity of the Chinese nation. At the time of entering into the investment contract, the filming process had been completed already and our Group’s investment is mainly to fund the post-production which is in progress. As such, our management was able to review the preliminary pre-view of the TV-Series and assess the theme and quality of the TV-Series before making the investment decision and to have a greater certainty of commercialization. Our Directors have also compared our Group’s estimated investment cost per episode and compared with historical selling price of TV-series to TV broadcasting companies per episode of precedent cases as found from market research, and noted that such investment cost should normally be recovered by the sale of the TV-series to TV broadcasting companies. Our Directors have also reviewed the experience and credentials of the production team of the TV-Series and noted that they are experienced in the industry with track record of producing drama broadcasted on national TV broadcasting companies.

Given the above and the experience of the production team and the status of production, our Directors remain optimistic about the TV-Series investment as well as the potential synergy or return that it may bring to our Group. Nevertheless, as with any other kinds of investment, there is inherent risk of whether and when the investment can be recovered. In case there is delay or uncertainty in the recovery of investment by 31 December 2019, our Directors will further discuss with the Licensed Production House for the follow up action based on the status at the material time and consider whether

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and when any legal action should be taken. Given that the investment is less than 3.0% of our total assets and less than 4.0% of our net assets as at 31 December 2018, our Directors do not consider that there would be any material impact on our Group if there is any delay or failure of receiving the investment principal and return.

Valuation of TV-series-based financial instrument

Our investment in this TV-series-based financial instrument is categorized within level 3 of fair value measurement. In relation to the valuation of the TV-series-based financial instrument, our Directors has (i) reviewed the terms of the TV-series Investment Agreement; (ii) engaged an independent third-party valuer (the “**Valuer**”) for the valuation of our investment in this TV-series-based financial instrument, provided necessary financial and non-financial information to the Valuer to perform valuation procedures, and discussed with the Valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, including the factors stated above, which require management’s assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the Valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the Valuer is fair and reasonable, and the financial statements of our Group are properly prepared. Our Directors are also of the view that the Valuer is independent from our Company, was suitably qualified and had the relevant expertise and resources to conduct the valuation of our investment in this TV-series-based financial instrument. The fair value of our investment in TV-series based financial instrument are determined using valuation techniques such as discounted cash flow analysis. Valuation techniques are calibrated to ensure that outputs reflect market conditions. Valuation model established by the Valuer makes the maximum use of market inputs and rely as little as possible on the Group’s specific data. The valuation model involves estimates on future cash flow, the Licensed Production House’s specific risk premium in the discount rate, the probability in different marketability scenarios of the TV-series and other relevant factors.

Details of the fair value measurement of our level 3 financial instruments, particularly the fair value hierarchy and the valuation techniques are disclosed in note 26 (e) to the Historical Financial Information of the Group as set out in the Accountants’ Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by HKICPA in Appendix I to this prospectus. The Reporting Accountants’ opinion on the Historical Financial Information of the Group for the relevant periods as a whole is set out on I-2 of Appendix I to the Prospectus.

In relation to the valuation analysis performed by the Valuer on our investment in this TV-series-based financial instrument, the Sole Sponsor conducted relevant due diligence work, including but not limited to (i) review of relevant notes in the Accountants’ Report as contained in Appendix I to this prospectus; (ii) review of documents provided by the Company to the Valuer; and (iii) discuss with the Company and the Valuer about the key bases and assumptions for the valuation of this TV-series-based financial instrument. Having considered the work done by our Directors and the Reporting Accountants and the relevant independent due diligence work conducted, the Sole Sponsor concurred with the valuation analysis performed by the Valuer.

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Investment in wealth management product

On 7 January 2019, we entered into a subscription agreement with Bank of Suzhou (the “**Subscription Agreement**”) pursuant to which we subscribed for a principal guaranteed wealth management product with Bank of Suzhou in a principal amount of RMB20 million with an expected annualized return up to 4.20%, which will vary with reference to the one month London Interbank Offered Rate, based on U.S. Dollar, at the date of redemption. The underlying financial assets of the wealth management products in which we invested primarily consist of the low-risk wealth management products, including but not limited to, PRC treasury bonds, interbank borrowings and bills issued by the PRC interbank money market. The investment term of such wealth management product is 90 days, and during such investment term, we cannot terminate the Subscription Agreement or redeem or withdraw the principal amount prior to the maturity date of the wealth management product. Bank of Suzhou has the right to terminate the Subscription Agreement relating to the wealth management product.

We subscribed for such wealth management product and we expected such subscription of wealth management product would generate higher yield than bank deposits, and we consider that this product would bear a relatively low level of risk. For further details of our capital and investment management policies, please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Other Income” in this prospectus.

Trade and Other Payables

The following table sets forth a breakdown of our trade and other payables as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>(in thousands of RMB)</i>			
Trade payables	11,556	16,860	14,165	19,805
Accrued payroll	21,395	33,374	54,210	39,574
Payables related to property, plant and equipment	—	—	11,584	11,799
Withholding individual income tax payable	—	—	—	16,140
Other payables and accruals	3,058	1,642	2,197	8,604
Trade and other payables	36,009	51,876	82,156	95,922

Trade payables

Trade payables are primarily service fees payable to the advertising, cloud and accelerated content delivery network service providers.

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Based on invoice date as at 31 December 2016, 2017 and 2018 and 31 March 2019, substantially all of our trade payables aged within three months. As at the Latest Practicable Date, RMB19.5 million or 98.4% of our trade payables as at 31 March 2019 had been subsequently settled.

The following table sets forth the average turnover days of trade payables for the periods indicated:

	Year ended 31 December			Three months ended
				31 March
	2016	2017	2018	2019
Average turnover days of trade payables ⁽¹⁾	25.3	25.5	12.8	16.4

Note:

- (1) Average turnover days of trade payables equal the average of the opening and closing balances of trade payables for the relevant period, divided by the aggregate of cost of sales (excluding distribution costs) and promotion and advertising expenses under sales and marketing expenses and multiplied by the number of days contained in that period.

During the Track Record Period, the average turnover days of trade payables were generally within the credit period granted to us by our relevant service providers which was generally up to 30 days. Our average turnover days of trade payables in 2018 was relatively shorter than other periods primarily because we had more transactions with certain online promotion and advertising service providers in 2018 who require prepayment of service fees instead of payment after delivery of services; thus our settlement period was shortened.

Accrued payroll

Payable for staff related costs mainly represent the employee compensation and benefits accrued but unpaid at the relevant period end.

Payables related to property, plant and equipment

Payables related to property, plant and equipment primarily represent the construction fees payable for our new office building, the construction of which commenced in 2018.

Withholding tax payable

The withholding tax payable mainly represents withholding individual income tax payable by our Shareholders in respect of our payment of dividends of RMB102.3 million to our Shareholders in February 2019 and has been settled as at the Latest Practicable Date.

Other payables and accruals

Other payables and accruals primarily include the unpaid balance of our corporate credit card and listing expenses.

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Contract Liabilities

Contract liabilities primarily represent (i) the sales proceeds received from the sales of virtual items and (ii) the licencing fees received from third-party publishers which had not been recognised as revenue yet. Please refer to the section headed “Financial Information — Critical Accounting Policies, Judgement and Estimates — Revenue Recognition and Contract Liabilities” for more information.

As at 31 December 2016, 2017 and 2018 and 31 March 2019, our contract liabilities were RMB28.9 million, RMB40.2 million, RMB66.3 million and RMB64.9 million, respectively. The increase was in line with the expansion in our game portfolio and scale of operation during the Track Record Period. The following table sets forth a breakdown of our contract liabilities as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>(in thousands of RMB)</i>			
Non-current				
Deferred licencing income amortised over one year ⁽¹⁾	5,390	2,075	11,451	11,024
Subtotal	5,390	2,075	11,451	11,024
Current				
Deferred game revenue published by us ⁽²⁾	19,885	34,301	46,386	47,272
Deferred licencing income amortised within one year ⁽¹⁾	3,612	3,839	8,483	6,601
Subtotal	23,497	38,140	54,869	53,873
Total	28,887	40,215	66,320	64,897

Notes:

- (1) Deferred licencing income primarily consists of the unamortised licencing fees received from third-party publishers, where there is still an implied obligation to be provided by us over time. Such licencing income are recognised rateably as revenue over the licencing service period, which is usually three years and can be extended upon mutual agreement.
- (2) Deferred game revenue primarily consists of the unamortised revenue from sales of in-game virtual items, where there is still an implied obligation to be provided by us over time. Such deferred revenue are recognised ratably as revenue over the player relationship period.

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The following table sets forth the movement of our contract liabilities as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>(in thousands of RMB)</i>			
Balance at 1 January	18,753	28,887	40,215	66,320
Addition	497,956	646,564	1,442,027	376,736
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year/period	(16,287)	(23,497)	(38,140)	(48,695)
Decrease in contract liabilities as a result of recognising revenue during the same year/period	(471,535)	(611,739)	(1,377,782)	(329,464)
Balance as at 31 December/ 31 March	28,887	40,215	66,320	64,897

Cash Flow Analysis

We have financed our operations primarily through cash generated from our operating activities, capital contribution from our Shareholders and bank borrowings. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had cash and cash equivalents of RMB225.8 million, RMB305.3 million, RMB472.6 million and RMB314.7 million, respectively.

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The following table sets forth our cash flows for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	(in thousands of RMB)				
	(unaudited)				
Operating profit before changes in working capital	128,130	151,741	365,976	38,119	98,807
Increase in contract costs	(1,077)	(4,880)	(4,285)	(3,790)	(127)
Increase in trade and other receivables	(30,946)	(39,870)	(15,331)	(34,175)	(63,362)
(Increase)/decrease in pledged bank deposit	—	(836)	(1,670)	(848)	38
(Increase)/decrease in other non-current assets	(2,830)	585	(324)	(647)	108
Increase/(decrease) in trade and other payables	11,652	16,071	18,697	(10,252)	(2,589)
Increase/(decrease) in contract liabilities	10,134	11,328	26,105	14,077	(1,423)
Cash generated from operations	115,063	134,139	389,168	2,484	31,452
Income tax paid	(11,898)	(14,436)	(45,122)	(5,314)	(11,879)
Net cash generated from/(used in) operating activities	<u>103,165</u>	<u>119,703</u>	<u>344,046</u>	<u>(2,830)</u>	<u>19,573</u>
Net cash generated from/(used in) investing activities	<u>8,335</u>	<u>(15,880)</u>	<u>(54,978)</u>	<u>(6,604)</u>	<u>(89,193)</u>
Net cash generated from/(used in) financing activities	<u>96,438</u>	<u>(22,156)</u>	<u>(123,577)</u>	<u>(771)</u>	<u>(86,998)</u>

Net Cash Generated from Operating Activities

Our primary source of cash generated from operating activities consists of share of revenue from games. Our cash used in operating activities are mainly used to fund the development, publishing and operation of our games. Our net cash generated from operating activities primarily reflects (i) our profit before taxation, as adjusted for depreciation of property, plant and equipment, amortisation of intangible assets, depreciation of right-of-use assets, loss allowance on trade and other receivables, interest income, finance cost, share of loss of an associate, changes in fair value of financial assets measured at fair value through profit and loss, share-based compensation, foreign exchange gain/loss, and other net losses/gains, (ii) the effects of changes in working capital and (iii) income tax paid.

For the three months ended 31 March 2019, net cash generated from operating activities was RMB19.6 million, which primarily reflected the combined effects of (i) operating profit before changes in working capital of RMB98.8 million; (ii) increase in trade and other receivables of RMB63.4 million as a result of the increase in sale proceeds generated from the simplified Chinese (PRC) version of *Rise of Queendom* (宫廷計手游) which reached stable and mature stage since August 2018 and the English/simplified Chinese (Overseas) and the Korean versions of *Royal Chaos* (熹妃Q傳) which reached stable and mature stage since September 2018 and December 2018, respectively, all of which resulted in a larger amount of trade receivables from the third-party distribution platforms; (iii) decrease in trade and other payables of RMB2.6 million; and (iv) income tax paid of RMB11.9 million.

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For the year ended 31 December 2018, net cash generated from operating activities was RMB344.0 million, which primarily reflected the combined effects of (i) operating profit before changes in working capital of RMB366.0 million, (ii) increase in trade and other receivables of RMB15.3 million as a result of the increase in sales proceeds generated from the simplified Chinese (PRC) version of *Royal Chaos* (熹妃Q傳) which was in stable and mature stage beginning from April 2018 and the simplified Chinese (PRC) version of *Rise of Queendom* (宮廷計手游) which was in early growth stage beginning from March 2018, both of which resulted in a larger amount of trade receivables from the third-party distribution platforms, (iii) increase in trade and other payables of RMB18.7 million as a result of the increase in the number and compensation package of our employees, (iv) increase in contract liabilities of RMB26.1 million as a result of the expansion of our operational scale, and (v) income tax paid of RMB45.1 million.

For the year ended 31 December 2017, net cash generated from operating activities was RMB119.7 million, which primarily reflected the combined effects of (i) operating profit before changes in working capital of RMB151.7 million, (ii) increase in trade and other receivables of RMB39.9 million as a result of the increase in sales proceeds generated from the simplified Chinese (PRC) version of *Royal Chaos* (熹妃Q傳) and *Fate: Royal Revenge* (京門風月) which were in early growth stage in 2017 and the simplified Chinese (PRC) version of *Legend of Empress* (熹妃傳) which was in stable and mature stage in 2017, all of which resulted in a larger amount of trade receivables from the third-party distribution platforms, (iii) increase in trade and other payables of RMB16.1 million as a result of the increase in the number and compensation package of our employees, (iv) increase in contract liabilities of RMB11.3 million as a result of the expansion of our operational scale, and (v) income tax paid of RMB14.4 million.

For the year ended 31 December 2016, net cash generated from operating activities was RMB103.2 million, which primarily reflected the combined effects of (i) operating profit before changes in working capital of RMB128.1 million, (ii) increase in trade and other receivables of RMB30.9 million as a result of the increase in sales proceeds generated from the simplified Chinese (PRC) version of *Legend of Empress* (熹妃傳) which was in stable and mature stage in 2016 and resulted in a larger amount of trade receivables from the third-party distribution platforms, (iii) increase in trade and other payables of RMB11.7 million as a result of the increase in the number and compensation package of our employees, (iv) increase in contract liabilities of RMB10.1 million as a result of the expansion of our operational scale, and (v) income tax paid of RMB11.9 million.

Net Cash Generated from/(Used in) Investing Activities

Our cash used in/generated from investing activities primarily reflects (i) cash used in payment for purchase of property, plant and equipment, land use rights for our new office building in Suzhou, intangible assets and other non-current assets, (ii) cash used in payment for investment in wealth management products, (iii) cash generated from investment in wealth management products and (iv) cash used in payment for investment in associate and other financial assets.

For the three months ended 31 March 2019, net cash used in investing activities was RMB89.2 million, which primarily included (i) our payment for purchase of property, plant and equipment, intangible assets and other non-current assets of RMB20.3 million mainly as a result of the construction of our new office building and purchase of servers, computers, testing equipment and softwares; (ii)

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payment for investment in wealth management products and structured deposits of RMB50.0 million issued by licensed banks in the PRC; and (iii) investment in TV-series-based financial instrument of RMB20.0 million.

For the year ended 31 December 2018, net cash used in investing activities was RMB55.0 million, which primarily included our payment for purchase of property, plant and equipment of RMB61.3 million mainly as a result of the construction of our new office building, partially offset by our interest income received in the amount of RMB5.6 million.

For the year ended 31 December 2017, net cash used in investing activities was RMB15.9 million, which primarily included (i) our payment for property, plant and equipment, intangible assets and other non-current assets of RMB6.8 million, which primarily include the purchase of servers, computers, testing equipment and softwares, (ii) our payment for purchase of land use rights for our new office building in Suzhou in the amount of RMB7.8 million, and (iii) our payment for investment in 30.16% of the equity interest of Jingxiang Times made in April 2017 in the aggregate amount of RMB5.0 million, partially offset by our interest income of RMB3.6 million.

For the year ended 31 December 2016, net cash generated from investing activities was RMB8.3 million, which primarily included (i) the proceeds from redemption of wealth management products of RMB128.8 million, (ii) the payment for investment in wealth management products of RMB104.0 million, and (iii) our payment for investment in 10.0% of the equity interest of Suzhou Leji in 2016 in the aggregate amount of RMB9.0 million.

Net Cash Generated from/(Used in) Financing Activities

Our cash generated from/used in financing activities primarily represents (i) the proceeds of capital injection by our pre-IPO investors, (ii) proceeds from and repayment of bank loans, (iii) payment and release of pledged bank deposit, (iv) payment of lease liabilities, and (v) profit distribution.

For the three months ended 31 March 2019, net cash used in financing activities was RMB87.0 million, which primarily included our payment of profit distribution by way of dividend in the amount of RMB86.1 million.

For the year ended 31 December 2018, net cash used in financing activities was RMB123.6 million, which primarily included our payment of profit distribution by way of dividend in the amount of RMB118.8 million.

For the year ended 31 December 2017, net cash used in financing activities was RMB22.2 million, which primarily included (i) our repayment of loans of RMB12.1 million, (ii) the release of pledged bank deposit of RMB13.5 million as a result of our repayment of the relevant bank loans, and (iii) our payment of profit distribution by way of dividend in the amount of RMB20.7 million.

For the year ended 31 December 2016, net cash generated from financing activities was RMB96.4 million, which primarily included (i) the proceeds from capital injection of RMB100.0 million contributed by our pre-IPO investors, (ii) the proceeds from bank loans of RMB21.5 million partially offset by the repayment of bank loans of RMB9.9 million, and (iii) the payment of pledged bank deposit of RMB25.0 million partially offset by the release of pledged bank deposit of RMB11.5 million.

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Working Capital

Taking into account the financial resources available to our Group, including cash flow from our operating activities, bank borrowings, capital injection by our shareholders and the estimated net proceeds of the Global Offering (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below the bottom end of the indicative Offer Price range), our Directors are of the view that our Group has sufficient working capital to meet our present requirements and for at least the next 12 months from the date of this prospectus.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Bank Borrowings

As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had total outstanding secured bank borrowings of RMB12.1 million, nil, nil and RMB0.3 million, respectively. During the Track Record Period, our bank loans interest rate ranged from 2.6% to 5.2% per annum. As at 31 July 2019, which is the latest practicable date for determining our indebtedness, the total outstanding amount of our bank borrowings was RMB5.3 million.

As at 31 July 2019, we had an aggregate committed banking facilities of RMB168.0 million, of which RMB2.3 million was utilised and the remaining RMB165.7 million was unutilised. Such banking facilities comprised a term loan facilities from a PRC commercial bank in the amount of RMB168 million (the “**Term Loan Facilities**”), which is designated solely for the construction of our new office building. The term of the Term Loan Facilities is five years starting from the utilisation date and the facilities are secured by a pledge of the land use right of our new office building and guaranteed by a corporate guarantee of provided by one of our Operating Entities. We are subject to a number of covenants under the facility agreement, which primarily include (i) provision of financial and operating information and materials periodically, (ii) notification of material adverse changes which would affect the solvency of the borrower, (iii) not to change the use of the proceeds received from the facility, (iv) compliance with the environment related laws and regulations during the construction process, (v) not to pledge the property, the construction of which are funded by the facility, to any third-party, (vi) report of any significant related party transaction that exceeds 10% of the net assets of our Group, (vii) obtaining the relevant approvals from the relevant government authorities, compliance with the relevant laws and regulations and securing funds from other sources on a timely basis in accordance with the construction plan, and (viii) obtaining the consent from the lender on any significant changes of the borrower, including merger, demerger, share transfer, external investment and substantial increase in indebtedness.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not breached any financial covenant or defaulted in repayment of trade and other payables and bank borrowings or other loan facilities that were due. Except for the bank borrowings under the credit facility discussed above, we currently do not have any plans for other material external debt financing.

Our bank borrowings amount fluctuated during the Track Record Period in accordance with our internal financial resources and the financing needs in that year.

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Lease liabilities

Our lease liabilities represent the lease in relation to the leasing of properties for office work. Our Group had lease liabilities amounted to RMB10.0 million, RMB7.7 million, RMB7.1 million, RMB6.0 million and RMB5.5 million as at 31 December 2016, 2017, 2018, 31 March 2019 and 31 July 2019, respectively. The lease term for the related leases ranges from two years to five years.

The following table sets forth a breakdown of our lease liabilities by current and non-current portions and the effective interest rate as at the dates and for the periods indicated:

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	<i>(in thousands of RMB, except for percentages)</i>				
	(unaudited)				
Current	2,625	2,812	4,580	4,543	5,508
Non-current	7,373	4,919	2,474	1,447	—
Lease liabilities	9,998	7,731	7,054	5,990	5,508
	For the year ended 31 December			For the three months ended 31 March	For the seven months ended 31 July
	2016	2017	2018	2019	2019
Effective interest rate	4.75%	4.75%	4.75%	4.75%	4.75%

Contingent Liabilities and Guarantees

Save as disclosed above, as at 31 July 2019, our Group did not have any outstanding mortgage, charges, debentures or other loan capital (issued or agreed to issue), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness and hire purchase commitment.

As at 31 July 2019, our Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against us.

Our Directors have confirmed that there has not been any material change in the indebtedness commitments and contingent liabilities of our Group since 31 July 2019 and up to the Latest Practicable Date.

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RELATED PARTY TRANSACTIONS

Contractual Arrangements with Suzhou FriendTimes and its Shareholders

Please refer to the section headed “Contractual Arrangements” in this prospectus for more information.

Transactions with our Controlling Shareholder and Key Management

During the Track Record Period, Mr. Jiang, one of our Controlling Shareholders, provided guarantee with the amount of RMB198,000,000 to our Group on the bank loan facility agreement amounting to RMB168,000,000. No bank loan had been withdrawn by our Group under the above bank loan facility agreement and the guarantee was cancelled on 1 February 2019.

For further details of our related party transactions, please refer to Note 28 to the Accountants’ Report in Appendix I of this prospectus.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

Our capital expenditure comprised property, plant and equipment, intangible assets and right-of-use assets. Property, plant and equipment primarily represent the construction of our new office building in Suzhou, our office and testing equipment, vehicles and renovation costs. Intangible assets primarily represent software and IP licences of literature that has been used or to be used by our games. Right-of-use assets primarily represent our leased assets and the land use right of our new office building in Suzhou. The following table sets forth our capital expenditures for the periods indicated:

	Year ended 31 December			Three months ended 31 March
	2016	2017	2018	2019
	<i>(in thousands of RMB)</i>			
Property, plant and equipment	8,012	4,605	72,657	19,307
Intangible assets	331	1,226	196	3,069
Right-of-use assets	4,434	7,777	2,840	—
Total capital expenditure	12,777	13,608	75,693	22,376

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KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as at the dates and for the periods indicated:

	As at 31 December/ for the year ended 31 December			As at 31 March/ for the three months ended 31 March
	2016	2017	2018	2019
	Current ratio ⁽¹⁾	4.0	3.9	4.2
Return on equity ⁽²⁾	31.4%	33.2%	58.7%	63.0%
Return on total assets ⁽³⁾	23.3%	24.8%	45.7%	48.5%
Gearing ratio ⁽⁴⁾	8.5%	2.2%	1.2%	1.1%
Gross profit margin ⁽⁵⁾	63.0%	61.7%	62.7%	64.1%
Net profit margin ⁽⁶⁾	14.2%	16.8%	23.0%	22.0%
Interest coverage ratio (times) ⁽⁷⁾	121.4	333.3	291.9	1,211.1

Notes:

- (1) Total current assets divided by total current liabilities as at each relevant period end.
- (2) For each of the three years ended 31 December 2018, return of equity is calculated by dividing profit for the year attributable to the equity shareholders of our Company by total equity attributable to the equity shareholders of our Company as at each relevant year end and multiplying 100%. For the three months ended 31 March 2019, return of equity is calculated by dividing profit for the period attributable to the equity shareholders of our Company by total equity attributable to the equity shareholders of our Company as at the period end and multiplying 100% and 365/90.
- (3) For each of the three years ended 31 December 2018, return of total assets is calculated by dividing profit for the year attributable to the equity shareholders of our Company by total assets as at each relevant year end and multiplying 100%. For the three months ended 31 March 2019, return of total assets is calculated by dividing profit for the period by total assets as at the period end and multiplying 100% and 365/90.
- (4) The aggregate of bank loans and lease liabilities divided by total equity as at each relevant period end and multiplied by 100%.
- (5) Gross profit for the year/period divided by revenue for the year/period and multiplied by 100%.
- (6) Profit for the year/period divided by revenue for the year/period and multiplied by 100%.
- (7) Finance costs for the year/period divided by profit before finance costs and income tax expenses for the year/period.

Current Ratio

Our current ratio remained stable as at 31 December 2016, 2017 and 2018 and 31 March 2019, which was 4.0, 3.9, 4.2 and 3.9, respectively.

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Return on Equity

Our return on equity remained stable for the year ended 31 December 2016 and 31 December 2017. Our return on equity increased from 33.2% for the year ended 31 December 2017 to 58.7% for the year ended 31 December 2018 primarily due to our profit for the year increased at a higher rate than our total equity. Our return on equity further increased to 63.0% for the three months ended 31 March 2019 primarily due to an increase in our profit for the period as well as a decrease in our equity as a result of the declaration of dividend of RMB102.3 million during the same period.

Return on Total Assets

Our return on total assets remained stable as at 31 December 2016 and 31 December 2017. Our return on total assets increased from 24.8% as at 31 December 2017 to 45.7% as at 31 December 2018 primarily due to our profit for the year increased at a higher rate than total asset. Our return on total assets increased from 45.7% for the year ended 31 December 2018 to 48.5% for the three months ended 31 March 2019, which was generally in line with the increase in our return of equity for the same period.

Gearing ratio

Our gearing ratio decreased from 8.5% as at 31 December 2016 to 2.2% as at 31 December 2017 primarily due to the repayment of bank loans during the year ended 31 December 2017. Our gearing ratio remained relatively stable at 2.2%, 1.2% and 1.1% as at 31 December 2017, 31 December 2018 and 31 March 2019, respectively.

Gross Profit Margin

Our gross profit margin remained stable at 63.0%, 61.7%, 62.7% and 64.1% in 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. Please refer to the section headed “Financial Information — Period to Period Comparison of Results of Operations” for detailed analysis of our gross profit margin.

Net Profit Margin

Our net profit margin increased from 14.2% in 2016 to 16.8% in 2017 primarily due to the non-recurring equity-settled share-based compensation expenses in the amount of RMB26.8 million incurred in 2016. Our net profit margin increased significantly from 16.8% in 2017 to 23.0% in 2018 primarily as a result of (i) the good performance of our games, in particular, *Royal Chaos* (熹妃Q傳) and *Rise of Queendom* (宮廷計手遊), that had led to a significant increase in revenue in 2018, resulting in a lower ratio of research and development expense and general and administrative expense as a percentage to our total revenue and (ii) the decrease in our income tax expenses in 2018 as discussed in “Financial Information — Period to Period Comparison of Results of Operations — Period Ended 31 December 2018 Compared to Period Ended 31 December 2017 — Income Tax Expenses”. Our net profit margin increased from 9.0% for the three months ended 31 March 2018 to 22.0% for the three months ended 31 March 2019 primarily as a result of (i) the initial launch of *Rise of Queendom* (宮廷計手遊) in March 2018 that led to an increase in our revenue; and (ii) a decrease in our sales and marketing expenses for the promotion and marketing of *Royal Chaos* (熹妃Q傳) as it entered into stable and mature stage which required less promotion and marketing efforts to attract new players compared to its early growth stage

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during the three months ended 31 March 2018. The effect was partially offset by an increase in our general and administrative expenses primary as a result of the non-recurring listing expenses incurred during the period.

Interest coverage ratio

Our interest coverage ratio increased from 121.4 times for the year ended 31 December 2016 to 333.3 times for the year ended 31 December 2017 primarily due to our repayment of bank loans during the year ended 31 December 2017. Our interest coverage ratio decreases from 333.3 times for the year ended 31 December 2017 to 291.9 times for the year ended 31 December 2018 primarily due to bank loans raised during the year ended 31 December 2018 and such bank loans were fully repaid as at 31 December 2018. Our interest coverage ratio increased from 291.9 times for the year ended 31 December 2018 to 1,211.1 times for the three months ended 31 March 2019 due to a minimal amount of bank loans were raised during the period as compared to that in 2018.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

In the ordinary course of our business, we are exposed to various credit risks, liquidity risks, interest rate risks, currency risks and equity price risks. Our risk management strategy aims to minimise the potential adverse effects of such risks on our financial performances.

Credit Risk

Our credit risk is primarily attributable to trade receivables. Our exposure to credit risk arising from cash and cash equivalents and pledged bank deposits is limited because the counterparties are reputable banks and financial institutions with high credit rating, for which we consider to have low credit risk.

For trade receivables, our exposure to credit risk is influenced mainly by the individual characteristics of each debtor rather than the industry or country in which the debtors operate and therefore significant concentrations of credit risk primarily arises when we have significant exposure to individual debtors.

Trade receivables at the end of each reporting period are due from third-party distribution platforms and third-party publishers in cooperation with our Group. If the strategic relationship with the third-party distribution platforms and third-party publishers is terminated or scaled-back; or if the third-party distribution platforms and third-party publishers alter the co-operative arrangements; or if they experience financial difficulties in paying our Group, our receivables might be adversely affected in terms of recoverability. To manage this risk, we maintain frequent communications with the third-party distribution platforms and third-party publishers to ensure effective credit control. In view of the history of cooperation with the third-party distribution platforms and third-party publishers and the sound collection history of receivables due from them, our Directors believe that the credit risk inherent in our outstanding trade receivable balances due from the third-party distribution platforms and third-party publishers is low. Please refer to Note 26(a) of the Accountants' Report in Appendix I to this prospectus for more information in relation to the quantitative analysis of our credit risk.

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Liquidity Risk

Our approach to managing liquidity is to ensure, as far as possible, that we will have sufficient cash to meet our liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation. Our policy is to regularly monitor current and expected liquidity requirements, and to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term. Please refer to Note 26(b) of the Accountants' Report in Appendix I to this prospectus for more information in relation to the quantitative analysis of our liquidity risk.

Interest Rate Risk

Our interest-bearing financial instruments at variable rates were the cash at bank as at 31 December 2016, 2017, 2018 and 31 March 2019, and bank loans as at 31 March 2019. The cash flow interest risk arising from the change of market interest rate on these balances is not considered significant. Our interest-bearing financial instruments at fixed interest rates were bank loans as at 31 December 2016 and structured deposits as at 31 March 2019 that were measured at amortised cost, and the change of market interest rate does not materially expose us to fair value interest risk. Our Directors believe that our exposure to interest rate risk is not significant.

Currency Risk

We are exposed to currency risk primarily through sales and purchases which give rise to receivables, payables, pledged bank deposits and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily U.S. dollars, Hong Kong dollars and RMB. Please refer to Note 26(d) of the Accountants' Report in Appendix I to this prospectus for more information in relation to the quantitative analysis of our currency risk.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for operating lease commitments, as at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DIVIDENDS

We are a holding company incorporated in the Cayman Islands. We rely on payments made from Suzhou FriendTimes to Suzhou Eagle, our wholly-owned PRC subsidiary, pursuant to the Contractual Arrangements, and the distribution of such payments to Friend Century, the immediate holding company of Suzhou Eagle, as dividends from Suzhou Eagle. Friend Century would in turn distribute payment as dividends to Friend World, the immediate holding company of Friend Century, which in turn distribute the payment received as dividends to the Company. Certain payments from Suzhou FriendTimes to Suzhou Eagle are subject to PRC taxes. In addition, we also rely on our offshore subsidiaries, Friend Century, Friend Times Korea and Wish Interactive for source of dividend to be distributed to investors.

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In addition, PRC laws and regulations require that dividends of a PRC company, such as Suzhou Eagle, be paid only out of accumulated profits, if any, as determined in accordance with PRC accounting standards, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRSs. Further, PRC laws and regulations require a PRC company, such as Suzhou Eagle, to set aside at least 10% of its after-tax profits calculated based on PRC accounting standards each year, if any, to fund certain statutory reserves until the reserves reach 50% of its registered capital, which may not be distributed as cash dividends. Also, a PRC Company may also allocate a portion of its after-tax profits, as determined by its shareholders, to its staff welfare and bonus funds which may not be distributed to us. In addition, payments and distributions from our Operating Entities and subsidiaries may be restricted if any of them incur losses or debts or as a result of any restrictive covenants in the instruments governing the debt or other agreements that they may enter into in the future. Any dividends paid by Suzhou Eagle to Friend Century may be subject to a withholding tax at a rate of up to 10.0%, provided that Friend Century is not considered to be a PRC tax resident enterprise.

During the Track Record Period, we declared dividends in an aggregate amount of nil, RMB20.7 million, RMB118.8 million and RMB102.3 million, respectively, for the year ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019 to our then shareholders. You should note that historical dividend distributions are not indicative of our future dividend distribution policy. After completion of the Global Offering, our Shareholders will be entitled to receive dividends that we declare and we expect to pay such dividends, if any, in Hong Kong dollars.

We currently do not have any pre-determined dividend pay-out ratio. The payment and the amount of any future dividends will be at the discretion of our Board and will also depend on factors such as our results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that our Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our Articles and the Companies Law, as well as the approval of our Shareholders. In addition, dividends can only be paid out of profits or out of sums standing to the credit of the share premium account of our Company under the Cayman Companies Law.

DISTRIBUTABLE RESERVES

As at 31 March 2019, our Company did not have any distributable reserves on a non-consolidated basis.

LISTING EXPENSES

Our listing expenses primarily consist of underwriting commissions, professional fees paid to the reporting accountants, legal advisers and other professional advisers for their services rendered in relation to the Listing and the Global Offering. The total estimated listing expenses (based on the midpoint of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised, including underwriting commissions and excluding any discretionary incentive fee which may be payable by us) in relation to the Global Offering are approximately RMB48.9 million.

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During the Track Record Period, we incurred actual listing expenses of RMB17.0 million, of which RMB7.2 million and RMB9.8 million were charged to our consolidated statement of profit or loss for the year ended 31 December 2018 and for the three months ended 31 March 2019, respectively.

We expect to incur further listing expenses of approximately RMB31.9 million, of which RMB12.4 million will be charged to our consolidated statement of profit or loss for the period beginning 1 April 2019 and ending 31 December 2019 and RMB19.5 million is expected to be charged against equity upon successful Listing under the relevant accounting guidelines for the period beginning 1 April 2019 and ending 31 December 2019.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the equity shareholders of our Company as at 31 March 2019, as if the Global Offering had taken place on 31 March 2019.

The pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at 31 March 2019 or at any future date.

	Consolidated net tangible assets of the Group attributable to equity shareholders of the Company as of 31 March 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of the Company	
	<i>RMB'000⁽¹⁾</i>	<i>RMB'000⁽²⁾⁽⁵⁾</i>	<i>RMB'000⁽³⁾⁽⁴⁾</i>	<i>RMB⁽⁴⁾</i>	<i>HK\$⁽⁵⁾</i>
Based on an Offer Price of HK\$1.37 per Offer Share, after a Downward Offer Price Adjustment of 10%	553,709	378,354	932,063	0.42	0.47
Based on an Offer Price of HK\$1.52 per Share	553,709	421,564	975,273	0.44	0.49
Based on an Offer Price of HK\$1.96 per Share	553,709	548,314	1,102,023	0.50	0.56

FINANCIAL INFORMATION

Notes:

- (1) The consolidated net tangible assets of the Group attributable to equity shareholders of the Company as of 31 March 2019 have been calculated based on the audited consolidated total equity attributable to equity shareholders of the Company as of 31 March 2019 of RMB557,861,000 less intangible assets of RMB4,152,000, extracted from the Accountants' Report set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds to be received from the Global Offering are based on the issuance of 330,000,000 Shares and the indicative Offer Prices of HK\$1.52 and HK\$1.96 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, and also based on an Offer Price of HK\$1.37 per Offer Share after making a Downward Offer Price Adjustment of 10%, after deduction of estimated listing expenses to be incurred after 31 March 2019 and upon Listing, and does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 March 2019.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to the Company as described in note (2) and on the basis that a total of 2,200,000,000 Shares were in issue (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalisation Issue) assuming that the Global Offering and the Capitalisation Issue had been completed on 31 March 2019 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option.
- (5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of HK\$1.00 to RMB0.90. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial, operational or trading position of our Group since 31 March 2019, being the date on which our latest audited consolidated financial statements were prepared.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as at 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 PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Business Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$519.9 million, after deduction of underwriting commissions and estimated expenses payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK\$83.5 million.

If the Offer Price is fixed at HK\$1.96 per Offer Share (being the high end of the Offer Price range stated in this prospectus) and assuming that the Over-allotment Option is not exercised, we will receive additional net proceeds of approximately HK\$70.4 million.

If the Offer Price is fixed at HK\$1.52 per Offer Share (being the low end of the Offer Price range stated in this prospectus) and assuming that the Over-allotment Option is not exercised, the net proceeds we receive will be reduced by approximately HK\$70.4 million.

We intend to use the net proceeds of the Global Offering in the amounts and for the purposes set out below assuming that the Over-allotment Option is not exercised and the Offer Price is fixed at HK\$1.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus):

- (i) approximately 30.0% of our estimated net proceeds, or HK\$155.9 million (equivalent to approximately RMB140.4 million), will be used to further expand and enhance our game portfolio and the research and development of our core proprietary technologies. We plan to recruit approximately 400 additional research and development talents with advanced education degrees and/or relevant industry qualification and experience from 2020 to 2022 and to retain our existing talents with competitive compensation to support our plan to expand our game portfolio and to strengthen our core proprietary technologies. As at 31 March 2019, 749 and 115 staff were responsible for (i) developing new mobile games and new language versions of games and optimising existing games and developing various language version of existing popular games portfolio and (ii) research and development of core proprietary technologies, respectively. Among the planned recruitment of approximately 400 additional research and development staff, approximately 350 and 50 staff will be responsible for (i) developing new mobile games and new language versions of games and optimising existing games and developing various language version of existing popular games and (ii) research and development of core proprietary technologies, respectively. Our research and development staff increased by approximately 444 employees from 2018 to the Latest Practicable Date and by approximately 174 employees from 1 January 2019 to the Latest Practicable Date. In view of the historical trend, our Directors believe that an additional 400 research and development staff would be required from 2020 to 2022 to support the

FUTURE PLANS AND USE OF PROCEEDS

continuous growth of our business. In deriving the estimation of 400 additional research and development employees, our Directors have already taken into account the employees which could be released when certain of our games enter into recession stage. The average annual salary for a qualified additional research and development employee is expected to be around HK\$280,000 (equivalent to approximately RMB246,300). The exact amount of salary will vary according to the experience and qualification of the individual employees. We believe recruiting and retaining research and development talents is crucial to enhancing our technical knowhow and game development capabilities. We intend to allocate:

- approximately 15% of our estimated net proceeds, or HK\$78.0 million (equivalent to approximately RMB70.2 million), to fund the research and development activities in respect of developing new mobile games and new language versions of our games. As disclosed in the section headed “Game pipeline” in the Business section of this prospectus, as at the Latest Practicable Date, our pipelines included, among others, five new mobile games covering various genres with new features and new technology.

Apart from simplified Chinese (PRC) version, our new major games will also have different language versions and will be launched in overseas markets. Going forward, we aim to continue to develop around 8 to 12 new mobile games covering various genres such as RPG, management simulation, SLG, and collective card games from 2020 to 2022 to enrich our game portfolio and to strength our market position. We foresee that we need to hire additional staff for the development of new games because, (i) a significant portion of our existing staff is needed for the continuous maintenance and optimization of our existing games and new games in the pipeline and it may not be appropriate to re-allocate them to the development of future new games; (ii) we envisage that our game portfolio and game pipeline will grow (in terms of number of new games and genre) along with our expansion in business scale and thus we will need additional staff to conduct research and development for a number of projects or new games concurrently; (iii) we will be required to continue to enhance the quality of our games in order to keep up with the demand and taste of our players in the mobile game market in different countries and regions; and (iv) among our aforesaid 8 to 12 new games to be developed from 2020 to 2022, we envisage that there would be at least three large scale games in terms of number of our research and development staff involved in the research and development and optimisation of games, meaning that such games will have rich content and complicated features which requires intense resources to optimise the technological aspects and artistic designs of the games, to develop new quality virtual items and to create complicated and rich game plays and, based on our experience, a large scale game may require around 100 staff for development;

- approximately 10% of our estimated net proceeds, or HK\$52.0 million (equivalent to approximately RMB46.8 million) for optimising our existing games and developing various language versions of our existing popular games. Although some of our existing games will be approaching recession stage in the next three years, we expect that a majority of our staff that conducted the development of the relevant games will still be needed in the on-going maintenance, operation and optimization of the same games such as launching new version upgrades, new game plays and new functions. For example, for the simplified Chinese (PRC) version of *Royal Chaos* (熹妃Q傳), we

FUTURE PLANS AND USE OF PROCEEDS

generally launch new version upgrades about twice a month and new major game plays two to three times a month to keep our players engaged so as to extend the game life cycle. Further, we also need our staff to continuously enhance the technological aspects of our games such as incorporation augmented reality technologies and performing game engines upgrades to maintain our leading position in ancient Chinese style female-oriented mobile game market in the PRC. Some of our staff will be required for artistic designs to enhance the artistic qualities of our games to ensure our games are in high quality. As such, even as a game approaches recession stage, we still require certain number of staff to continue to operate the game as these games may still generate substantial revenue despite approaching their recession stage;

- approximately 5.0% of our estimated net proceeds, or HK\$26.0 million (equivalent to approximately RMB23.4 million), will be used to fund the research and development activities in connection with our core proprietary technologies, including (i) development of software development kit technology and its related platform to allow efficient connection to different distribution platforms for publishing our games; (ii) research and development of game engine technology which is a tool for our ongoing development and optimization of games in an efficient way and is crucial for enhancing the 2D and 3D quality of our games; (iii) development of operation support platform and tool which provides integrated support from publication, operation to promotion of our games; (iv) research and development data analysis platform which utilises sophisticated data analytic technologies to efficiently process mass operational data and we can use such data to provide more player specific promotions and services; and (v) research and development of operation and maintenance platform for enhancing the efficiency of our server networks. We believe that our research and development on advanced technologies, platforms and tools will enhance our research and development efficiency and smoothen our game development and publication processes and thereby enable us to capture market potential as well as to keep up with the latest technologies in the mobile game industry. We also consider that we will need to expand our information technology team along with our growth in business scale in the coming three years.
- (ii) approximately 35.0% of our estimated net proceeds, or HK\$182.0 million (equivalent to approximately RMB163.8 million), will be used to fund our advertising, marketing and promotion campaigns to strengthen our competitive position in the PRC as well as various important overseas markets. We expect to incur advertising, marketing and promotion expense of not higher than 30% of our respective total revenue for each of the three years ending 2022. We intend to allocate:
- approximately 25.0% of our estimated net proceeds, or HK\$130.0 million (equivalent to approximately RMB117.0 million), to retain and consolidate our position in our important existing markets that have large market size and great potential, such as the PRC, South Korea, Japan, Singapore, Malaysia and North America. In terms of advertising, marketing and promotion campaigns to retain and consolidate our position in our existing markets, we plan to (i) conduct performance-based advertising on popular social network platforms such as Facebook, Twitter, Google, Baidu and Tencent; (ii) engage well-known celebrities to endorse certain of our signature games

FUTURE PLANS AND USE OF PROCEEDS

and to produce prints and video advertisements to promote these games and increase our brand awareness; (iii) conduct television commercials in selected important markets; (iv) conduct media distribution through public relation and other media companies; (v) cooperate with key opinion leaders to promote our games through online social platforms, such as YouTube, Bilibili and TikTok; (vi) conduct player community promotion through various reward activities; (vii) post physical advertisements in public places, such as buses, undergrounds and public buildings; (viii) participate in offline events such as trade shows and industry events to promote our games; and (ix) collaborate with search engines to promote our games and brand to new potential players.

- approximately 10.0% of our estimated net proceeds, or HK\$52.0 million (equivalent to approximately RMB46.8 million) to develop selective targeted overseas markets where we have not undertaken substantial marketing and promotion efforts before, such as Germany, France and the Middle East.

Our Directors believe that is justifiable to expand into Germany, France and the Middle East mobile game markets in the near future for the following reasons:

Mature mobile game infrastructure in Germany and France: The mobile game market in Germany and France are supported by mature internet infrastructure and stronger willingness to pay by players. According to Frost & Sullivan, the mobile game markets in Germany and France were among the top five in terms of revenue in Europe in 2018;

First mover advantage: According to Frost & Sullivan, the mobile game market in Germany and France are dominated by SLG and casual games and there have been very few Chinese mobile game developers and publishers which have entered into these markets. The number of female mobile game users in Germany and France was 14.4 million and 9.1 million in 2018, respectively. As such, we consider that it is worth trying to expand into these markets to enjoy first mover advantage by introducing mobile games featuring historical and Chinese characteristics and fill in such gap in these markets;

Market potential in the Middle East: According to Frost & Sullivan, the size of mobile game market in the Middle East exceeded USD1.2 billion in 2018, which is largely comprised of female players (who tend to have more leisure time) and young players under 30 years old (who account for more than 70% of the total population in the Middle East). Since young generation tends to show strong curiosity for new things including new game genres such as ancient Chinese style, it is our strategy to introduce ancient Chinese style mobile games to the young players and to introduce female-oriented games to the female players in such market;

Low localisation cost: Given that *Royal Chaos* (熹妃Q傳), *Yokai Kitchen* (精靈食肆) and *Legend of Empress* (熹妃傳), the three games which we intend to launch the Arabian and/or German/French versions, have already been developed, the costs for localisation of these games, such as translation costs, for launching them in the relevant countries are expected to be relatively small (estimated to be less than 10% of the initial

FUTURE PLANS AND USE OF PROCEEDS

costs of developing these games). Therefore, our Directors believe it is cost-effective and worthwhile to invest in the localisation of games to explore these new overseas markets; and

Provision of games in other genres: We have been actively developing mobile games in other genres. As at the Latest Practicable Date, we had 12 existing games in total, out of which five were ancient Chinese style female-oriented games, four were non-ancient Chinese style female-oriented games, and three were non-female-oriented games; in addition, we had two non-ancient Chinese style female-oriented games and two non-female-oriented games in our pipeline. These games include a variety of different genres such as RPG, SLG, MMORPG, music battle, management simulation, casual and collective card games. As such, we can offer a wide variety of games to our targeted new overseas markets and are not limited to only launching ancient Chinese style female-oriented games.

At the beginning stage, we intend to utilise similar online advertising, marketing and promotion campaigns as our existing markets because the cost of online advertising method is relatively controllable. We will comply with local laws and regulations in the relevant overseas markets in respect of operation permits and licences as we further expand into these markets.

- (iii) approximately 15.0% of our estimated net proceeds, or HK\$78.0 million (equivalent to approximately RMB70.2 million), will be used to strengthen our IP portfolio and enrich IP related contents offerings. This can be achieved by (i) creating our own original IPs by commissioning external popular artists or by our in-house artists to design the IPs for us on an exclusive basis; or (ii) buying-out or investing in high quality IPs with good potential commercial values from, for example, popular literature, comics, animations, television series and movies. For each of the years and the period during the Track Record Period, we used approximately RMB20.3 million, RMB33.1 million, RMB57.8 million and RMB22.9 million in the creation and/or acquisition of IPs, respectively. Having high quality IPs are crucial to the continuous growth of our business and are commensurate with our business strategies. We seek to commercialise our IPs to diversify our revenue source and to establish our game IP ecosystem, which would maximise the commercial value of our IPs. We envisage that IPs to be created or acquired by us may include literature IPs, anime IPs, games IPs, movie or variety show IPs.

FUTURE PLANS AND USE OF PROCEEDS

Amongst such net proceeds of HK\$78.0 million (equivalent to approximately RMB70.2 million), we intend to apply:

- (a) approximately 55% of such net proceeds (i.e. approximately HK\$43.0 million (equivalent to approximately RMB38.7 million)) towards creation of IPs. We intend to create six to 12 IPs, comprising of
 - around three to five IPs originating from literature with a budget of around RMB0.5 million to RMB1.0 million per IP, with reference to our historical production cost of literature;
 - around three to five IPs originating from comics with a budget of around RMB1.0 million to RMB1.5 million per IP, with reference to our research and development team members' previous experience on production cost of comics; and
 - around one to two anime related IPs with a budget of about RMB25.0 million to 38.0 million per IP, with reference to our research and development team members' previous experience on production of anime.
- (b) approximately 45% of such net proceeds (i.e. approximately HK\$35.0 million (equivalent to approximately RMB31.5 million)) towards acquisition of IPs. We intend to acquire about three to five IPs which may cost around RMB3.0 million to RMB20.0 million per IP with reference to price quotation of current IPs available in the market, depending on the commercial negotiation, nature, potential popularity, complexity and readiness of commercialization of such IP.

The value of an IP depends on various factors such as its reputation, ability to influence social behaviour, quality of design potential for commercialization. As such, the cost of acquiring an IP varies significantly. We plan to use such IPs in deriving games, and marketing and promotional materials or other non-game products for the primary purpose of enhancing the market position and market influence of our IPs and our games, extending the life cycle of our IPs and our IP-related games and maximising the commercial value and potentials of our IPs.

- (iv) approximately 10.0% of our estimated net proceeds, or HK\$52.0 million (equivalent to approximately RMB46.8 million), will be used to fund our strategic acquisition of both upstream and downstream game-related businesses to strengthen our IP creation capability and expand our IP portfolio, expand our game offerings and enhance our research and development efficiency. We intend to acquire strategic businesses such as developers of original IPs and specialised game developers, to strengthen our game development and operation capabilities and to complement our game publishing functions.

We believe that strategic acquisition and organic growth are not mutually exclusive but are complementary with each other in the long term development of our Group. By acquiring game-related businesses, we can establish a complete product chain from IP creation to game development and to game operations which would enhance our market position. Further, acquisition of IP creator is a fast way for our Group to expand our IP portfolio as compared to creating our own IPs because the creation of a new IP requires significant amount of time

FUTURE PLANS AND USE OF PROCEEDS

and resources. Acquisition of IP creators may also allow us to control our risks more effectively as we would require the IP creator targets to have already possessed developed or close to developed IPs which can be readily utilised. Also, acquisition of IP creators can also allow us to obtain mature and stable high-quality talents with unique research and development capabilities and successful product experience in certain areas which our Group has little or no experience in and this could help improve our ability to continuously create high-quality games and expand our game diversity. Although we have not identified any specific targets, we expect our potential acquisition targets will be IP creators and game developers which are profit making. We may invest in the potential acquisition targets (preferably in form of investment as a subsidiary) depending on our business needs and the acquisition will be funded by our net proceeds and/or in combination with our internal resources. We plan to acquire two companies from 2020 to 2022, the acquisition of which is subject to evaluations, negotiation and our budgets and may or may not happen:

- We plan to use our net proceeds of around HK\$22.2 million (equivalent to approximately RMB20.0 million) for acquisition of IP creators. The proposed IP creator acquisition targets are expected to be growing enterprises with continuous IP creation capabilities with around 10–20 staff and are holders of a number of IPs, such as novels, animation, film and television, which are commensurate with our business strategies and our game portfolio and the revenue generated from a single IP should be no less than RMB500,000.
 - We plan to use our net proceeds of around HK\$29.8 million (equivalent to approximately RMB26.8 million) for acquisition of game developers. The proposed game developer acquisition targets are expected to be small or medium-sized companies with at least 20 staff and with unique research and development capabilities in certain distinct areas and have high-quality game products. The proposed acquisition targets are also expected to have (i) developed or close to developed games which we can easily utilise; (ii) existing revenue generating games; or (iii) a strong game development team with proven track record in developing successful game.
- (v) approximately 10.0% of our estimated net proceeds, or HK\$52.0 million (equivalent to approximately RMB46.8 million), will be used for working capital and general corporate purposes.

In the event that the Offer Price is fixed below or above the mid-point of the indicative price range, the net proceeds allocated to the above purposes will be adjusted on a pro rata basis. Any additional proceeds received from the exercise of the Over-allotment Option will be allocated to the above purposes on a pro rata basis. If we make a Downward Offer Price Adjustment to set the final Offer Price of HK\$1.37 per Offer Share, the net proceeds we will receive from the Global Offering will be further reduced by an additional amount of approximately HK\$118.4 million. To the extent our net proceeds are further reduced, we will decrease the intended use of our net proceeds for the above purposes on a pro rata basis.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

In the event of any material change in our use of net proceeds of the Global Offering from the purposes described above or in our allocation of the net proceeds among the purposes described above, a formal announcement will be made.

REASONS FOR LISTING

Prior to Listing, we funded our operations principally from cash flows generated from operating activities and, to a smaller extent, through bank borrowings. Although we could continue to explore further debt financing to meet our business growth, our Directors consider that equity financing through Listing would be a better alternative for the following reasons: (i) our current debt financing channels are primarily loans from financial institutions, such as commercial banks, which are of a short term basis and relatively small amount and unable to satisfy our business growth. Financial institutions generally require pledge of assets and/or personal guarantee provided by directors and shareholders for long-term loans. Our Directors believe that the listing status of our Company would significantly enhance the creditworthiness and ability of us to independently obtain loans from licensed banks and/or financial institutions with more favourable terms; (ii) debt financing generally subject a borrower to various covenants contained in the relevant debt instruments, which may restrict our ability to pay dividends or obtain additional financing. Such covenants, as well as the other commercial terms of debt financing, including but not limited to the repayment terms and interest rates, may not be commercially acceptable to us. Uncertain interest rate movement in the future may expose us to increasing borrowing costs which may adversely affect our financial performance and liquidity; and (iii) payment of debt obligations could be burdensome to our operations. If we fail to pay such debt obligations on time or to comply with any of the covenants, we could be in default of such debt obligations and our liquidity, financial credibility and financial condition could be materially and adversely affected. In contrast, by proceeding with equity financing, we could enhance the shareholders' base without incurring additional financial liability.

Our current objective is to obtain a form of financing that is flexible and will enable us to achieve our expansion plans without being exposed to significant financial risks. Our Directors believe that the listing status of our Company upon Listing will (i) enhance our brand image; (ii) attract talented personnel to join us; (iii) introduce our Group to strategic investors; (iv) increase our competitiveness; and (v) enhance internal control and corporate governance practices which can foster customers' and suppliers' confidence in us. Further, in view of our future business expansions and long term development needs and goals, we believe the Listing would not only allow us to raise our international profile, which is not available from debt financing, but also allow us to access international capital and additional funding, as and when necessary.

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth the timeline for our use of net proceeds from the Global Offering:

Use of proceeds	For the year ending 31 December 2020 <i>(HK\$ in million)</i>	For the year ending 31 December 2021 <i>(HK\$ in million)</i>	For the year ending 31 December 2022 <i>(HK\$ in million)</i>	Sub-total <i>(HK\$ in million)</i>	Percentage to total proceeds <i>(%)</i>
1. Expanding and enhancing our game portfolio and the research and development of our core proprietary technologies					
Developing new mobile games and new language versions of games	23.4	23.4	31.1	77.9	15.0%
Optimising existing games and developing various language versions of existing popular games	15.6	15.6	20.8	52.0	10.0%
Research and development of core proprietary technologies	<u>7.8</u>	<u>7.8</u>	<u>10.4</u>	<u>26.0</u>	<u>5.0%</u>
Sub-total	46.8	46.8	62.3	155.9	30.0%
2. Strengthening our competitive position in the PRC as well as various important overseas markets					
Retaining and consolidating our position in important existing markets	52.0	39.0	39.0	130.0	25.0%
Developing selective targeted overseas markets	<u>18.2</u>	<u>15.6</u>	<u>18.2</u>	<u>52.0</u>	<u>10.0%</u>
Sub-total	70.2	54.6	57.2	182.0	35.0%
3. Strengthening IP portfolio and enriching IP related contents offerings	18.2	23.2	36.6	78.0	15.0%
4. Strategic acquisition of upstream and downstream game-related businesses	—	29.8	22.2	52.0	10.0%
5. General working capital	<u>26.0</u>	<u>15.6</u>	<u>10.4</u>	<u>52.0</u>	<u>10.0%</u>
Total	<u>161.2</u>	<u>170.0</u>	<u>188.7</u>	<u>519.9</u>	<u>100.0%</u>
Percentage to total proceeds	31.0%	32.7%	36.3%	100.0%	

If our Company fails to complete the Listing on schedule, we will consider to postpone the implementation timetable of our future plans that need to be funded by the proceeds of the Global Offering.

UNDERWRITING

HONG KONG UNDERWRITERS

Guotai Junan Securities (Hong Kong) Limited
CMB International Capital Limited
ABCI Securities Company Limited
Haitong International Securities Company Limited
Huatai Financial Holdings (Hong Kong) Limited
Ever-Long Securities Company Limited
HTF Securities Limited
Joincap Securities Limited
Tanrich Asia-Pac Securities Limited
Futu Securities International (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 33,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- (a) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Sole Representative (for itself and on behalf of the other Underwriters)),

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers to subscribe for, the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Sole Representative (for itself and on behalf of the other Underwriters), the Global Offering will not proceed and will lapse.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

UNDERWRITING

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares will be subject to termination by notice in writing to our Company from the Sole Sponsor and the Sole Representative (for itself and on behalf of the other Hong Kong Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Representative or the Sole Representative has reasonable cause to believe that:
 - (i) any statement contained in any of this prospectus, the Application Forms, the Formal Notice and any offering materials, preliminary offering circular, press announcement, the roadshow materials and any other document published or issued by or on behalf of our Company or the International Underwriters for the purposes of or in connection with the Global Offering and, in each case, all amendments or supplements thereto (collectively, the “**Offer Documents**”) considered by the Sole Sponsor and the Sole Representative (for itself and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Sole Representative in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any Offer Documents and considered by the Sole Sponsor and the Sole Representative (for itself and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering; or
 - (iii) any of the representations and warranties given by our Company or our executive Directors or the Controlling Shareholders (the “**Warrantors**”) in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Sole Sponsor and the Sole Representative (for itself and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering; or
 - (iv) any matter, event, act or omission which gives or is likely to give rise to any liability of our Company and the Warrantors pursuant to the indemnities given by the Company and the Warrantors under the Hong Kong Underwriting Agreement; or
 - (v) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or the Companies Ordinance or any applicable laws or regulations; or
 - (vi) any material litigation, legal action or claim being threatened or instigated against any member of our Group or our Directors; or;

UNDERWRITING

- (vii) any contravention by any of our Group member or any of our Director of any one of all laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any public, regulatory, taxing, administrative or governmental agency or authority, any self-regulatory organisation or any securities exchange authority, other authority and any court at the national, provincial, municipal or local level of all relevant jurisdictions, including without limitation Hong Kong, the Cayman Islands, the BVI, and the PRC (the “**Law**”) in any material aspect; or
- (viii) any breach of any of the obligations or undertakings imposed upon any party (other than the Sole Representative or any of the Underwriters or the Sole Sponsor) to any of the Underwriting Agreements; or
- (ix) any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, shareholders’ equity, properties, results of operations, in the financial or trading position or prospects of any of our Group company; or
- (x) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xi) we withdraw any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (xii) any person (other than the Hong Kong Underwriters) whose consent is required for the issue of the Prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (xiii) that a material portion of the orders placed or confirmed in the book-building process, or of the investment commitments made by any cornerstone investors (if any) under the agreements signed with such cornerstone investors, have been withdrawn, terminated or cancelled; or
- (xiv) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Sponsor and the Sole Representative (for itself and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material; or

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- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the RMB against any foreign currencies in or affecting Hong Kong, China, the Cayman Islands, Japan, South Korea, the BVI, the United States, the United Kingdom, the European Union (or any member thereof) or any other relevant jurisdiction (each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, acts of war, riot, outbreak or escalation of hostilities (whether or not war is declared), public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation SARS and Influenza A (H5N1), in or affecting any of the Relevant Jurisdictions; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
 - (v) (A) any suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, or the Shenzhen Stock Exchange, or (B) a general moratorium of commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
 - (vi) any material adverse change or development or event involving a prospective material adverse change in taxation or exchange controls or the implementation of any exchange control, currency exchange rates (including a material devaluation of the Hong Kong dollars or the RMB against any foreign currencies) or foreign investment regulations in any of the Relevant Jurisdictions; or

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- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
- (viii) any material adverse change or development or event involving a prospective material adverse change in our assets, liabilities, shareholders' equity, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) other than with the approval of the Sole Representative, the issue or requirement to issue by our Company of a supplementary prospectus or offering document pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC in circumstances where the matter to be disclosed is, in the opinion of the Sole Representative materially adverse to the marketing for or implementation of the Global Offering; or
- (xi) a petition is presented for the winding up or liquidation of our Company or any of our subsidiaries, or our Company or any of our subsidiaries make any compromise or arrangement with our Company's or our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of our assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or
- (xii) a valid demand by any creditor for repayment or payment of any of our Company's indebtedness or those of any of our subsidiaries or in respect of which our Company or any of our subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of our subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xiii) a contravention by our Group or any of the member of our Group of the Listing Rules or applicable Laws; or
- (xiv) a prohibition on our Company for whatever reasons from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Global Offering; or
- (xv) any material litigation or claim being threatened or instigated against our Company or any of our subsidiaries or the Controlling Shareholders,

and which in any of the above cases and in the sole opinion of the Sole Representative (for itself and on behalf of the Sole Sponsor and the Hong Kong Underwriters):

- (a) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Group as a whole; or

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- (b) has or may have or will have or is likely to have an adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
- (c) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (d) has or may have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings given to the Hong Kong Stock Exchange pursuant to the Listing Rules

By our Company

We have undertaken to the Hong Kong Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Hong Kong Stock Exchange that except pursuant to the Global Offering, the Over-allotment Option, the Stock Borrowing Agreement or save for exceptions permitted under Note (2) to Rule 10.07(2) of the Listing Rules, it shall not and shall procure the relevant registered holder(s) of the Relevant Shares (as defined below) not to (i) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it/he/she is shown to beneficially own in this prospectus (the “**Relevant Shares**”); or (ii) in the period of six months commencing on the date on which the period referred to in (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that it/he/she would cease to be a controlling shareholder (as defined under the Listing Rules).

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Each of our Controlling Shareholders has further undertaken to us and the Hong Kong Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he/she will:

- (a) when it/he/she pledges or charges any securities in our Company beneficially owned by it/him/her in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when it/he/she receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it/him/her will be disposed of, immediately inform us in writing of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings given to the Hong Kong Underwriters

Undertakings by our Company

Our Company has irrevocably and unconditionally undertaken to each of the Sole Sponsor, the Sole Representative, the Joint Global Coordinators and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Representative (for itself and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over either directly or indirectly, conditionally or unconditionally, any Shares or other securities of Our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depositary in

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connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also irrevocably and unconditionally undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

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By our Controlling Shareholders

Each of our Controlling Shareholders has irrevocably and unconditionally jointly and severally undertaken to each of our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the other Hong Kong Underwriters that, except pursuant to the Global Offering and the Stock Borrowing Agreement and in compliance with the Listing Rules, without the prior written consent of the Sole Representative (for itself and on behalf of the other Hong Kong Underwriters):

- (i) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the “**Controlled Entities**”) shall not,
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depository in connection with the issue of depository receipts; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or
 - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or
 - (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

Each of the Controlling Shareholders has irrevocably and unconditionally jointly and severally further undertaken to each of our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the other Hong Kong Underwriters that it/he/she will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the Second Six-Month Period.

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In the event that, during the First Six-Month Period and the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, it/he/she will:

- (i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Representative in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it/he/she receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Representative in writing of such indications.

Underwriters' interests in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The International Offering

International Offering

In connection with the International Offering, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares being offered pursuant to the International Offering. Please refer to the section headed "Structure of the Global Offering — The International Offering" in this prospectus.

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Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Sole Representative on behalf of the International Underwriters from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to issue and allot up to an aggregate of 49,500,000 additional Offer Shares, representing 15.0% of the Offer Shares initially available under the Global Offering and at the Offer Price, to cover any over-allocations in the International Offering, if any.

Total Commission and Expenses

We will pay the Sole Representative (for itself and on behalf of the other Underwriters) an underwriting commission of 2.5% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Sole Representative and the relevant International Underwriters, but not the Hong Kong Underwriters. In addition, we may, at our discretion, pay to the Sole Representative an additional incentive fee of up to 0.5% of the aggregate Offer Price of the Offer Shares from the Global Offering, including proceeds from the exercise of the Over-allotment Option.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.74 (being the mid-point of the stated range of the Offer Price between HK\$1.52 and HK\$1.96), the aggregate commissions and estimated expenses, together with the Hong Kong Stock Exchange listing fee, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to HK\$48.9 million in total and are payable by us.

Indemnity

We and each of our Controlling Shareholders have jointly and severally undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless the Hong Kong Underwriters (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us or our Controlling Shareholders of the Hong Kong Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of initially 33,000,000 Offer Shares (subject to adjustments as mentioned below) in Hong Kong as described below in the paragraph headed “The Hong Kong Public Offering” below; and
- the International Offering of initially 297,000,000 Offer Shares (subject to adjustments and the Over-allotment Option as described below) outside the United States (including to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S as described below in the paragraph headed “The International Offering” below.

Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offering; or
- apply for or indicate an interest for the International Offer Shares under the International Offering,

but may not do both.

The 330,000,000 Offer Shares in the Global Offering will represent 15.0% of our enlarged share capital immediately after the completion of the Global Offering and the Capitalisation Issue, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 16.9% of our enlarged share capital immediately following the completion of the Global Offering and the Capitalisation Issue.

References to applications, Application Forms, application monies or procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering for subscription by the public in Hong Kong 33,000,000 Offer Shares, representing 10.0% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares offered under the Hong Kong Public Offering will represent approximately 1.5% of our enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

STRUCTURE OF THE GLOBAL OFFERING

Completion of the Hong Kong Public Offering is subject to the conditions as set forth below in “Conditions of the Global Offering”.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

- *Pool A:* The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable); and
- *Pool B:* The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of the Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 16,500,000 Hong Kong Offer Shares will be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below.

STRUCTURE OF THE GLOBAL OFFERING

If the number of Hong Kong Offer Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 99,000,000, 132,000,000 and 165,000,000 Hong Kong Offer Shares, respectively, representing approximately 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Representative deems appropriate, and such additional Offer Shares will be re-allocated to Pool A and Pool B in the Hong Kong Public Offering.

In addition to the reallocation above, the Sole Representative reserves its rights to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications in pool A and Pool B under the Hong Kong Public Offering. However, according to Guidance Letter HKEX-GL91-18 issued by the Hong Kong Stock Exchange if (a) the International Offering is undersubscribed and the Hong Kong Public Offering are fully subscribed or oversubscribed irrespective of the number of times or (b) when the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is oversubscribed by less than 15 times the total number of Offer Shares initially available under the Hong Kong Public Offering, then in any of these circumstances, the Sole Representative may only reallocate Offer Shares from the International Offering to the Hong Kong Public Offering other than pursuant to Practice Note 18 of the Listing Rules on the following conditions (the “**Allocation Cap**”):

- (i) the total number of Offer Shares that may be reallocated from the International Offering to the Hong Kong Public Offering shall be not more than the number of Offer Shares initially allocated to the Hong Kong Public Offering so that the maximum total number of shares that may be allocated to the Hong Kong Public Offering will increase up to 66,000,000 Shares, representing double of the initial allocation to the Hong Kong Public Offering in accordance with Guidance Letter HKEX-GL91-18; and
- (ii) the final Offer Price shall be fixed at HK\$1.52 per Offer Share, the low-end of the Offer Price range stated in this prospectus or the downward adjusted final Offer Price if a Downward Offer Price Adjustment is made in accordance with Guidance Letter HKEX-GL90-18 issued by the Hong Kong Stock Exchange.

If the Hong Kong Public Offering is undersubscribed and the International Offering is fully Subscribed or oversubscribed, the Sole Representative may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Representative deems appropriate. Allocation Cap will not be triggered.

In the event that both the Hong Kong Public Offering and International Offering are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements.

STRUCTURE OF THE GLOBAL OFFERING

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustments of the number of the Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, maximum price of HK\$1.96 per Offer Share in addition to brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined on the Price Determination Date in the manner as described below in the paragraph headed "Pricing and Allocation", is less than the maximum price of HK\$1.96 per Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, please see section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Offering 297,000,000 Offer Shares, representing 90.0% of the Offer Shares under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares offered under the International Offering will represent approximately 13.5% of our enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised.

Allocation

The International Offer Shares will conditionally be offered to selected professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other

STRUCTURE OF THE GLOBAL OFFERING

investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Representative and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Shares, after the listing of the Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Representative (for its and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Representative so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications of Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement as described above in the paragraph headed “The Hong Kong Public Offering — Reallocation” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Sole Representative (for itself and on behalf of the International Underwriters) at any time from the Listing Date within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue up to 49,500,000 additional Shares, representing 15.0% of the Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Shares to be issued pursuant thereto will represent approximately 2.2% of our enlarged issued share capital immediately following the completion of the Global Offering and the Capitalisation Issue. In the event that the Over-allotment Option is exercised, an announcement will be made.

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STABILISATION

Stabilisation is a practise used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any persons acting for it, to conduct any such stabilising action. Such stabilising action, if taken, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days after the last day for lodging the applications under the Hong Kong Public Offering.

Stabilisation action permitted in Hong Kong under the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilising Manager (or any person acting for it) may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager (or any person acting for it) and selling in the open market, may have an adverse impact on the market price of the Shares;
- no Stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on the 30th day after the last day for lodging the applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;

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- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price, which means that stabilising bids or transactions effected may be made at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, using Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager (or its affiliate(s)) may choose to borrow up to 49,500,000 Shares, representing 15.0% of the total number of the Offer Shares initially available for the Global Offering, from Warm Sunshine, one of our Controlling Shareholders, pursuant to the Stock Borrowing Agreement.

The stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with as follows:

- such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Warm Sunshine by the Stabilising Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Warm Sunshine or its nominee(s) within three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and

STRUCTURE OF THE GLOBAL OFFERING

- no payment will be made to Warm Sunshine by the Stabilising Manager (or any person acting for it) in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

Our Company and the Sole Representative (for itself and on behalf of the Underwriters) will determine the Offer Price and sign an agreement on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 27 September 2019, and in any event, not later than Monday, 30 September 2019.

The Offer Price will not be more than HK\$1.96 per Offer Share and is expected to be not less than HK\$1.52 per Offer Share, unless otherwise announced, as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum price of HK\$1.96 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the bottom end of the indicative Offer Price range stated in this prospectus (subject to a Downward Offer Price Adjustment).

If the Offer Price, as finally determined in the manner described below, is lower than HK\$1.96, we will refund the respective difference, including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, please see section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Sole Representative (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process, and with the consent of the Company, determine the final Offer Price to be no more than 10% below the bottom end of the indicative Offer Price range, at any time on or prior to the Price Determination Date.

In such situation, the Company will, as soon as practicable following the decision to set the final Offer Price below the bottom end of the indicative Offer Price range, publish on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s website (www.friendtimes.net) an announcement of the final Offer Price after making a Downward Offer Price Adjustment. Such announcement will be issued before and separate from the announcement of the results of allocations no later than 4 October 2019. The Offer Price announced following making of a Downward Offer Price Adjustment shall be the final Offer Price and shall not be subsequently changed.

In the absence of an announcement that a Downward Offer Price Adjustment has been made, the final Offer Price will not be outside the indicative Offer Price range as disclosed in this prospectus unless the Withdrawal Mechanism is utilised.

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The Sole Representative (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price Range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice on our website at www.friendtimes.net and the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised offer price range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price Range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Representative (for itself and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price Range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price Range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares, the Sole Representative may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10.0% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

Irrespective of whether a Downward Offer Price Adjustment is made, the final Offer Price, the level of indication of interest in the International Offering, the basis of allotment of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares — 11. Publication of Results” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Shares in issue and to be issued as described in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and such Listing and permission not subsequently having been revoked prior to the Listing Date;
- the Offer Price having been agreed between us and the Sole Representative (for itself and on behalf of the Underwriters);
- the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between us and the Sole Representative (for itself and on behalf of the Underwriters) on or before Monday, 30 September 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on our website at www.friendtimes.net and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

STRUCTURE OF THE GLOBAL OFFERING

UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to, among other conditions, us and the Sole Representative (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

Certain terms of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarised in the section headed “Underwriting” in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at 8:00 a.m. in Hong Kong on Tuesday, 8 October 2019, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, 8 October 2019.

The Shares will be traded in board lots of 2,000 Shares each. The stock code of our Shares will be 6820.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Representative, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Representative may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 24 September 2019 until 12:00 noon on Friday, 27 September 2019 from:

- (i) any of the following offices of the Hong Kong Underwriters:

Guotai Junan Securities (Hong Kong) Limited	27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong
CMB International Capital Limited	45/F, Champion Tower, 3 Garden Road, Hong Kong
ABCI Securities Company Limited	10/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong
Haitong International Securities Company Limited	22/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong
Huatai Financial Holdings (Hong Kong) Limited	62/F, The Center, 99 Queen's Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Ever-Long Securities Company Limited	Room 1101–1102 & 1111–1112, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong
HTF Securities Limited	Unit 1807, 18/F., Officer Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong
Joincap Securities Limited	Suite 606, 6/F, One Pacific Place, 88 Queensway, Hong Kong
Tanrich Asia-Pac Securities Limited	Suite 801, 8/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Futu Securities International (Hong Kong) Limited	Unit C1–2, 13/F, United Centre, No.95 Queensway, Hong Kong

(ii) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	Aberdeen Branch	25 Wu Pak Street, Aberdeen, Hong Kong
	Causeway Bay Branch	505 Hennessy Road, Causeway Bay, Hong Kong
Kowloon	Wong Tai Sin Branch	Shop G13 & G13A, G/F, Temple Mall South, Wong Tai Sin, Kowloon
	Ma Tau Kok Road Branch	39–45 Ma Tau Kok Road, To Kwa Wan, Kowloon
	Mong Kok Branch	589 Nathan Road, Mong Kok, Kowloon
New Territories	Tai Wai Branch	74–76 Tai Wai Road, Sha Tin, New Territories
	East Point City Branch	Shop Nos. 217 D–E, Level 2, East Point City, 8 Chung Wa Road, Tseung Kwan O, New Territories
	Texaco Road Branch	Shop A112, East Asia Gardens, 36 Texaco Road, Tsuen Wan, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 24 September 2019 until 12:00 noon on Friday, 27 September 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to BANK OF CHINA (HONG KONG) NOMINEES LIMITED — FRIENDTIMES INC PUBLIC OFFER for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, 24 September 2019 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 25 September 2019 — 9:00 a.m. to 5:00 p.m.
- Thursday, 26 September 2019 — 9:00 a.m. to 5:00 p.m.
- Friday, 27 September 2019 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 27 September 2019, the last application day or such later time as described in “Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Representative (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Cayman Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering in this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vi) agree that none of our Company, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Co-lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Representative will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
 - (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
 - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form service

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 24 September 2019 until 11:30 a.m. on Friday, 27 September 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, on Friday, 27 September 2019 or such later time under the “Effects of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Representative and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company and the Sole Representative will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offer results;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for ourself and for the benefit of each Shareholder (and so that our Company will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Tuesday, 24 September 2019 — 9:00 a.m. to 8:30 p.m.
- Wednesday, 25 September 2019 — 8:00 a.m. to 8:30 p.m.
- Thursday, 26 September 2019 — 8:00 a.m. to 8:30 p.m.
- Friday, 27 September 2019 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 24 September 2019 until 12:00 noon on Friday, 27 September 2019 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 27 September 2019, the last application day or such later time as described in “Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section.

Note:

- (1) The time in this sub-section is subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, receiving banks, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 27 September 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

HOW TO APPLY FOR HONG KONG OFFER SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27 September 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 27 September 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, 4 October 2019 on our Company’s website at **www.friendtimes.net** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at **www.friendtimes.net** and the Hong Kong Stock Exchange’s website at **www.hkexnews.hk** by no later than Friday, 4 October 2019;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** (**alternatively: www.hkeipo.hk/IPOResult**) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 4 October 2019 to 12:00 midnight on Thursday, 10 October 2019;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 4 October 2019 to Thursday, 10 October 2019 (excluding Saturday, Sunday and public holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 4 October 2019 to Wednesday, 9 October 2019 at all the receiving bank’s designated branches.

If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR HONG KONG OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Representative, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.hkeipo.hk**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Representative believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.96 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Friday, 4 October 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

HOW TO APPLY FOR HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Friday, 4 October 2019. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 8 October 2019 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 4 October 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Friday, 4 October 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 4 October 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 4 October 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 4 October 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queens' Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 4 October 2019, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) will be sent to the address specified in your application instructions on Friday, 4 October 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 4 October 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Friday, 4 October 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 4 October 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 4 October 2019. Immediately following the credit of the Hong Kong Offer

HOW TO APPLY FOR HONG KONG OFFER SHARES

Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 4 October 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-62, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FRIENDTIMES INC. AND GUOTAI JUNAN CAPITAL LIMITED

Introduction

We report on the historical financial information of FriendTimes Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-62, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017, 2018 and 31 March 2019, the statements of financial position of the Company as at 31 December 2018 and 31 March 2019, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2016, 2017, 2018 and the three months ended 31 March 2019 (the "Relevant Periods"), 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-62 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 24 September 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for 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 preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 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 purpose of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017, 2018 and 31 March 2019, and the Company's financial position as at 31 December 2018 and 31 March 2019, and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the three months ended 31 March 2018 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding 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 enquiries, 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 Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 25(c) to the Historical Financial information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its incorporation.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

24 September 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

Consolidated statements of profit or loss

	Note	Years ended 31 December			Three months ended 31 March	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	4	568,802	700,247	1,464,290	274,685	393,538
Cost of sales		(210,540)	(267,973)	(546,000)	(102,525)	(141,298)
Gross profit		358,262	432,274	918,290	172,160	252,240
Other income/(losses)	5	13,937	11,548	36,016	(10,646)	(3,757)
Sales and marketing expenses		(168,671)	(190,436)	(422,076)	(103,057)	(87,291)
Research and development expenses		(63,586)	(89,435)	(136,420)	(24,786)	(48,197)
General and administrative expenses		(44,175)	(16,622)	(32,481)	(5,309)	(17,437)
Profit from operations		95,767	147,329	363,329	28,362	95,558
Finance costs	6(a)	(743)	(431)	(1,242)	(100)	(80)
Share of loss of an associate	15	—	(970)	(803)	(147)	(70)
Changes in fair value of financial assets measured at fair value through profit or loss	14	(5,534)	(2,699)	—	—	1,403
Profit before taxation	6	89,490	143,229	361,284	28,115	96,811
Income tax expense	7	(8,802)	(25,326)	(24,581)	(3,508)	(10,164)
Profit for the year/period		<u>80,688</u>	<u>117,903</u>	<u>336,703</u>	<u>24,607</u>	<u>86,647</u>
Attributable to:						
Equity shareholders of the Company		81,367	117,977	336,650	24,673	86,647
Non-controlling interests		(679)	(74)	53	(66)	—
Profit for the year/period		<u>80,688</u>	<u>117,903</u>	<u>336,703</u>	<u>24,607</u>	<u>86,647</u>
Earnings per share						
Basic and diluted (RMB)	10	<u>1.59</u>	<u>2.28</u>	<u>6.52</u>	<u>0.48</u>	<u>1.68</u>

The accompanying notes form parts of the Historical Financial Information.

Consolidated statements of profit or loss and other comprehensive income

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Profit for the year/period	80,688	117,903	336,703	24,607	86,647
Other comprehensive income for the year/period					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of overseas subsidiaries	307	(285)	(165)	(475)	18
Total comprehensive income for the year/period	<u>80,995</u>	<u>117,618</u>	<u>336,538</u>	<u>24,132</u>	<u>86,665</u>
Attributable to:					
Equity shareholders of the Company	81,674	117,692	336,485	24,198	86,665
Non-controlling interests	<u>(679)</u>	<u>(74)</u>	<u>53</u>	<u>(66)</u>	<u>—</u>
Total comprehensive income for the year/period	<u>80,995</u>	<u>117,618</u>	<u>336,538</u>	<u>24,132</u>	<u>86,665</u>

The accompanying notes form parts of the Historical Financial Information.

Consolidated statements of financial position

		As at 31 December			As at 31 March
	Note	2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	11	9,711	10,598	78,210	95,889
Intangible assets	12	706	1,504	1,333	4,152
Right-of-use assets	13	9,250	14,147	13,167	12,115
Financial assets measured at fair value					
through profit or loss	14	3,466	767	—	3,849
Interest in an associate	15	—	4,030	3,227	3,157
Deferred tax assets	23(b)	7,216	7,823	13,320	8,617
Other non-current assets		2,830	3,216	3,540	1,546
		<u>33,179</u>	<u>42,085</u>	<u>112,797</u>	<u>129,325</u>
Current assets					
Contract costs	16	6,593	11,473	15,758	15,885
Financial assets measured at fair value					
through profit or loss	14	—	—	—	37,554
Trade and other receivables	17	70,752	115,413	132,282	225,115
Pledged bank deposits	18	13,500	836	2,506	2,468
Cash and cash equivalents	19	225,786	305,316	472,605	314,720
		<u>316,631</u>	<u>433,038</u>	<u>623,151</u>	<u>595,742</u>
Current liabilities					
Bank loans	20	12,090	—	—	293
Trade and other payables	21	36,009	51,876	82,156	95,922
Contract liabilities	22	23,497	38,140	54,869	53,873
Current taxation	23(a)	4,021	19,542	6,936	104
Lease liabilities	13	2,625	2,812	4,580	4,543
		<u>78,242</u>	<u>112,370</u>	<u>148,541</u>	<u>154,735</u>
Net current assets		<u>238,389</u>	<u>320,668</u>	<u>474,610</u>	<u>441,007</u>
Total assets less current liabilities		<u>271,568</u>	<u>362,753</u>	<u>587,407</u>	<u>570,332</u>

The accompanying notes form parts of the Historical Financial Information.

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
Non-current liabilities					
Contract liabilities	22	5,390	2,075	11,451	11,024
Lease liabilities	13	<u>7,373</u>	<u>4,919</u>	<u>2,474</u>	<u>1,447</u>
		<u>12,763</u>	<u>6,994</u>	<u>13,925</u>	<u>12,471</u>
NET ASSETS		<u>258,805</u>	<u>355,759</u>	<u>573,482</u>	<u>557,861</u>
CAPITAL AND RESERVES					
Share capital	25	51,660	51,660	51,663	4
Reserves	25	<u>207,124</u>	<u>304,152</u>	<u>521,819</u>	<u>557,857</u>
Total equity attributable to equity shareholders of the Company		258,784	355,812	573,482	557,861
Non-controlling interests		<u>21</u>	<u>(53)</u>	<u>—</u>	<u>—</u>
TOTAL EQUITY		<u>258,805</u>	<u>355,759</u>	<u>573,482</u>	<u>557,861</u>

The accompanying notes form parts of the Historical Financial Information.

Statements of financial position

	As at 31 December 2018 <i>RMB'000</i>	As at 31 March 2019 <i>RMB'000</i>
Non-current asset		
Investment in a subsidiary	<u>347</u>	<u>347</u>
	<u>347</u>	<u>347</u>
Current asset		
Amounts due from shareholders	<u>3</u>	<u>4</u>
	<u>3</u>	<u>4</u>
Current liabilities		
Amounts due to a subsidiary	347	1,177
Trade and other payables	<u>—</u>	<u>171</u>
	<u>347</u>	<u>1,348</u>
Net current liabilities	<u>(344)</u>	<u>(1,344)</u>
Total assets less current liabilities	<u>3</u>	<u>(997)</u>
NET ASSETS/(LIABILITIES)	<u>3</u>	<u>(997)</u>
CAPITAL AND RESERVES		
Share capital	3	4
Reserves	<u>—</u>	<u>(1,001)</u>
TOTAL EQUITY/(DEFICIT)	<u>3</u>	<u>(997)</u>

Consolidated statements of changes in equity

	Attributable to equity shareholders of the Company					Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital	Capital	PRC	Exchange	Retained			
	RMB'000	reserve	Statutory	reserve	earnings			
			reserve					
	<i>Note 25(a)</i>	<i>Note 25(b)(i)</i>	<i>Note 25(b)(ii)</i>	<i>Note 25(b)(iii)</i>				
Balance at 1 January 2016	10,500	21,814	1,938	(567)	16,578	50,263	700	50,963
Changes in equity for 2016								
Profit for the year	—	—	—	—	81,367	81,367	(679)	80,688
Other comprehensive income	—	—	—	307	—	307	—	307
Total comprehensive income	—	—	—	307	81,367	81,674	(679)	80,995
Capital injection by shareholders (<i>Note 25(b)(i)</i>)	1,500	98,500	—	—	—	100,000	—	100,000
Appropriation to PRC statutory reserve (<i>Note 25(b)(ii)</i>)	—	—	7,613	—	(7,613)	—	—	—
Transfer of capital reserve to share capital (<i>Note 25(b)(i)</i>)	39,660	(39,660)	—	—	—	—	—	—
Share-based compensation (<i>Note 24</i>)	—	26,847	—	—	—	26,847	—	26,847
Balance at 31 December 2016	<u>51,660</u>	<u>107,501</u>	<u>9,551</u>	<u>(260)</u>	<u>90,332</u>	<u>258,784</u>	<u>21</u>	<u>258,805</u>
Balance at 31 December 2016 and 1 January 2017	<u>51,660</u>	<u>107,501</u>	<u>9,551</u>	<u>(260)</u>	<u>90,332</u>	<u>258,784</u>	<u>21</u>	<u>258,805</u>
Changes in equity for 2017								
Profit for the year	—	—	—	—	117,977	117,977	(74)	117,903
Other comprehensive income	—	—	—	(285)	—	(285)	—	(285)
Total comprehensive income	—	—	—	(285)	117,977	117,692	(74)	117,618
Appropriation to PRC statutory reserve (<i>Note 25(b)(ii)</i>)	—	—	6,794	—	(6,794)	—	—	—
Profit distribution (<i>Note 25(c)</i>)	—	—	—	—	(20,664)	(20,664)	—	(20,664)
Balance at 31 December 2017	<u>51,660</u>	<u>107,501</u>	<u>16,345</u>	<u>(545)</u>	<u>180,851</u>	<u>355,812</u>	<u>(53)</u>	<u>355,759</u>

The accompanying notes form part of the Historical Financial Information.

	Attributable to equity shareholders of the Company					Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 Note 25(a)	Capital reserve RMB'000 Note 25(b)(i)	PRC Statutory reserve RMB'000 Note 25(b)(ii)	Exchange reserve RMB'000 Note 25(b)(iii)	Retained earnings RMB'000			
Balance at 1 January 2018	51,660	107,501	16,345	(545)	180,851	355,812	(53)	355,759
Changes in equity for 2018								
Profit for the year	—	—	—	—	336,650	336,650	53	336,703
Other comprehensive income	—	—	—	(165)	—	(165)	—	(165)
Total comprehensive income	—	—	—	(165)	336,650	336,485	53	336,538
Shares issued to shareholders of the Company (Note 25(a))	3	—	—	—	—	3	—	3
Appropriation to PRC statutory reserve (Note 25(b)(ii))	—	—	9,485	—	(9,485)	—	—	—
Profit distribution (Note 25(c))	—	—	—	—	(118,818)	(118,818)	—	(118,818)
Disposal of controlling interest in a subsidiary (Note 1(h))	—	—	—	—	—	—	—*	—
Balance at 31 December 2018	<u>51,663</u>	<u>107,501</u>	<u>25,830</u>	<u>(710)</u>	<u>389,198</u>	<u>573,482</u>	<u>—</u>	<u>573,482</u>
Balance at 1 January 2019	<u>51,663</u>	<u>107,501</u>	<u>25,830</u>	<u>(710)</u>	<u>389,198</u>	<u>573,482</u>	<u>—</u>	<u>573,482</u>
Changes in equity for the three months ended 31 March 2019								
Profit for the period	—	—	—	—	86,647	86,647	—	86,647
Other comprehensive income	—	—	—	18	—	18	—	18
Total comprehensive income	—	—	—	18	86,647	86,665	—	86,665
Shares issued to shareholders of the Company (Note 25(a))	1	—	—	—	—	1	—	1
Profit distribution (Note 25(c))	—	—	—	—	(102,287)	(102,287)	—	(102,287)
Reorganization under common control	(51,660)	51,660	—	—	—	—	—	—
Balance at 31 March 2019	<u>4</u>	<u>159,161</u>	<u>25,830</u>	<u>(692)</u>	<u>373,558</u>	<u>557,861</u>	<u>—</u>	<u>557,861</u>
Unaudited:								
Balance at 31 December 2017 and 1 January 2018	<u>51,660</u>	<u>107,501</u>	<u>16,345</u>	<u>(545)</u>	<u>180,851</u>	<u>355,812</u>	<u>(53)</u>	<u>355,759</u>
Changes in equity for the three months ended 31 March 2018								
Profit for the period	—	—	—	—	24,673	24,673	(66)	24,607
Other comprehensive income	—	—	—	(475)	—	(475)	—	(475)
Total comprehensive income	—	—	—	(475)	24,673	24,198	(66)	24,132
Balance at 31 March 2018	<u>51,660</u>	<u>107,501</u>	<u>16,345</u>	<u>(1,020)</u>	<u>205,524</u>	<u>380,010</u>	<u>(119)</u>	<u>379,891</u>

* The balance represents an amount less than RMB1,000.

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements

	Note	Years ended 31 December			Three months ended	
		2016	2017	2018	31 March	
		RMB'000	RMB'000	RMB'000	2018	2019
				RMB'000	RMB'000	
				(unaudited)		
Operating activities:						
Cash generated from operations	19(b)	115,063	134,139	389,168	2,484	31,452
Income tax paid	23(a)	(11,898)	(14,436)	(45,122)	(5,314)	(11,879)
Net cash generated from/(used in) operating activities		<u>103,165</u>	<u>119,703</u>	<u>344,046</u>	<u>(2,830)</u>	<u>19,573</u>
Investing activities:						
Payment for purchase of property, plant and equipment, intangible assets and other non-current assets		(8,343)	(6,802)	(61,269)	(8,108)	(20,275)
Proceeds from disposal of property, plant and equipment		42	78	153	—	108
Payment for purchase of land use rights		—	(7,777)	—	—	—
Payment for investment in wealth management products, structured deposits and others		(104,000)	(50,000)	(90,000)	(20,000)	(70,000)
Proceeds from redemption of wealth management products		128,760	50,000	90,000	20,000	—
Payment for investment in the associate and other equity investment		(9,000)	(5,000)	—	—	—
Proceeds from disposal of equity investment		—	—	500	—	—
Net of cash disposed on disposal of a subsidiary		—	—	(2)	—	—
Interest received		876	3,621	5,640	1,504	974
Net cash generated from/(used in) investing activities		<u>8,335</u>	<u>(15,880)</u>	<u>(54,978)</u>	<u>(6,604)</u>	<u>(89,193)</u>

The accompanying notes form part of the Historical Financial Information.

	Note	Years ended 31 December			Three months ended 31 March	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Financing activities:						
Proceeds from capital injection	25(b)	100,000	—	—	—	—
Proceeds from bank loans		21,534	—	43,381	—	293
Repayment of bank loans		(9,940)	(12,090)	(43,381)	—	—
Payment of pledged bank deposit		(25,000)	—	(14,860)	—	—
Release of pledged bank deposit		11,500	13,500	14,860	—	—
Payment of lease liabilities		(1,541)	(2,693)	(3,912)	(771)	(1,144)
Interest paid		(115)	(209)	(847)	—	—
Profit distribution	25(c)	—	(20,664)	(118,818)	—	(86,147)
Net cash generated from/(used in) financing activities		<u>96,438</u>	<u>(22,156)</u>	<u>(123,577)</u>	<u>(771)</u>	<u>(86,998)</u>
Net increase/(decrease) in cash and cash equivalents		207,938	81,667	165,491	(10,205)	(156,618)
Cash and cash equivalents at the beginning of the year/period	19(a)	<u>17,692</u>	<u>225,786</u>	<u>305,316</u>	<u>305,316</u>	<u>472,605</u>
Effect of foreign exchange rate changes		<u>156</u>	<u>(2,137)</u>	<u>1,798</u>	<u>(8,575)</u>	<u>(1,267)</u>
Cash and cash equivalents at the end of the year/period	19(a)	<u>225,786</u>	<u>305,316</u>	<u>472,605</u>	<u>286,536</u>	<u>314,720</u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

FriendTimes Inc. (“the Company”) was incorporated in the Cayman Islands on 16 November 2018 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

The Company has not carried on any business since the date of its incorporation save for the group reorganization below. The Company and its subsidiaries (together, “the Group”) are a mobile game developer, publisher and operator in ancient Chinese style female-oriented games in the PRC and overseas market.

During the Relevant Periods, the Group’s Core Business was conducted through Suzhou FriendTimes Technology Inc. (“Suzhou FriendTimes”) and its subsidiaries (the “Operating Entities”), which were ultimately owned and controlled by the same shareholder (hereinafter referred to as the “Controlling Shareholder”) through direct or indirect equity holdings in the Operating Entities. As part of the group reorganization (“the Reorganisation”), as detailed in the section headed “History, Reorganisation and Group Structure” of the Prospectus, the Group obtained control of the Operating Entities and continued to obtain the economic benefits from the Core Business by executing certain structured contracts. On 20 February 2019, Suzhou Eagle Network Technology Co., Ltd. (“Suzhou Eagle”), an indirect wholly-owned subsidiary of the Company entered into contractual arrangement (the “Contractual Arrangements”) with Suzhou FriendTimes and its respective shareholders. The details of Contractual Arrangements are set up under the section headed “Contractual Arrangements” of the Prospectus. The Contractual Arrangements, taken as a whole, enable Suzhou Eagle to have effective control over the operating and financial policies of the Operating Entities. The directors of the Group are of the view that, notwithstanding the lack of equity ownership, the Contractual Arrangement effectively provide Suzhou Eagle the power to govern and control the Operating Entities so as to obtain benefits from their business activities. Accordingly, the Operating Entities are included in the Group’s consolidated financial information as controlled subsidiaries.

Upon the completion of the Reorganisation on 20 February 2019, the Company became the holding company of the Group. The Reorganization principally involved inserting certain investment holding companies with no substantive operations as the new holding companies of the Operating Entities. There were no changes in the economic substance of the ownership and the business of the Group before and after the Reorganisation. Accordingly, the Historical Financial Information has been prepared and presented as a continuation of the financial information of the Core Business with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gain/loss on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

The consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Period as set out in this report include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and unchanged throughout the Relevant Period, (or where the companies were incorporated/established at a date later than 1 January 2016, for the period from the date of incorporation/establishment to 31 March 2019). The consolidated statements of financial position of the Group as at 31 December 2016, 2017, 2018 and 31 March 2019 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as of those dates as if the current group structure had been in existence as of the respective dates taking into account the respective dates of incorporation/establishment, where applicable.

As at the date of this report, no audited financial statements have been prepared for the Company, Friend World Holdings Limited, Friend Century Limited and Suzhou Eagle as they either have not carried on any business since their respective dates of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

Upon completion of the Reorganization and as at the date of this report, the Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up capital/registered capital	Percentage of equity attributable to the Company		Principal activities	Name of statutory auditor
			Direct	Indirect		
Friend World Holdings Limited	The British Virgin Islands 26 November 2018	—/USD50,000	100%	—	Investment holding	N/A
Friend Century Limited	Hong Kong 7 December 2018	—/HKD10,000	—	100%	Investment holding	N/A
Suzhou Eagle Network Technology Co., Ltd.* 蘇州億歌網絡科技有限公司	The PRC 24 January 2019	—/USD5,000,000	—	100%	Investment holding and game development	N/A
Suzhou FriendTimes Technology Inc.* 蘇州玩友時代科技股份有限公司 (Note (a), (c))	The PRC 11 May 2010	RMB51,660,000/ RMB 51,660,000	—	100%	Mobile game development	Beijing Xinhua LLP Suzhou Branch 北京興華會計師事務所(特殊普通合夥)蘇州分所* for the years ended 31 December 2016 and 2017; Suzhou Dongheng Certified Public Accountants (General Partnership)* (蘇州東恒會計師事務所(普通合夥)) for the year ended 31 December 2018
Suzhou GameFriend Network Technology Co., Ltd.* 蘇州好玩友網絡科技股份有限公司 (Note (a), (c))	The PRC 9 April 2015	RMB10,000,000/ RMB10,000,000/	—	100%	Mobile game development, publishing and operation	Beijing Xinhua LLP Suzhou Branch 北京興華會計師事務所(特殊普通合夥)蘇州分所* for the years ended 31 December 2016 and 2017; Suzhou Dongheng Certified Public Accountants (General Partnership)* (蘇州東恒會計師事務所(普通合夥)) for the year ended 31 December 2018
Suzhou Purple Blaze Network Technology Co., Ltd.* 蘇州紫焰網絡科技有限公司 (Note (a), (d))	The PRC 23 March 2017	RMB6,000,000/ RMB 6,000,000	—	100%	Mobile game development, publishing and operation	Beijing Xinhua LLP Suzhou Branch 北京興華會計師事務所(特殊普通合夥)蘇州分所* for the years ended 31 December 2017; Suzhou Dongheng Certified Public Accountants (General Partnership)* (蘇州東恒會計師事務所(普通合夥)) for the year ended 31 December 2018
Suzhou Cheeryoo Network Technology Co., Ltd.* 蘇州沁遊網絡科技有限公司 (Note (a), (g))	The PRC 11 January 2018	RMB5,000,000/ RMB 5,000,000	—	100%	Mobile game development, publishing and operation	Suzhou Dongheng Certified Public Accountants (General Partnership)* (蘇州東恒會計師事務所(普通合夥))

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up capital/registered capital	Percentage of equity attributable to the Company		Principal activities	Name of statutory auditor
			Direct	Indirect		
Shanghai Purple Wing Network Technology Co., Ltd.* 上海紫翊網絡科技有限公司 (Note (a), (g))	The PRC 5 February 2018	RMB5,000,000/ RMB5,000,000	—	100%	Mobile game development	Suzhou Dongheng Certified Public Accountants (General Partnership)* (蘇州東恒會計師事務所(普通合夥))
Wish Interactive Technology Limited (Note (e))	Hong Kong 19 May 2015	HKD15,000,000/ HKD15,000,000	—	100%	Mobile game publishing and operation	PSH CPA Limited for the year ended 31 December 2016; Tyrone Chiu C.P.A. Limited for the year ended 31 December 2017 and 2018
Friend Times Korea Co., Ltd. (Note (b), (f))	South Korea 22 December 2015	US\$500,000/ US\$500,000	—	100%	Mobile game publishing and operation	Hanul Choongjung LLC (한울회계법인)

* The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

Notes:

- (a) These are operating entities ultimately controlled by the Controlling Shareholder through Contractual Arrangements.
- (b) The statutory audit of financial statements of the entity for the year ended 31 December 2018 have not been completed yet.
- (c) The statutory financial statements of this entity for the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC.
- (d) The statutory financial statements of this entity for the year ended 31 December 2017 and 2018 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC. No statutory financial statements have been prepared for the year ended 31 December 2016 as it was incorporation in 2017.
- (e) The statutory financial statements of this entity for the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with the Hong Kong Small and Medium-Sized Entity Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.
- (f) The statutory financial statements of this entity for the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with the Korean Accounting Standards issued by the Korean Accounting Standards Board.
- (g) The statutory financial statements of this entity for the year ended 31 December 2018 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC. No statutory financial statements have been prepared for the year ended 31 December 2016 and 2017 as it was incorporation in 2018.
- (h) During the year ended 31 December 2018, the Group disposed its entire 70% equity interests in Hangzhou Sunyoo Network Technology Co., Ltd. at a consideration of RMB1 in December 2018.

All companies now comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs, including HKFRS 9, *Financial Instruments* and HKFRS 15, *Revenue from Contracts with Customers*, which are mandatory for the financial year beginning 1 January 2018, and HKFRS 16 *Leases*, which is mandatory for the financial period beginning on 1 January 2019, to the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2019 and not adopted in The Historical Financial Information are set out in Note 29.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “Functional Currency”). The Historical Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand except for earnings per share information.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that the financial assets are stated at their fair value as explained in the accounting policy set out for equity investment measured at fair value through profit or loss (see Note 2(e)).

(b) Use of estimates and judgments

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)(ii)) unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Associates

An associate is an entity in which the Group or a Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Historical Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(j)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statements of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statements of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(e)).

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 26(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(t)(iii)).
- fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(t)(iv).

(f) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Office and other equipment	3–5 years
— Motor vehicles	4–5 years
— Leasehold improvement	4–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 2(j)(ii)). Capitalization of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) Intangible assets

Research and development costs comprise all costs that are directly attributable to research and development activities. Because of the nature of the Group's research and development activities, the criteria for recognition of such costs as an asset are generally not met until in the later development stage of the project such that the remaining development costs are immaterial. Hence both research costs and development costs are generally recognized as expenses in the period in which they are incurred.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Software	3 years
— IP license	3 years
— Game License	5 years

Both the period and method of amortisation are reviewed annually.

(i) Lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset — this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(j) Credit losses and impairment of assets**(i) Credit losses from financial instrument**

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables).

Financial assets measured at fair value, including equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(t)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- right-of-use assets;
- other non-current assets;
- interest in an associate; and
- investments in a subsidiary in the Company's statements of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Contract costs

Contract costs are mainly related to contract acquisition costs, which primarily consists of unamortised distribution cost charged by the distribution platforms. Contract costs are amortised over average playing period of Paying Players ("Player Relationship Period") consistent with the recognition pattern of the related revenue and recorded as part of "cost of sales" in the consolidated statements of profit or loss.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(j)(i)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(j)(i).

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(v)).

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Contract liabilities

Contract liabilities primarily consists of the unamortised revenue from sales of virtual items for mobile games and initial fixed lump-sum license fee, where there is still an implied obligation to be provided by the Group over time.

(q) Employee benefits*(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

When equity shares are granted as considerations for past services received by the Group, the grant is regarded as equity-settled share-based payment transaction. When the services cannot be measured reliably, the transactions were measured indirectly by reference to the fair value of the shares granted. The Group recognizes the expenses in full, being the difference between the fair value of the shares transferred less the consideration paid by the grantees, in the profit or loss when the shares were granted without a vesting or service condition and the corresponding credit is in the equity.

(iii) *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from self-developed game

The Group is a mobile online game developer and publisher. The Group's mobile games are operated under a free-to-play model whereby game players can choose to enhance their game experience by purchasing the Group's game virtual items ("Paying Player"). Revenue is recognised when control over the service is transferred to the customers.

Revenue from self-developed games published by the Group

Revenue from self-developed games published by the Group are derived principally from various arrangements, including games published through distribution platforms under various game distribution arrangements and through the Group's own platform. Where distribution platforms are involved, proceeds earned from selling virtual items, net of the payment channel fees, are collected by the distribution platforms and shared between our Group and them based on a pre-determined rate.

As the Group takes the primary responsibilities of game development and game publishing, including providing game product, technical support and upgrades, hosting and maintenance of game servers, selecting the distribution platforms, promotion activities, customer service and other daily game operation, as well as the right to determine the pricing of virtual items, it considers itself as a principal in such arrangements. Accordingly, the Group records its revenues on a gross basis, which is the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring promised service to a customer. The relevant service fees charged by distribution platforms and payment channels are recorded in cost of sales.

Upon the sales of virtual items, the Group typically has an implied obligation to provide the enhanced game experience service which enable the virtual items to be consumed and displayed in the respective games. As a result, the proceeds received from sales of virtual items are initially recognised as contract liabilities on the consolidated statements of financial position and are then recognised over the related service period estimated to be the Player Relationship Period. The Group estimates the Player Relationship Period and re-assesses such periods quarterly. If there is insufficient data to determine the Player Relationship Period,

such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group until the new game establishes its own patterns and history. The Group also considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period.

Revenue from self-developed games through intellectual property license arrangement

The Group licences its self-developed online games to the publishers and the publishers pay license fees for the exclusive right to operate the Group's games in specified geographic areas. The license fees normally comprise of a fixed lump sum received upfront and sales-based royalty calculated based on a predetermined rate on the cash paid by game users and collected by the publishers related to the licensed games.

The Group are responsible for providing game content, and when-and-if-available technical support and upgrades to the publishers during the contract terms for which such promises are not distinct from the license. Therefore, the Group identifies a single performance obligation which is provision of ongoing access to the Group's intellectual property related to the online game development during the licence period. The upfront received lump sum licence fees are initially recorded as contract liabilities in the consolidated statements of financial positions and then recognised as revenue ratably over the service period. The revenue for the sales-based royalty is recognized when cash paid by game users is collected by the publishers related to the licensed games.

(ii) Revenue from third-party developed games and advertising services

The Group also provides publishing services to third party game developers as well as advertising service on the Group's own websites. The revenue is recognized when service is rendered and control over the service is transferred to the customers.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(j)(i)).

(iv) Dividends

Dividends income from equity investments is recognized when the investor's right to receive payment is established.

(v) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgments:

(i) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(ii) Principal versus agent considerations-revenue from self-developed or third-party-developed games

In determining whether the Group is acting as a principal or as an agent in publishing the self-developed or third-party-developed games requires judgments and considerations of all relevant facts and circumstances. The Group is a principal in a transaction if the Group obtains control of services provided before they are transferred to customers. If the control is unclear, when the Group is primarily obligated in a transaction, and is subject to the inventory risk, has latitude in establishing prices, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from services provided.

(iii) Contractual arrangement

As disclosed in Note 1, the Group conducts its business through Suzhou FriendTimes established in the PRC and its subsidiaries. Due to the regulatory restrictions on the foreign ownership of the Publishing Business in the PRC, the Group does not have any equity interest in Suzhou FriendTimes. The Directors assessed whether or not the Group has control over Suzhou FriendTimes and its subsidiaries by assessing whether it has the rights to variable returns from its involvement with Suzhou FriendTimes and its subsidiaries and has the ability to affect those returns through its power over Suzhou FriendTimes and its subsidiaries. After assessment, the Directors concluded that the Group has control over Suzhou FriendTimes and its subsidiaries as a result of the Contractual Arrangements and accordingly the financial position and the operating results of Suzhou FriendTimes and its subsidiaries are included in the Group's consolidated financial information throughout the Relevant Period or since the respective dates of incorporation/establishment, whichever is the shorter period. Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Suzhou FriendTimes 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 Suzhou FriendTimes and its subsidiaries. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements with Suzhou FriendTimes and its shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Estimation of Player Relationship Period

The Group recognizes revenue from the sales of virtual items ratably over the estimated average user life of the Paying Gamers for the applicable games. Future paying gamer usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average user life of the Paying Gamers may change in the future. The Group will continue to monitor the average user life of the Paying Gamers, which may differ from the historical period, and any change in the estimate may result in the revenue being recognized on a different basis to that in prior periods.

(ii) Impairment of trade receivables

The Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortized cost on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(iii) Fair value of share-based compensation expenses

As set out in Note 24 below, the Group awarded equity interests to a key employee in 2016. The Group used the discounted cash flow method to determine the fair value of these awards. Significant judgments on key assumptions, such as discount rate and projection of future performance are required to be made by the Group.

(iv) Fair value measurement of financial assets measured at fair value through profit or loss

The fair value assessment of financial assets measured at fair value through profit or loss that are measured at level 3 fair value hierarchy requires significant estimates, which include estimating the future cash flows, determining appropriate discount rates and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. The Group monitors its investments for their fair value assessment by considering factors including, but not limited to, current economic and market conditions, recent fund raising transactions undertaken by the investees, the operating performance of the investees including current earnings trends and other company-specific information.

4 REVENUE

The Group is principally engaged in provision of mobile game development and publishing services in the Relevant Periods.

For the purpose of resources allocation and performance assessment, the Group's management focuses on the operating results of the Group as a whole. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	Years ended 31 December			Three months ended	
	2016	2017	2018	31 March	
	RMB'000	RMB'000	RMB'000	2018	2019
				(unaudited)	
Revenue from self-developed games					
— Published by the Group	480,496	625,847	1,409,501	263,341	375,557
— Published through intellectual property license arrangement	83,819	68,705	54,409	11,101	17,687
Revenue from third-party developed games	3,822	4,902	251	225	294
Others	665	793	129	18	—
	<u>568,802</u>	<u>700,247</u>	<u>1,464,290</u>	<u>274,685</u>	<u>393,538</u>

Disaggregation of the Group's revenue from contracts with customers by the timing of revenue recognition is set out below:

	Years ended 31 December			Three months ended	
	2016	2017	2018	31 March	
	RMB'000	RMB'000	RMB'000	2018	2019
				(unaudited)	
Over-time	568,137	699,454	1,464,161	274,667	393,538
Point-in-time	665	793	129	18	—
	<u>568,802</u>	<u>700,247</u>	<u>1,464,290</u>	<u>274,685</u>	<u>393,538</u>

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(iii).

The Group's customer base is diversified and includes one, nil, nil and nil customer with whom transactions have exceeded 10% of the Group's revenues of each of the years ended 31 December 2016, 2017, 2018 and the three months ended 31 March 2019 respectively. Revenues from this customer during the Relevant Periods are set out below:

	Years ended 31 December			Three months ended	
	2016	2017	2018	31 March	
	RMB'000	RMB'000	RMB'000	2018	2019
				(unaudited)	
Customer A	71,512	N/A	N/A	N/A	N/A

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2016, 2017, 2018 and 31 March 2019, the aggregated amount of the transaction price allocated to the unsatisfied performance obligations under the Group's existing contract is RMB28,887,000, RMB40,215,000, RMB66,320,000 and RMB64,897,000, among which RMB23,497,000, RMB38,140,000, RMB54,869,000.00 and RMB53,873,000 is expected to be recognised within one year. This amount represents revenue expected to be recognized in the future from unamortized mobile game revenue and unamortized licensing fees. The Group will recognize as the control of services is transferred to the customer, which is expected to occur over the next 36 months.

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the games were published, the intellectual property was licensed or the services were provided.

	Years ended 31 December			Three months ended	
	2016	2017	2018	31 March	
	RMB'000	RMB'000	RMB'000	2018	2019
				(unaudited)	
Mainland of the PRC	462,861	587,228	1,187,947	245,702	292,115
Overseas	105,941	113,019	276,343	28,983	101,423
	<u>568,802</u>	<u>700,247</u>	<u>1,464,290</u>	<u>274,685</u>	<u>393,538</u>

5 OTHER INCOME/(LOSSES)

	Note	Years ended 31 December			Three months ended	
		2016	2017	2018	31 March	
		RMB'000	RMB'000	RMB'000	2018	2019
				(unaudited)		
Government grants	(i)	6,715	17,267	22,804	1,030	1,114
Interest income from bank deposits		443	4,491	4,315	1,049	870
Income from wealth management products		433	228	944	63	—
Net exchange gain/(loss)		6,480	(10,480)	8,374	(12,758)	(5,733)
Others		(134)	42	(421)	(30)	(8)
		<u>13,937</u>	<u>11,548</u>	<u>36,016</u>	<u>(10,646)</u>	<u>(3,757)</u>

(i) During the Relevant Periods, the Group received unconditional government subsidies as encouragement of their contribution in mobile game business development.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December			Three months ended	
	2016	2017	2018	31 March	
	RMB'000	RMB'000	RMB'000	2018	2019
				(unaudited)	
Interest expenses on bank loans	319	5	847	—	—
Unwinding of finance costs on lease liabilities	424	426	395	100	80
	<u>743</u>	<u>431</u>	<u>1,242</u>	<u>100</u>	<u>80</u>

(b) Staff costs

	Note	Years ended 31 December			Three months ended 31 March	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Salaries, wages and other benefits		62,835	93,076	142,208	27,967	46,382
Contributions to defined contribution plans (note (i))		10,340	14,907	22,878	4,492	6,781
Equity-settled share-based compensation expenses	24	<u>26,847</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>100,022</u>	<u>107,983</u>	<u>165,086</u>	<u>32,459</u>	<u>53,163</u>

(i) Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participated in social security schemes for its employees of the subsidiaries in the South Korea according to the relevant regulations. Under such social security schemes, the Group is required to make contributions to the social security scheme which are calculated on the employees' relevant income respectively.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items

	Years ended 31 December			Three months ended 31 March	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Distribution costs charged by distribution platforms	190,167	239,734	504,090	93,571	129,007
Depreciation of property, plant and equipment	2,915	3,692	4,823	978	1,512
Amortisation of intangible assets	776	428	367	130	250
Depreciation of right-of-use assets	2,234	2,880	3,820	818	1,052
Impairment losses of trade and other receivables	17	46	358	368	30
Auditors' remuneration	42	42	42	11	11
Listing expenses	—	—	7,180	—	9,834

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Income tax in the consolidated statements of profit or loss represents:

	Note	Years ended 31 December			Three months ended	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	31 March 2018 RMB'000 (unaudited)	2019 RMB'000
Current tax:						
Provision for current income tax for the year/period	23(a)	13,095	25,933	30,078	5,917	5,461
Deferred tax:						
Origination and reversal of temporary differences	23(b)	(4,293)	(607)	(5,497)	(2,409)	4,703
		<u>8,802</u>	<u>25,326</u>	<u>24,581</u>	<u>3,508</u>	<u>10,164</u>

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Three months ended	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	31 March 2018 RMB'000 (unaudited)	2019 RMB'000
Profit before taxation	<u>89,490</u>	<u>143,229</u>	<u>361,284</u>	<u>28,115</u>	<u>96,811</u>
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (note (i))	22,086	35,726	92,193	7,182	24,061
Tax effect of preferential tax rate (note (ii))	(13,107)	(19,790)	(57,227)	(3,221)	(16,626)
Effect of deemed profit method	—	32	(16)	22	—
Super-deduction of research and development expense (note (iii))	(2,059)	(5,210)	(13,292)	(2,105)	(3,635)
Effect on deferred tax balance resulting from a change in tax rate (note (ii))	(2,476)	1,314	—	—	5,763
Tax effect of non-deductible expenses	3,804	216	190	31	99
Tax effect of tax losses not recognised	480	—	2,540	89	1,488
Tax effect of temporary differences not recognised (note(iv))	<u>74</u>	<u>13,038</u>	<u>193</u>	<u>1,510</u>	<u>(986)</u>
Actual income tax	<u>8,802</u>	<u>25,326</u>	<u>24,581</u>	<u>3,508</u>	<u>10,164</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

The Company's subsidiaries incorporated in Hong Kong are liable to Hong Kong Profits tax at 16.5% during the Relevant Periods. Payments of dividends by Hong Kong companies are not subject to any withholding tax.

The Company's subsidiary incorporated in South Korea is liable to South Korea Profits tax at progressive tax rates from 10% to 25% of annual taxable profits.

The Group's PRC subsidiaries are liable to the PRC corporate income tax rate of 25%.

- (ii) According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. The subsidiary of the Company, Suzhou FriendTimes obtained the approval of High and New Technology Enterprise in 2016 with an effective period of three years. Therefore, Suzhou FriendTimes was entitled to a preferential income tax rate of 15% for the years ended 31 December 2016, 2017 and 2018.

Suzhou FriendTimes was qualified as the Key Software Enterprise and was entitled to a preferential income tax rate of 10% for the year ended 31 December 2017.

Suzhou FriendTimes also obtained the approval of Technologically Advanced Service Enterprises and is entitled to a preferential income tax rate of 15% for the years ended 31 December 2018, 2019 and 2020.

According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as software enterprise are entitled to a tax holiday after utilising all prior years' tax losses, comprising of a tax-free period for the first and second years and a 50% reduction in income tax rate for the third to fifth years. The subsidiary of the Company, Suzhou GameFriend Network Technology Co., Ltd. ("GameFriend"), obtained the certificate of Software Enterprise in 2015 and was entitled to the preferential income tax rate of 0% in 2015 and 2016, and 12.5% from 2017 to 2019. In addition, GameFriend also obtained the approval of Technologically Advanced Service Enterprises and is entitled to a preferential income tax rate of 15% for the years ended 31 December 2018, 2019 and 2020.

The subsidiaries of the Company, Suzhou Purple Blaze Network Technology Co., Ltd. ("Purple Blaze"), obtained the certificate of Software Enterprise in 2018 and is entitled to the preferential income tax rate of 0% in 2018 and 2019, and 12.5% from 2020 to 2022.

The subsidiaries of the Company, Suzhou Cheeryoo Network Technology Co., Ltd. ("Suzhou Cheeryoo"), and Shanghai Purple Wing Network Technology Co., Ltd. ("Purple Wing"), obtained the certificate of Software Enterprise in April 2019, and are exempt from income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years.

- (iii) Under the PRC Income Tax Law and its relevant regulations, 50% additional tax deduction is allowed for qualified research and development costs for the year ended 31 December 2016 and 2017 and 75% additional tax deduction is allowed for qualified research and development costs for the year ended 31 December 2018 and the three months ended 31 March 2018 and 2019, respectively.

Purple Blaze obtained the certificate of Small and Medium-sized Technological Enterprises in 2017. Accordingly, 75%, instead of 50%, additional tax deduction is allowed for qualified research and development costs from 2017.

- (iv) This primarily represented the advertising expenses exceeding the income tax deductible limit for the respective tax year under the PRC Income Tax Law and deductible in future years when future advertising expenses falls below the tax deductible limit in the respective year of the future. No deferred tax asset has been recognized in relation to such temporary difference as it is not probable that such deductible temporary differences can be utilized in the near future.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments during the Relevant Periods is as follows:

Year ended 31 December 2016

	Year ended 31 December 2016					Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-base payment RMB'000	
Executive directors						
Jiang Xiaohuang	—	774	420	32	—	1,226
Xu Lin	—	534	293	32	—	859
Sun Bo	—	401	168	32	—	601
Wu Jie	—	370	273	32	—	675
Independent non-executive director						
Zhu Wei	50	—	—	—	—	50
	<u>50</u>	<u>2,079</u>	<u>1,154</u>	<u>128</u>	<u>—</u>	<u>3,411</u>

Year ended 31 December 2017

	Year ended 31 December 2017					Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-base payment RMB'000	
Executive directors						
Jiang Xiaohuang	—	877	420	34	—	1,331
Xu Lin	—	580	362	34	—	976
Sun Bo	—	519	187	34	—	740
Wu Jie	—	577	348	34	—	959
Independent non-executive director						
Zhu Wei	50	—	—	—	—	50
	<u>50</u>	<u>2,553</u>	<u>1,317</u>	<u>136</u>	<u>—</u>	<u>4,056</u>

Year ended 31 December 2018

	Year ended 31 December 2018					
	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Share-base payment <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors						
Jiang Xiaohuang	—	893	420	34	—	1,347
Xu Lin	—	668	390	34	—	1,092
Sun Bo	—	584	360	34	—	978
Wu Jie	—	668	377	34	—	1,079
Independent non-executive directors						
Tang Haiyan	33	—	—	—	—	33
Zhu Wei	50	—	—	—	—	50
	<u>83</u>	<u>2,813</u>	<u>1,547</u>	<u>136</u>	<u>—</u>	<u>4,579</u>

Three months ended 31 March 2019

	Three months ended 31 March 2019					
	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Share-base payment <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors						
Jiang Xiaohuang	—	233	105	9	—	347
Xu Lin	—	182	98	9	—	289
Sun Bo	—	161	90	9	—	260
Wu Jie	—	182	94	9	—	285
Independent non-executive directors						
Tang Haiyan	13	—	—	—	—	13
Zhu Wei	13	—	—	—	—	13
	<u>26</u>	<u>758</u>	<u>387</u>	<u>36</u>	<u>—</u>	<u>1,207</u>

Three months ended 31 March 2018 (unaudited)

	Three months ended 31 March 2018 (unaudited)					Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-base payment RMB'000	
Executive directors						
Jiang Xiaohuang	—	223	105	9	—	337
Xu Lin	—	167	98	9	—	274
Sun Bo	—	146	90	9	—	245
Wu Jie	—	167	94	9	—	270
Independent non-executive director						
Zhu Wei	13	—	—	—	—	13
	<u>13</u>	<u>703</u>	<u>387</u>	<u>36</u>	<u>—</u>	<u>1,139</u>

Notes:

- Mr. Jiang Xiaohuang, Mr. Xu Lin, Mr. Sun Bo and Mr. Wu Jie were appointed as executive directors of the Company on 21 February 2019. All the executive directors are key management personnel of the Group during the Relevant Periods and their remuneration disclosed above include those for services rendered by them as key management personnel. Mr. Zhu Wei and Ms. Tang Hayan will be appointed as independent executive directors of the Company upon the Listing. Mr. Zhu and Ms. Tang has been independent directors of Suzhou Friend Times since December 2015 and April 2018, respectively.
- During the Relevant Periods, no emoluments were paid by the Group to the director as an inducement to join or upon joining the Group or as compensation for loss of office. No director of the Group waived or agreed to waive any emoluments during the Relevant Periods.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments of the Group for the years ended 31 December 2016, 2017, 2018 and the three months ended 31 March 2018 and 2019 include two, three, three, three and three directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining three, two, two, two and two highest paid individuals during the Relevant Periods, are as follows:

	Years ended 31 December			Three months ended 31 March	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
Salaries, allowance and benefits in kind	1,203	1,082	1,297	324	349
Retirement scheme contributions	97	69	67	17	17
Discretionary bonuses	805	715	775	194	194
Share-based payment	<u>26,847</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>28,952</u>	<u>1,866</u>	<u>2,139</u>	<u>535</u>	<u>560</u>

The emoluments of the individuals who are not director and who are amongst the five highest paid individuals of the Group are within the following bands:

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals (unaudited)</i>	<i>Number of individuals</i>
HK\$Nil–HK\$1,000,000	2	—	—	2	2
HK\$1,000,000–HK\$2,000,000	—	2	2	—	—
HK\$31,500,000–HK\$32,000,000	1	—	—	—	—
	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

10 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for the years ended 31 December 2016, 2017, 2018 and the three months ended 31 March 2018 and 2019 is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue.

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000 (unaudited)</i>	<i>RMB'000</i>
Profit attributable to the equity shareholders of the Company (<i>RMB'000</i>)	81,367	117,977	336,650	24,673	86,647
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>51,122</u>	<u>51,660</u>	<u>51,660</u>	<u>51,660</u>	<u>51,660</u>
Basic earnings per share	<u>1.59</u>	<u>2.28</u>	<u>6.52</u>	<u>0.48</u>	<u>1.68</u>

Weighted average number of ordinary shares in issue

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000 (unaudited)</i>	<i>RMB'000</i>
Ordinary shares at 1 January (<i>'000</i>)	10,500	51,660	51,660	51,660	51,660
Effect of capital injection by shareholders (<i>'000</i>) (<i>note 25(b)(i)</i>)	1,375	—	—	—	—
Effect of transfer of capital reserve to share capital (<i>'000</i>) (<i>note 25(b)(i)</i>)	<u>39,247</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares at 31 December/ 31 March (<i>'000</i>)	<u>51,122</u>	<u>51,660</u>	<u>51,660</u>	<u>51,660</u>	<u>51,660</u>

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019 is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

11 PROPERTY, PLANT AND EQUIPMENT

	Construction in process RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:					
At 1 January 2016	—	3,110	3,589	284	6,983
Additions	—	3,230	828	3,954	8,012
Disposals	—	(328)	—	—	(328)
At 31 December 2016 and 1 January 2017	—	6,012	4,417	4,238	14,667
Additions	1,477	2,388	740	—	4,605
Disposals	—	(220)	(119)	(284)	(623)
At 31 December 2017 and 1 January 2018	1,477	8,180	5,038	3,954	18,649
Additions	63,914	6,387	1,192	1,164	72,657
Disposals	—	(828)	—	—	(828)
At 31 December 2018	65,391	13,739	6,230	5,118	90,478
Additions	15,194	3,258	651	204	19,307
Disposals	—	(231)	—	—	(231)
At 31 March 2019	80,585	16,766	6,881	5,322	109,554
Accumulated depreciation:					
At 1 January 2016	—	(1,477)	(740)	—	(2,217)
Charge for the year	—	(1,131)	(935)	(849)	(2,915)
Disposals	—	176	—	—	176
At 31 December 2016 and 1 January 2017	—	(2,432)	(1,675)	(849)	(4,956)
Charge for the year	—	(1,712)	(1,035)	(945)	(3,692)
Disposals	—	207	106	284	597
At 31 December 2017 and 1 January 2018	—	(3,937)	(2,604)	(1,510)	(8,051)
Charge for the year	—	(2,844)	(953)	(1,026)	(4,823)
Disposals	—	606	—	—	606
At 31 December 2018	—	(6,175)	(3,557)	(2,536)	(12,268)
Charge for the period	—	(878)	(252)	(382)	(1,512)
Disposals	—	115	—	—	115
At 31 March 2019	—	(6,938)	(3,809)	(2,918)	(13,665)
Net book value:					
At 31 December 2016	—	3,580	2,742	3,389	9,711
At 31 December 2017	1,477	4,243	2,434	2,444	10,598
At 31 December 2018	65,391	7,564	2,673	2,582	78,210
At 31 March 2019	80,585	9,828	3,072	2,404	95,889

12 INTANGIBLE ASSETS

	Software RMB'000	IP license RMB'000	Game license RMB'000	Total RMB'000
Cost:				
At 1 January 2016	24	1,792	—	1,816
Additions	<u>284</u>	<u>47</u>	<u>—</u>	<u>331</u>
At 31 December 2016 and 1 January 2017	308	1,839	—	2,147
Additions	<u>1,089</u>	<u>137</u>	<u>—</u>	<u>1,226</u>
At 31 December 2017 and 1 January 2018	1,397	1,976	—	3,373
Additions	<u>196</u>	<u>—</u>	<u>—</u>	<u>196</u>
At 31 December 2018	1,593	1,976	—	3,569
Additions	<u>239</u>	<u>—</u>	<u>2,830</u>	<u>3,069</u>
At 31 March 2019	<u><u>1,832</u></u>	<u><u>1,976</u></u>	<u><u>2,830</u></u>	<u><u>6,638</u></u>
Accumulated amortization:				
At 1 January 2016	(6)	(659)	—	(665)
Charge for the year	<u>(106)</u>	<u>(670)</u>	<u>—</u>	<u>(776)</u>
At 31 December 2016 and 1 January 2017	(112)	(1,329)	—	(1,441)
Charge for the year	<u>(129)</u>	<u>(299)</u>	<u>—</u>	<u>(428)</u>
At 31 December 2017 and 1 January 2018	(241)	(1,628)	—	(1,869)
Charge for the year	<u>(196)</u>	<u>(171)</u>	<u>—</u>	<u>(367)</u>
At 31 December 2018	(437)	(1,799)	—	(2,236)
Charge for the period	<u>(77)</u>	<u>(31)</u>	<u>(142)</u>	<u>(250)</u>
At 31 March 2019	<u><u>(514)</u></u>	<u><u>(1,830)</u></u>	<u><u>(142)</u></u>	<u><u>(2,486)</u></u>
Net book value:				
At 31 December 2016	<u><u>196</u></u>	<u><u>510</u></u>	<u><u>—</u></u>	<u><u>706</u></u>
At 31 December 2017	<u><u>1,156</u></u>	<u><u>348</u></u>	<u><u>—</u></u>	<u><u>1,504</u></u>
At 31 December 2018	<u><u>1,156</u></u>	<u><u>177</u></u>	<u><u>—</u></u>	<u><u>1,333</u></u>
At 31 March 2019	<u><u>1,318</u></u>	<u><u>146</u></u>	<u><u>2,688</u></u>	<u><u>4,152</u></u>

13 RIGHT-OF-USE ASSETS/LEASE LIABILITIES

Right-of-use assets	Property RMB'000	Land RMB'000	Total RMB'000
Cost:			
At 1 January 2016	7,199	—	7,199
Additions	<u>4,434</u>	<u>—</u>	<u>4,434</u>
At 31 December 2016 and 1 January 2017	11,633	—	11,633
Additions	<u>—</u>	<u>7,777</u>	<u>7,777</u>
At 31 December 2017 and 1 January 2018	11,633	7,777	19,410
Additions	<u>2,840</u>	<u>—</u>	<u>2,840</u>
At 31 December 2018	14,473	7,777	22,250
Additions	<u>—</u>	<u>—</u>	<u>—</u>
At 31 March 2019	<u>14,473</u>	<u>7,777</u>	<u>22,250</u>
Accumulated depreciation:			
At 1 January 2016	(149)	—	(149)
Charge for the year	<u>(2,234)</u>	<u>—</u>	<u>(2,234)</u>
At 31 December 2016 and 1 January 2017	(2,383)	—	(2,383)
Charge for the year	<u>(2,789)</u>	<u>(91)</u>	<u>(2,880)</u>
At 31 December 2017 and 1 January 2018	(5,172)	(91)	(5,263)
Charge for the year	<u>(3,664)</u>	<u>(156)</u>	<u>(3,820)</u>
At 31 December 2018	(8,836)	(247)	(9,083)
Charge for the year	<u>(1,013)</u>	<u>(39)</u>	<u>(1,052)</u>
At 31 March 2019	<u>(9,849)</u>	<u>(286)</u>	<u>(10,135)</u>
Net book value:			
At 31 December 2016	<u>9,250</u>	<u>—</u>	<u>9,250</u>
At 31 December 2017	<u>6,461</u>	<u>7,686</u>	<u>14,147</u>
At 31 December 2018	<u>5,637</u>	<u>7,530</u>	<u>13,167</u>
At 31 March 2019	<u>4,624</u>	<u>7,491</u>	<u>12,115</u>

As at 31 December 2018 and 31 March 2019, the Group has pledged the above land use rights as collateral for bank loan facility amounting to RMB168,000,000 from China Construction Bank, Suzhou branch, and RMB nil and RMB292,500 has been withdrawn at 31 December 2018 and 31 March 2019 respectively by the Group under the above bank loan facility. The carrying amount of the pledged land is RMB7,530,000 and RMB7,491,000 as at 31 December 2018 and 31 March 2019 respectively.

Lease liabilities	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Maturity analysis-contractual undiscounted cash flows				
Within 1 year or on demand	2,692	2,886	4,700	4,661
More than 1 years but less than 2 years	2,886	3,181	2,631	1,526
More than 2 years but less than 5 years	5,371	2,190	—	—
Total undiscounted lease liabilities	10,949	8,257	7,331	6,187
Less: total future interest expenses	(951)	(526)	(277)	(197)
Present value of lease liabilities	9,998	7,731	7,054	5,990
Lease liabilities included in the consolidated statements of financial position				
Current	2,625	2,812	4,580	4,543
Non-current	7,373	4,919	2,474	1,447
	9,998	7,731	7,054	5,990
Amounts recognised in profit or loss				
Interest on lease liabilities	424	426	395	80
Expenses relating to short-term leases	338	528	413	87
Amounts recognised in the consolidated cash flow statements				
Total cash flow for leases	(1,879)	(3,221)	(4,325)	(1,231)

14 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
Non-current					
Unlisted equity securities	26(e)	3,466	767	—	
Investment in TV-series-based financial instrument	26(e)	—	—	3,849	
Sub-total		3,466	767	3,849	
Current					
Investment in wealth management product	26(e)	—	—	20,000	
Investment in TV-series-based financial instrument	26(e)	—	—	17,554	
Sub-total		—	—	37,554	
Total		3,466	767	41,403	

The unlisted equity securities as at 31 December 2016 and 2017 are shares in a private company incorporated in the PRC and principally engaged in game development which was disposed in December 2018. No dividends were received on this investment during the Relevant Periods.

The TV-series-based financial instrument as at 31 March 2019 represents the Group's investment in a TV series under production, whose principle is protected and repaid before the end of 2019, with variable return for an investment period of two years.

As at 31 March 2019, the wealth management product is issued by a creditworthy major PRC commercial bank with variable interest rate and mature on 8 April 2019, on which date the carrying amount of the wealth management product as at the reporting date is fully recovered.

15 INTEREST IN AN ASSOCIATE

The following list contains only the particulars of the Group's associate, which is immaterial and accounted for using the equity method in the consolidated financial information.

Name of the associate	Form of business structure	Place of incorporation and operation	Portion of ownership interest-group's effective interest	Principal activity	
				Paid-in capital	
Suzhou Jingxiang Times Network Technology Co., Ltd.	Incorporated	The PRC	30.16%	RMB5,181,347	Electronic sports

16 CONTRACT COSTS

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Balance at 1 January	5,516	6,593	11,473	15,758
Addition	191,244	244,614	508,375	129,134
Charged to profit or loss	(190,167)	(239,734)	(504,090)	(129,007)
Balance as at 31 December/31 March	<u>6,593</u>	<u>11,473</u>	<u>15,758</u>	<u>15,885</u>

17 TRADE AND OTHER RECEIVABLES

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
					RMB'000
Trade receivables	(a)	58,854	98,422	109,240	170,769
Less: Loss allowance		(17)	(63)	(421)	(451)
Trade receivables, net		58,837	98,359	108,819	170,318
Deposits and prepayments		7,108	5,970	9,308	8,710
VAT deductible		3,406	3,841	4,997	7,233
Income tax recoverable		1	4,025	6,463	6,049
Amounts due from shareholders-non-trade (note)		—	—	3	4
Structured deposits measured at amortized cost		—	—	—	30,000
Other receivables		1,400	3,218	2,692	2,801
		<u>70,752</u>	<u>115,413</u>	<u>132,282</u>	<u>225,115</u>

Note: The outstanding balance of amounts due from shareholders are unsecured, interest-free and has been settled as at the date of the Prospectus.

All of the trade and other receivables are expected to be recovered or recognized as expense within one year.

(a) **Ageing analysis**

As at the end of each of the years ended 31 December 2016, 2017, 2018 and 31 March 2019, the ageing analysis of trade receivables, based on the invoice date and net of allowance, is as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
Within 3 months	58,161	97,842	108,758	168,816
After 3 months but within 1 year	693	538	85	1,556
After 1 year but within 2 years	—	42	397	397
Less: Loss allowance	<u>(17)</u>	<u>(63)</u>	<u>(421)</u>	<u>(451)</u>
Trade receivables, net	<u>58,837</u>	<u>98,359</u>	<u>108,819</u>	<u>170,318</u>

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 26(a).

18 PLEDGED BANK DEPOSITS

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
Deposits pledged in respect of:					
Bank loans and credit cards	20	<u>13,500</u>	<u>836</u>	<u>2,506</u>	<u>2,468</u>

The pledged bank deposits of RMB13,500,000 as at 31 December 2016 has been released upon repayment of certain bank loans as set out in Note 20.

19 CASH AND CASH EQUIVALENTS

(a) **Cash and cash equivalents comprise:**

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
Cash at banks	<u>225,786</u>	<u>305,316</u>	<u>472,605</u>	<u>314,720</u>
	<u>225,786</u>	<u>305,316</u>	<u>472,605</u>	<u>314,720</u>

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	Years ended 31 December			Three months ended 31 March	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Profit before taxation		89,490	143,229	361,284	28,115	96,811
Adjustments for:						
Depreciation of property, plant and equipment	6(c)	2,915	3,692	4,823	978	1,512
Amortisation of intangible assets	6(c)	776	428	367	130	250
Depreciation of right-of-use assets	6(c)	2,234	2,880	3,820	818	1,052
Loss allowance on trade and other receivables	6(c)	17	46	358	368	30
Interest income	5	(876)	(4,719)	(5,259)	(1,112)	(870)
Finance costs	6(a)	743	431	1,242	100	80
Share of loss of an associate	15	—	970	803	147	70
Changes in fair value of financial assets measured at fair value through profit or loss	14	5,534	2,699	—	—	(1,403)
Other net losses/(gains)		110	(52)	336	—	8
Share-based compensation		26,847	—	—	—	—
Foreign exchange loss/ (gain)		340	2,137	(1,798)	8,575	1,267
Operating profit before changes in working capital		<u>128,130</u>	<u>151,741</u>	<u>365,976</u>	<u>38,119</u>	<u>98,807</u>
Increase in contract costs		(1,077)	(4,880)	(4,285)	(3,790)	(127)
Increase in trade and other receivables		(30,946)	(39,870)	(15,331)	(34,175)	(63,362)
(Increase)/decrease in pledged bank deposits		—	(836)	(1,670)	(848)	38
(Increase)/decrease in other non-current asset		(2,830)	585	(324)	(647)	108
Increase/(decrease) in trade and other payables		11,652	16,071	18,697	(10,252)	(2,589)
Increase/(decrease) in contract liabilities		<u>10,134</u>	<u>11,328</u>	<u>26,105</u>	<u>14,077</u>	<u>(1,423)</u>
Cash generated from operations		<u><u>115,063</u></u>	<u><u>134,139</u></u>	<u><u>389,168</u></u>	<u><u>2,484</u></u>	<u><u>31,452</u></u>

(c) Reconciliation of liabilities arising from financing activities

	Bank loans <i>RMB'000</i> <i>(Note 20)</i>	Interests payable <i>RMB'000</i>	Pledged bank deposits <i>RMB'000</i> <i>(Note 18)</i>	Lease liabilities <i>RMB'000</i> <i>(Note 13)</i>	Total <i>RMB'000</i>	
At 1 January 2016	—	—	—	7,104	7,104	
Changes from financing cash flows:						
Proceeds from bank loans	21,534	—	—	—	21,534	
Repayment of bank loans	(9,940)	—	—	—	(9,940)	
Payment of pledged bank deposit	—	—	(25,000)	—	(25,000)	
Release of pledged bank deposit	—	—	11,500	—	11,500	
Payment of lease liabilities	—	—	—	(1,541)	(1,541)	
Interest paid	—	(115)	—	—	(115)	
Total changes from financing cash flows	11,594	(115)	(13,500)	(1,541)	(3,562)	
Exchange adjustments	496	—	—	—	496	
Other changes:						
Interest expenses <i>(Note 6(a))</i>	—	319	—	424	743	
Increase of lease liabilities	—	—	—	4,011	4,011	
Total other changes	—	319	—	4,435	4,754	
At 31 December 2016	12,090	204	(13,500)	9,998	8,792	
	Bank loans <i>RMB'000</i> <i>(Note 20)</i>	Interests payable <i>RMB'000</i>	Pledged bank deposits <i>RMB'000</i> <i>(Note 18)</i>	Lease Liabilities <i>RMB'000</i> <i>(Note 13)</i>	Dividends payable <i>RMB'000</i> <i>(Note 25)</i>	Total <i>RMB'000</i>
At 1 January 2017	12,090	204	(13,500)	9,998	—	8,792
Changes from financing cash flows:						
Repayment of bank loans	(12,090)	—	—	—	—	(12,090)
Release of pledged bank deposit	—	—	13,500	—	—	13,500
Payment of lease liabilities	—	—	—	(2,693)	—	(2,693)
Interest paid	—	(209)	—	—	—	(209)
Profit distribution	—	—	—	—	(20,664)	(20,664)
Total changes from financing cash flows	(12,090)	(209)	13,500	(2,693)	(20,664)	(22,156)
Other changes:						
Changes in pledged bank deposit for operating cash flow	—	—	(836)	—	—	(836)
Interest expenses <i>(Note 6(a))</i>	—	5	—	426	—	431
Profit distribution approved <i>(Note 25(c))</i>	—	—	—	—	20,664	20,664
Total other changes	—	5	(836)	426	20,664	20,259
At 31 December 2017	—	—	(836)	7,731	—	6,895

	Bank loans	Interests payable	Pledged bank deposits	Lease liabilities	Dividends payable	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 20)</i>		<i>(Note 18)</i>	<i>(Note 13)</i>	<i>(Note 25)</i>	
At 1 January 2018	—	—	(836)	7,731	—	6,895
Changes from financing cash flows:						
Proceeds of bank loans	43,381	—	—	—	—	43,381
Repayment of bank loans	(43,381)	—	—	—	—	(43,381)
Payment of pledged bank deposit	—	—	(14,860)	—	—	(14,860)
Release of pledged bank deposit	—	—	14,860	—	—	14,860
Payment of lease liabilities	—	—	—	(3,912)	—	(3,912)
Interest paid	—	(847)	—	—	—	(847)
Profit distribution	—	—	—	—	(118,818)	(118,818)
Total changes from financing cash flows	—	(847)	—	(3,912)	(118,818)	(123,577)
Other changes:						
Changes in pledged bank deposit for operating cash flow	—	—	(1,670)	—	—	(1,670)
Interest expenses <i>(Note 6(a))</i>	—	847	—	395	—	1,242
Increase of lease liabilities	—	—	—	2,840	—	2,840
Profit distribution approved <i>(Note 25(c))</i>	—	—	—	—	118,818	118,818
Total other changes	—	847	(1,670)	3,235	118,818	121,230
At 31 December 2018	—	—	(2,506)	7,054	—	4,548
	Bank loans	Interests payable	Pledged bank deposits	Lease Liabilities	Dividends payable	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 20)</i>		<i>(Note 18)</i>	<i>(Note 13)</i>	<i>(Note 25)</i>	
At 1 January 2019	—	—	(2,506)	7,054	—	4,548
Changes from financing cash flows:						
Proceeds of bank loans	293	—	—	—	—	293
Payment of lease liabilities	—	—	—	(1,144)	—	(1,144)
Profit distribution	—	—	—	—	(86,147)	(86,147)
Total changes from financing cash flows	293	—	—	(1,144)	(86,147)	(86,998)
Other changes:						
Changes in pledged bank deposit for operating cash flow	—	—	38	—	—	38
Interest expenses <i>(Note 6(a))</i>	—	—	—	80	—	80
Increase of trade and other payables	—	—	—	—	(16,140)	(16,140)
Profit distribution approved <i>(Note 25(c))</i>	—	—	—	—	102,287	102,287
Total other changes	—	—	38	80	86,147	86,265
At 31 March 2019	293	—	(2,468)	5,990	—	3,815

(Unaudited)	Bank loans <i>RMB'000</i>	Interests payable <i>RMB'000</i>	Pledged bank deposits <i>RMB'000</i>	Lease liability <i>RMB'000</i>	Dividends payable <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	—	—	(836)	7,731	—	6,895
Change from financing cash flows:						
Payment of lease liabilities	—	—	—	(771)	—	(771)
Total change from financing cash flows	—	—	—	(771)	—	(771)
Other changes:						
Changes in pledged bank deposit for operating cash flow	—	—	(848)	—	—	(848)
Increase of lease liabilities	—	—	—	888	—	888
Interest expenses (<i>Note 6(a)</i>)	—	—	—	100	—	100
Total other changes	—	—	(848)	988	—	140
At 31 March 2018	—	—	(1,684)	7,948	—	6,264

20 BANK LOANS

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans				
— Secured (<i>Note 13</i>)	—	—	—	293
— Secured (<i>Note 18</i>)	12,090	—	—	—
	<u>12,090</u>	<u>—</u>	<u>—</u>	<u>293</u>

As at 31 December 2016, bank loans bore interest rate of 3% per annum.

As at 31 March 2019, bank loans bore interest rate of 4.99% per annum and mature in December 2019.

21 TRADE AND OTHER PAYABLES

	<i>Note</i>	As at 31 December			As at
		2016	2017	2018	31 March
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	(a)	11,556	16,860	14,165	19,805
Accrued payroll		21,395	33,374	54,210	39,574
Payables related to property, plant and equipment		—	—	11,584	11,799
Withholding individual income tax payable		—	—	—	16,140
Other payables and accruals		<u>3,058</u>	<u>1,642</u>	<u>2,197</u>	<u>8,604</u>
Trade and other payables		<u>36,009</u>	<u>51,876</u>	<u>82,156</u>	<u>95,922</u>

All trade and other payables are expected to be settled within one year or are repayable on demand.

(a) An ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	11,446	16,829	14,155	19,452
Over 3 months but within 6 months	106	—	10	353
Over 1 year	4	31	—	—
	<u>11,556</u>	<u>16,860</u>	<u>14,165</u>	<u>19,805</u>

22 CONTRACT LIABILITIES

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Deferred licensing income amortized over one year	<u>5,390</u>	<u>2,075</u>	<u>11,451</u>	<u>11,024</u>
Sub-total	<u>5,390</u>	<u>2,075</u>	<u>11,451</u>	<u>11,024</u>
Current				
Deferred game revenue published by the Group	19,885	34,301	46,386	47,272
Deferred licensing income amortized within one year	<u>3,612</u>	<u>3,839</u>	<u>8,483</u>	<u>6,601</u>
Sub-total	<u>23,497</u>	<u>38,140</u>	<u>54,869</u>	<u>53,873</u>
Total	<u>28,887</u>	<u>40,215</u>	<u>66,320</u>	<u>64,897</u>

- (a) Deferred game revenue published by the Group primarily consists of the unamortized revenue from sales of virtual items for mobile games, where there is still an implied obligation to be provided by the Group over time.
- (b) Deferred licensing income primarily comprised the unamortized licensing fees received from third-party publishing partners, where there is still an implied obligation to be provided by the Group over time.

Movements in contract liabilities is as below:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
Balance at 1 January	18,753	28,887	40,215	66,320
Additions	497,956	646,564	1,442,027	376,736
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year/period	(16,287)	(23,497)	(38,140)	(48,695)
Decrease in contract liabilities as a result of recognising revenue during the same year	<u>(471,535)</u>	<u>(611,739)</u>	<u>(1,377,782)</u>	<u>(329,464)</u>
Balance at 31 December/31 March	<u>28,887</u>	<u>40,215</u>	<u>66,320</u>	<u>64,897</u>

23 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	Note	Year ended 31 December			Three months ended
		2016	2017	2018	31 March 2019
		RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January		2,823	4,020	15,517	473
Provision for current income tax for the year/period	7(a)	13,095	25,933	30,078	5,461
Payment during the year/period		(11,898)	(14,436)	(45,122)	(11,879)
Balance at 31 December/31 March		<u>4,020</u>	<u>15,517</u>	<u>473</u>	<u>(5,945)</u>
Reconciliation to the consolidated statements of financial position:					
Income tax payable		4,021	19,542	6,936	104
Income tax recoverable (Note 17)		(1)	(4,025)	(6,463)	(6,049)
Balance at 31 December/31 March		<u>4,020</u>	<u>15,517</u>	<u>473</u>	<u>(5,945)</u>

(b) Deferred tax assets recognised:

- (i) The components of deferred tax assets recognized in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Change in fair value of financial assets measured at fair value through profit or loss	Cumulative tax losses	Accruals and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	—	2,348	575	2,923
Credited to profit or loss (Note 7(a))	<u>830</u>	<u>(1,058)</u>	<u>4,521</u>	<u>4,293</u>
Balance at 31 December 2016 and 1 January 2017	830	1,290	5,096	7,216
Credited to profit or loss (Note 7(a))	<u>405</u>	<u>(645)</u>	<u>847</u>	<u>607</u>
Balance at 31 December 2017 and 1 January 2018	1,235	645	5,943	7,823
Credited to profit or loss (Note 7(a))	<u>(1,235)</u>	<u>9,997</u>	<u>(3,265)</u>	<u>5,497</u>
Balance at 31 December 2018	—	10,642	2,678	13,320
Credited to profit or loss (Note 7(a))	<u>(210)</u>	<u>(4,333)</u>	<u>(160)</u>	<u>(4,703)</u>
Balance at 31 March 2019	<u>(210)</u>	<u>6,309</u>	<u>2,518</u>	<u>8,617</u>

Reconciliation to the consolidated statements of financial position:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Net deferred tax assets recognized in the consolidated statements of financial position	7,216	7,823	13,320	8,827
Net deferred tax liabilities recognized in the consolidated statements of financial position	—	—	—	(210)
	<u>7,216</u>	<u>7,823</u>	<u>13,320</u>	<u>8,617</u>

(ii) *Deferred tax assets not recognised*

The Group has not recognised deferred tax assets in respect of cumulative tax losses of RMBnil, RMBnil and RMB10,160,000 and RMB16,112,000 and in respect of deductible temporary differences of RMB56,975,000, RMB160,971,000 and RMB178,082,000 and RMB167,753,000 as at 31 December 2016, 2017, 2018 and 31 March 2019, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction before they expire.

(iii) *Deferred tax liabilities not recognised*

The new CIT Law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. The Group has not recognized deferred tax liabilities as at 31 December 2016, 2017 and 2018 and 31 March 2019 in respect of undistributed earnings of RMB92,153,000, RMB180,469,000, RMB414,140,000 and RMB416,903,000 as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

24 SHARE-BASED COMPENSATION

Pursuant to the share transfer agreement dated 25 December 2016, the Controlling Shareholder of the Group agreed to transfer certain of his equity interests in the Group at cash consideration of RMB1,033,200, to a key employee, Mr. Song. Upon completion of the share transfer, Mr. Song holds a total of 2% equity interests in the Group.

The fair value of the 2% equity interests in the Group amounted to RMB27,880,000, which was by reference to the valuation result appraised by an independent valuer as at the base date of the valuation. As the share transfer came into effect immediately in December 2016 and does not have any vesting or service conditions, or restriction for future transfer, the difference of RMB26,846,800 between the fair value of the 2% equity interests in the Group and the cash consideration made by Mr. Song was considered as a compensation for Mr. Song's past services in the Group, and therefore accounted for as a share-based compensation expense in the Group's profit or loss for the year ended 31 December 2016.

The fair value of the shares transferred is determined using discounted cash flow method, based on a six-year financial budgets prepared by management. The key assumptions used in determining the fair value mainly included:

- Revenue growth rate of 10%–94% per annum;
- Gross profit margin rate of 62% per annum; and
- Discount rate of 23.6% per annum.

25 CAPITAL AND RESERVES

(a) Share capital

For the purpose of the Historical Financial Information, the share capital of the Group as at 31 December 2016, 2017 and 2018 represents the aggregate amount of the paid-in capital of all the entities comprising the Group at the respective dates, after elimination of investment in subsidiaries.

The Company was incorporated in the Cayman Islands on 16 November 2018 as an exempted company with limited liability with an authorized share capital of USD50,000 divided into 5,000,000,000 ordinary shares with par value of USD0.00001 each, of which 51,660,000 shares were allotted and issued as at 31 March 2019.

(b) Reserves

(i) Capital reserve

Capital reserve as at 31 December 2016, 2017, 2018 and 31 March 2019 primarily represented:

- the difference between the par value of ordinary shares issued by Suzhou FriendTimes, the then holding company of the Group before completion of the Reorganization, and the consideration received;

During the year ended 31 December 2016, Suzhou FriendTimes issued 1,500,000 new shares with par value of RMB1.00 to new shareholders at a consideration of RMB100,000,000. The excess of total consideration over par value amounting to RMB98,500,000 was recorded in capital reserve of the consolidated financial statements of the Group.

During the year ended 31 December 2016, the Group increased its share capital from RMB12,000,000 to RMB51,660,000 by transferring capital reserve of RMB39,660,000 to share capital.

- the share-based payments reserve being the difference between the fair value of the equity interests in a Group transferred to an employee of the Group and the cash consideration made by this employee that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(q)(ii).
- the aggregate amount of the paid-in capital of the companies comprising the Group transferred into the capital reserve upon the completion of the Reorganisation on 20 February 2019.

(ii) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group company outside the mainland China with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policies set out in Note 2(u).

(c) Profit distribution

During the year ended 31 December 2017, 2018 and the three months ended 31 March 2019, the Group approved cash dividends of RMB20,664,000, RMB118,818,000 and RMB102,287,000 respectively, payable to its then equity shareholders.

The directors consider that dividends declared and approved during the Relevant Periods are not indicative of the future dividend policy of the Group.

No dividend was paid or declared by the Company since its incorporation for the Relevant Periods.

(d) Distributable reserves

Our company was incorporated in the Cayman Island and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to shareholders as at 31 March 2019.

(e) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-asset ratio. This ratio is calculated as total liabilities divided by total assets.

The debt-to-asset ratios at 31 December 2016, 2017, 2018 and 31 March 2019 were as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Total liabilities	91,005	119,364	162,466	167,206
Total assets	<u>349,810</u>	<u>475,123</u>	<u>735,948</u>	<u>725,067</u>
Debt-to-asset ratios	<u>26.0%</u>	<u>25.1%</u>	<u>22.1%</u>	<u>23.1%</u>

Neither the Company nor its subsidiaries are subject to internally or externally imposed capital requirements.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and structured deposit measured at amortized cost is limited because the counterparties are reputable banks and financial institutions with high credit rating, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor (mainly distribution platform and publishers) rather than the industry or country in which the debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual debtors. As at 31 December 2016, 2017, 2018 and 31 March 2019, 29%, 59%, 47% and 60% respectively, of the total trade receivables was due from the Group's largest debtor and 67%, 81%, 71% and 81% respectively, of the total trade receivables was due from the Group's five largest debtors.

Trade receivables at the end of each reporting period are due from the distribution platforms and publishers in cooperation with the Group. If the strategic relationship with them is terminated or scaled-back; or if the distribution platforms and publishers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with the distribution platforms and publishers to ensure the effective credit control. In view of the history of cooperation with the distribution 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 receivable balances due from the distribution platforms and publishers is low.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

	As at 31 December 2016		
	Expected loss	Gross	Loss
	rate	carrying	allowance
	%	amount	RMB'000
		RMB'000	RMB'000
Current	—	56,248	—
Overdue within 3 months	0.6%	2,416	14
Overdue after 3 months but within 1 year	1.6%	190	3
	<u>0.03%</u>	<u>58,854</u>	<u>17</u>
	As at 31 December 2017		
	Expected loss	Gross	Loss
	rate	carrying	allowance
	%	amount	RMB'000
		RMB'000	RMB'000
Current	—	95,069	—
Overdue within 3 months	0.4%	2,805	11
Overdue after 3 months but within 1 year	2.0%	506	10
Overdue after 1 year but within 2 years	100.0%	42	42
	<u>0.06%</u>	<u>98,422</u>	<u>63</u>

As at 31 December 2018			
	Expected loss	Gross	Loss
	rate	carrying	allowance
	%	amount	RMB'000
		<i>RMB'000</i>	<i>RMB'000</i>
Current	—	104,292	—
Overdue within 3 months	0.5%	4,489	22
Overdue after 3 months but within 1 year	20.0%	75	15
Overdue after 1 year but within 2 years	100.0%	384	384
	<u>0.4%</u>	<u>109,240</u>	<u>421</u>

As at 31 March 2019			
	Expected loss	Gross	Loss
	rate	carrying	allowance
	%	amount	RMB'000
		<i>RMB'000</i>	<i>RMB'000</i>
Current	—	161,143	—
Overdue within 3 months	0.5%	8,510	41
Overdue after 3 months but within 1 year	1.8%	719	13
Overdue after 1 year but within 2 years	100.0%	397	397
	<u>0.3%</u>	<u>170,769</u>	<u>451</u>

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the Relevant Periods is as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at the beginning of the year/period	—	17	63	421
Impairment losses recognized	17	46	358	30
Balance at the end of the year/period	<u>17</u>	<u>63</u>	<u>421</u>	<u>451</u>

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

As at 31 December 2016

Contractual undiscounted cash outflow

	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Bank loans	12,095	—	—	12,095	12,090
Trade and other payables	36,009	—	—	36,009	36,009
Lease liabilities	2,692	2,886	5,371	10,949	9,998
Total	<u>50,796</u>	<u>2,886</u>	<u>5,371</u>	<u>59,053</u>	<u>58,097</u>

As at 31 December 2017

Contractual undiscounted cash outflow

	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Trade and other payables	51,876	—	—	51,876	51,876
Lease liabilities	2,886	3,181	2,190	8,257	7,731
Total	<u>54,762</u>	<u>3,181</u>	<u>2,190</u>	<u>60,133</u>	<u>59,607</u>

As at 31 December 2018

Contractual undiscounted cash outflow

	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Trade and other payables	82,156	—	—	82,156	82,156
Lease liabilities	4,700	2,631	—	7,331	7,054
Total	<u>86,856</u>	<u>2,631</u>	<u>—</u>	<u>89,487</u>	<u>89,210</u>

As at 31 March 2019

Contractual undiscounted cash outflow

	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years <i>RMB'000</i>	Total <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Bank loans	304	—	—	304	293
Trade and other payables	95,922	—	—	95,922	95,922
Lease liabilities	4,661	1,526	—	6,187	5,990
Total	<u>100,887</u>	<u>1,526</u>	<u>—</u>	<u>102,413</u>	<u>102,205</u>

(c) Interest rate risk

The Group's interest-bearing financial instruments at variable rates are the cash at bank as at the end of each of the Relevant Periods, and bank loans as at 31 March 2019. The cash flow interest risk arising from the change of market interest rate on these balances is not considered significant. The Group's interest-bearing financial instruments at fixed interest rates are bank loans as at 31 December 2016 and structured deposits as at 31 March 2019 that are measured at amortized cost, and the change of market interest rate does not materially expose the Group to fair value interest risk. Overall speaking, the Group's exposure to interest rate risk is not significant.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables, pledged bank deposits and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD dollars, Hong Kong dollars and RMB.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate of the end of each reporting date. Difference from translation of financial statements of the Group's subsidiaries with functional currency other than RMB into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2016		
	United States Dollars RMB'000	Hong Kong Dollars RMB'000	Renminbi RMB'000
Cash and cash equivalents	76,742	—	—
Trade and other receivables	26,584	—	—
Overall exposure	<u>103,326</u>	<u>—</u>	<u>—</u>
	Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2017		
	United States Dollars RMB'000	Hong Kong Dollars RMB'000	Renminbi RMB'000
Cash and cash equivalents	204,903	510	—
Pledged bank deposits	—	836	—
Trade and other receivables	63,721	327	—
Trade and other payables	(506)	—	(82)
Overall exposure	<u>268,118</u>	<u>1,673</u>	<u>(82)</u>

Exposure to foreign currencies
(expressed in Renminbi)
As at 31 December 2018

	United States Dollars <i>RMB'000</i>	Hong Kong Dollars <i>RMB'000</i>	Renminbi <i>RMB'000</i>
Cash and cash equivalents	150,114	19,494	—
Pledged bank deposits	—	877	—
Trade and other receivables	58,098	—	—
Trade and other payables	(81)	—	—
	<u>208,131</u>	<u>20,371</u>	<u>—</u>
Overall exposure	<u>208,131</u>	<u>20,371</u>	<u>—</u>

Exposure to foreign currencies
(expressed in Renminbi)
As at 31 March 2019

	United States Dollars <i>RMB'000</i>	Hong Kong Dollars <i>RMB'000</i>	Renminbi <i>RMB'000</i>
Cash and cash equivalents	53,312	31,984	—
Pledged bank deposits	—	857	—
Trade and other receivables	18,795	—	—
Trade and other payables	(7,675)	—	—
	<u>64,432</u>	<u>32,841</u>	<u>—</u>
Overall exposure	<u>64,432</u>	<u>32,841</u>	<u>—</u>

(ii) *Sensitivity analysis*

A 5% strengthening of RMB against the following currency at the reporting date would increase/(decrease) profit after taxation by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant.

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
United States Dollars	(4,865)	(11,832)	(9,412)	(2,936)
Hong Kong Dollars	—	(84)	(1,019)	1,371
Renminbi	—	4	—	—

A 5% weakening of the RMB against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the financial instruments, including unlisted equity securities, investment in TV-series-based financial instrument and investment in wealth management product which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the directors is held once a year, to coincide with the reporting dates.

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Level 3				
Assets				
Unlisted equity securities	3,466	767	—	—
Investment in TV-series-based financial instrument	—	—	—	21,403
Investment in wealth management product	—	—	—	20,000
	<u>3,466</u>	<u>767</u>	<u>—</u>	<u>41,403</u>

The carrying amount of unlisted equity securities, investment in TV-series-based financial instrument and wealth management product are measured at fair values in the consolidated statements of financial position. The fair values of the unlisted equity securities, investment in TV-series-based financial instrument and wealth management product have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows. The fair value of the unlisted equity securities is determined by discounting a projected cash flow forecast associated with the investee using risk-adjusted discount rate. It is estimated that with all other variables held constant, a decrease/increase in risk-adjusted discounted rate by 1% would have increased/decreased the Group's net profits by RMB144,000/RMB129,000, respectively, for the year ended 31 December 2016 and by RMB47,000/RMB41,000, respectively, for the year ended 31 December 2017. It is estimated that with all other variables held constant, an increase/decrease in 5% of cash flow growth rate would have increased/decreased the Group's net profits by RMB132,000 and RMB27,000, respectively, for the years ended 31 December 2016 and 2017. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit and loss, are reasonable, and that they were the most appropriate values at the end of each of the Relevant Periods.

(ii) *Fair value of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values as at 31 December 2016, 2017, 2018 and 31 March 2019 due to short-term maturity of these instruments.

27 COMMITMENTS

Capital commitments of the Group in respect of construction-in-process outstanding at the end of each of the reporting period not provided for in the Historical Financial Information were as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Contracted for but not provided for	3,886	7,348	115,256	104,426
Authorised but not contracted for	—	267,915	99,800	94,160
	<u>3,886</u>	<u>275,263</u>	<u>215,056</u>	<u>198,586</u>

28 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the Historical Financial Information, the Group entered into the following material related party transactions.

(a) **Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Years ended 31 December			Three months ended	
	2016	2017	2018	31 March	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Short-term employee benefits	3,898	4,714	5,522	1,381	1,461
Post-employee benefits	183	202	197	49	51
	<u>4,081</u>	<u>4,916</u>	<u>5,719</u>	<u>1,430</u>	<u>1,512</u>

Total remuneration is included in "staff costs" (see note 6(b)).

(b) **Guarantee provided by the Controlling Shareholder**

The Controlling Shareholder has provided guarantee with the amount of RMB198,000,000 to the Group on the bank loan facility agreement amounting to RMB168,000,000 since 1 April 2018 (see note 13), and the guarantee was cancelled on 1 February 2019.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2019 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020
HKFRS 3 (Revised), Business Combinations	1 January 2020
HKFRS 1, (Revised) Presentation of Financial Statements	1 January 2020
HKFRS 8, Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

30 SUBSEQUENT EVENTS

No significant subsequent events have occurred subsequent to 31 March 2019.

31 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 31 March 2019.

APPENDIX II	UNAUDITED PRO FORMA FINANCIAL INFORMATION
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The information set forth in this appendix does not form part of the accountants' report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the accountants' report set forth in Appendix I to this prospectus.

A UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the equity shareholders of the Company as at 31 March 2019, as if the Global Offering had taken place on 31 March 2019.

The pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 March 2019 or at any future date.

	Consolidated net tangible assets of the Group attributable to equity shareholders of the Company as of 31 March 2019 <i>RMB'000⁽¹⁾</i>	Estimated net proceeds from the Global Offering <i>RMB'000⁽²⁾⁽⁵⁾</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company <i>RMB'000⁽³⁾⁽⁴⁾</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of the Company <i>RMB⁽⁴⁾ HK\$⁽⁵⁾</i>	
Based on an Offer Price of HK\$1.37 per Offer Share, after a Downward Offer Price Adjustment of 10%	553,709	378,354	932,063	0.42	0.47
Based on an Offer Price of HK\$1.52 per Share	553,709	421,564	975,273	0.44	0.49
Based on an Offer Price of HK\$1.96 per Share	553,709	548,314	1,102,023	0.50	0.56

Notes:

- (1) The consolidated net tangible assets of the Group attributable to equity shareholders of the Company as of 31 March 2019 have been calculated based on the audited consolidated total equity attributable to equity shareholders of the Company as of 31 March 2019 of RMB557,861,000 less intangible assets of RMB4,152,000, extracted from the Accountants' Report set out in Appendix I to this Prospectus.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Global Offering are based on the issuance of 330,000,000 Shares and the indicative Offer Prices of HK\$1.52 and HK\$1.96 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, and also based on an Offer Price of HK\$1.37 per Offer Share after making a Downward Offer Price Adjustment of 10%, after deduction of estimated listing expenses to be incurred after 31 March 2019 and upon Listing, and does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 March 2019.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to the Company as described in note (2) and on the basis that a total of 2,200,000,000 Shares were in issue (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalisation Issue) assuming that the Global Offering and the Capitalisation Issue had been completed on 31 March 2019 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option.
- (5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of HK\$1.00 to RMB0.90. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

**B INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF FRIENDTIMES INC.

We have completed our assurance engagement to report on the compilation of pro forma financial information of FriendTimes Inc. (the “Company”) and its subsidiaries (collectively the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 March 2019 and related notes as set out in Part A of Appendix II to the prospectus dated 24 September 2019 (the “Prospectus”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the “Global Offering”) on the Group’s financial position as at 31 March 2019 as if the Global Offering had taken place at 31 March 2019. As part of this process, information about the Group’s financial position as at 31 March 2019 has been extracted by the Directors from the Group’s historical financial information included in the Accountants’ Report as set out in Appendix I to the Prospectus.

Directors’ Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 March 2019 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgement, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

24 September 2019

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 11 September 2019 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V “Documents Delivered to the Registrar of Companies and Available for Inspection”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 11 September 2019 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The authorised share capital of the Company at the date of adoption of the Articles is US\$50,000.00 divided into 5,000,000,000 shares of US\$0.00001 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the 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 the 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 Cayman Companies Law 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 the Company or the holder thereof, liable to be redeemed.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN COMPANIES LAW**

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the 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 the Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the 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 the 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, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the 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 the 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

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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 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 the 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 the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or 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 the Company or any other company which the 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 underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (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 the 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

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- (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 the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(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 the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided 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 the 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 the 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 the 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 the 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 number of Directors shall not be less than two.

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 next general meeting of the Company and shall then be eligible for re-election at that meeting.

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The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the 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 Director).

The Company may 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. The 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. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

No person shall, unless proposed by the Directors pursuant to the recommendation of the Nomination Committee, 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 dispatch 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 the Company notice in writing by a member of the 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, and such person has been approved by the Nomination Committee and the Directors.

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 the 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;

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- (vi) if he is removed from office by a resolution of the Nomination Committee and a 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 the Company under the Articles of Association.

At every annual general meeting of the 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. The 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 the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the 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 dispatch 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 chairman 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 the 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 Cayman Companies Law, 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

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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.

2.5 Alteration of capital

The 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.

The 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 ratably in accordance with their rights and interests or may be paid to the Company for the 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 Cayman Companies Law; 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 Cayman Companies Law, 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 the Company has power to attach to unissued or new shares.

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The 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 Cayman Companies Law.

2.6 Special resolution -majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorised representatives, 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 signed by all members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly appointed representatives), and any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last member to sign.

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 the Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorised representatives, 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 the 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 on a poll 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 one vote for each share registered in his name in the register of members of the 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.

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A member of the 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.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the 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 chairman 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 the 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 the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be 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 the 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

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Hong Kong Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

Extraordinary general meetings may be convened on the requisition of two or more shareholders (or any one member which is a recognised clearing house (or its nominee(s)) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings.

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 the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

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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 the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorised by the Directors or by the 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 the 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 the Company and, in any other case, since the preceding account, together with a statement of financial position 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 the Company for the period covered by the profit and loss account and the state of the 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 the 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 the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 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 and all members of the 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 the Company).

Notwithstanding that a meeting of the 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 the Company entitled to attend and vote thereat or their proxies; and

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- (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.

2.11 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 Hong Kong 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 the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may, in its absolute discretion, and without assigning any reason, refuse to register any transfer of any share which is not fully paid up or on which the 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 the 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 the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Hong Kong 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 the 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 the 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 Hong Kong Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of

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members of the 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 the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law 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 the 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 Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase. The holder of the shares being purchased shall be bound to deliver up to the Company at its principal place of business in Hong Kong or such other place as the Directors shall specify the certificate(s) thereof, if any, for cancellation and thereupon the Company shall pay to him the purchase or redemption monies in respect thereof.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Cayman Companies Law and the Articles of Association, the 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 the 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 the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

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The Directors may retain any dividends or other monies payable on or in respect of a share upon which the 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 the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the 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 the 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 the 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. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the 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 the 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 the 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 the 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 the 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 the 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. The 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, the 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 the Company.

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The Directors may, with the sanction of the members of the 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 the 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 the 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.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the 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 the 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 the 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 the 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.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the 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 the Company shall (subject to the 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.

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 the 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 the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest

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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.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the 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 Hong Kong Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the 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, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

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 the 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.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the 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 the 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 the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 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.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the 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 the 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 the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion 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 the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the 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 the 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 the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the 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) the 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, the 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 the 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 Hong Kong Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, 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.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16 November 2018 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the 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 Cayman Companies Law 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 Cayman Companies Law);
- (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.

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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 Cayman Companies Law 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.

Subject to the detailed provisions of the Cayman Companies Law, 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 Cayman Companies Law, 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 Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (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.

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 Cayman Companies Law 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 Cayman Companies Law 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

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Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Cayman Companies Law 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 Cayman Companies Law 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 Cayman Companies Law 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

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW

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.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or 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 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, ratably 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.

18 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.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained 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 the 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 the 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 Law (2018 Revision).

The undertaking for the Company is for a period of thirty years from 21 August 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save 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 the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Campbells, the Company's Legal Advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" 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.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated on 16 November 2018 in the Cayman Islands as an exempted company with limited liability. Accordingly, our Company's corporate structure and Articles are subject to relevant laws of the Cayman Islands. A summary of our Articles is set out in Appendix III to this prospectus. Our registered office is at Campbells Corporate Services Limited, Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands.

Our principal place of business in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 25 March 2019. Ms. Fung Wai Sum and Ms. Lee Mei Yi, both are Hong Kong residents, have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices in Hong Kong.

As at the date of this prospectus, our Company's headquarters were located at Building 18, Scientific Park of Suhua, No. 208 Tongyuan Road, Suzhou Industrial Park, Jiangsu Province, the PRC.

2. Changes in share capital of our Company

As at the date of incorporation, our Company had an authorised share capital of US\$50,000.00 divided into 5,000,000,000 shares with a nominal or par value of US\$0.00001 each.

On 16 November 2018, our Company issued with nominal or par value of US\$0.00001 each in the following manner:

- (i) 1 share to Sertus Nominees (Cayman) Limited, an Independent Third Party, and subsequently transferred to Eternal Heart at a consideration at par value on the same day;
- (ii) 25,904,260 shares to Eternal Heart;
- (iii) 5,166,000 shares to Ling Long;
- (iv) 5,166,000 shares to Warm Sunshine;
- (v) 2,583,000 shares to Lucky Fish;
- (vi) 3,993,964 shares to Purple Crystal;
- (vii) 1,356,075 shares to David Epoch;
- (viii) 1,033,200 shares to Joy Box;
- (ix) 839,475 shares to VEM GmbH;
- (x) 645,750 shares to Zhangmin Holdings;

(xi) 645,750 shares to LIN ZHIRONG Holdings;

(xii) 1,614,375 shares to JTW Investment; and

(xiii) 645,750 shares to Crop Pioneer.

On 13 February 2019, our Company issued 2,066,400 shares with nominal or par value of US\$0.00001 each to SEC Electric SPV for a consideration at par value and credited as fully-paid.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries and Operating Entities

Our subsidiaries and Operating Entities are set out in the Accountants' Report in Appendix I to this prospectus.

The following subsidiaries and Operating Entities have been established/incorporated within two years immediately preceding the date of this prospectus:

Name of subsidiary	Place of establishment/ incorporation	Date of establishment/ incorporation	Issued and paid in capital/ registered capital
Friend World	BVI	26 November 2018	US\$50,000
Friend Century	Hong Kong	7 December 2018	HK\$10,000
Suzhou Eagle	PRC	24 January 2019	US\$5,000,000
Purple Wing	PRC	5 February 2018	RMB5,000,000
Cheeryoo	PRC	11 January 2018	RMB5,000,000
Purple Blaze	PRC	23 March 2017	RMB6,000,000

Save as disclosed in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, there has been no alteration in the share capital of any of our subsidiaries and Operating Entities within the two years immediately preceding the date of this prospectus

4. Written resolutions of the shareholders passed on 11 September 2019

Written resolutions of the shareholders were passed on 11 September 2019 approving, among others, the following:

- (a) our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon Listing;

- (b) the Listing, the Global Offering and the Over-allotment Option was approved, subject to such modifications as our Directors (or any committee established by the Board) may in their sole discretion determine, and our Directors or any committee established by the Board were authorised to do all such things as they consider necessary to give effect to the Listing, the Global Offering and the Over-allotment Option;
- (c) a general unconditional mandate was granted to our Directors to, inter alia, allot, issue and deal with Shares or securities convertible into Shares or options, warranties or similar rights to subscribe for Shares or such convertible securities and to make or grant general offers, agreements or options which might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) the exercise of any subscription rights, warrants which may be issued by our Company from time to time; (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles; (c) a specific authority granted by the shareholders in general meeting, shall not exceed the aggregate of (i) 20% of the total number of the Shares in issue upon completion of the Global Offering (excluding any Shares to be issued upon the Over-allotment Option); and (ii) the total number of the Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (d) below, such mandate to main effect during the period from the passing of the resolution until the earliest of the conclusion of our earliest annual general meeting, the expiration of the period within which we are required by any applicable law of the Cayman Islands or the Articles to hold our next annual general meeting or the date on which the authority given to the Directors is renewed, varied or revoked by an ordinary resolution of the shareholders at a general meeting of our Company (the “**Applicable Period**”);
- (d) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding any Shares to be issued upon the Over-Allotment Option), such mandate to remain effect during the Applicable Period; and
- (e) the general unconditional mandate mentioned in paragraph (c) above to be extended by the addition to the aggregate number of the Shares which may be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of the Shares purchased by our Company pursuant to the repurchase mandate referred to in paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate number of the Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding any Shares to be issued upon the Over-allotment Option).

5. Corporate Reorganisation

For details of the Reorganisation which was effected for the Listing, see “History, Reorganisation and Corporate Structure” in this prospectus.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or any member of our Group within two years preceding the date of this prospectus and are or may be material:

- (a) the share purchase and sale agreement dated 29 January 2019, entered into between Suzhou FriendTimes and Friend World, pursuant to which Suzhou FriendTimes agreed to transfer 15,000,000 shares in Wish Interactive to Friend World at a consideration of US\$1,950,000;
- (b) the share transfer agreement dated 4 March 2019, entered into between Suzhou FriendTimes and Friend World, pursuant to which Suzhou FriendTimes agreed to transfer 116,646 ordinary shares in Friend Times Korea to Friend World at a consideration of KRW552,552,102;
- (c) the equity transfer agreement dated 10 December 2018, entered into between Suzhou FriendTimes and Lu Lin, pursuant to which Suzhou FriendTimes agreed to transfer 70.00% of equity interests in Sunyoo to Lu Lin at a consideration of RMB1;
- (d) the equity transfer agreement dated 10 December 2018, entered into between Suzhou FriendTimes and Bin Xiaohua, pursuant to which Suzhou FriendTimes agreed to transfer 10.00% of equity interests in Suzhou Leji to Bin Xiaohua at a consideration of RMB500,000;
- (e) the exclusive business cooperation agreement dated 20 February 2019, entered into between Suzhou Eagle and Suzhou FriendTimes, as further described in the section headed “Contractual Arrangements”;
- (f) the framework loan agreement dated 6 March 2019, entered into between Suzhou Eagle and Suzhou FriendTimes, as further described in the section headed “Contractual Arrangements”;
- (g) the voting rights proxy agreement dated 20 February 2019, entered into among Suzhou Eagle, the Registered Shareholders and Suzhou FriendTimes, as further described in the section headed “Contractual Arrangements”;
- (h) the exclusive option agreement dated 20 February 2019, entered into among Suzhou Eagle, the Registered Shareholders and Suzhou FriendTimes, as further described in the section headed “Contractual Arrangements”;
- (i) the equity pledge agreement dated 20 February 2019, entered into among Suzhou Eagle, the Registered Shareholders and Suzhou FriendTimes, as further described in the section headed “Contractual Arrangements”; and
- (j) the Hong Kong Underwriting Agreement.



2. Intellectual property rights

(a) Trademarks

(i) Registered trademarks

As at the Latest Practicable Date, we had registered the following trademarks which we consider to be material to our business:






No.	Trademark	Class	Register owner	Place of registration	Registration number	Expiry date
1.		41	Suzhou FriendTimes	PRC	17239875	27 August 2026
2.		9 41	Suzhou FriendTimes	PRC	17239463 17239581	27 August 2026 27 August 2026
3.	宝将	41 42	Suzhou FriendTimes	PRC	18283715 18283608	13 December 2026 13 December 2026
4.	FRINED TIMES	9 35 41 42	Suzhou FriendTimes	PRC	18994752 18995772 18994977 18995651	27 February 2027 27 February 2027 27 February 2027 27 February 2027
5.	玩友时代	9 41 42	Suzhou FriendTimes	PRC	18994851 18994956 18995529	20 May 2027 27 February 2027 27 February 2027
6.	马踏千军	9 41	Suzhou FriendTimes	PRC	19264405 19264743	13 April 2027 13 April 2027
7.		9 41	Suzhou FriendTimes	PRC	19264510 19264705	13 April 2027 13 April 2027
8.		9 41	Suzhou FriendTimes	PRC	19264259 19264767	13 April 2027 13 April 2027
9.	盛世嫡妃	9 41	Suzhou FriendTimes	PRC	20512102 20512205	20 August 2027 20 August 2027
10.	恋人之森	9 41	Suzhou FriendTimes	PRC	21270801 21264937	13 November 2027 13 November 2027
11.	诸神幻想	9 41	Suzhou FriendTimes	PRC	21264900 21270811	13 November 2027 6 November 2027
12.	宫廷计	9 41	Suzhou FriendTimes	PRC	22125812 22125929	20 January 2028 20 January 2028

No.	Trademark	Class	Register owner	Place of registration	Registration number	Expiry date
13.	熹妃Q传	9	Suzhou FriendTimes	PRC	26476397	6 September 2028
		41			26473074	6 September 2028
14.	浮生为卿歌	9	Suzhou FriendTimes	PRC	31288386	20 March 2029
		41			31284890	20 March 2029
15.	好玩友	9	GameFriend	PRC	16463202A	13 May 2026
		41			16463244	20 April 2026
16.	幻宠大陆	9	GameFriend	PRC	21889885	6 February 2028
		41			21889959	13 February 2028
17.	心跳计划	9	GameFriend	PRC	22885235	20 May 2028
		41			22885402	20 May 2028
18.	帝王雄心	9	GameFriend	PRC	25053024	27 June 2028
		41			25038293	27 June 2028
19.	此生无白	9	GameFriend	PRC	25048622	27 June 2028
		41			25048915	27 June 2028
20.	此生无白	41	GameFriend	PRC	32371778	6 April 2029
21.	热舞达人	41	GameFriend	PRC	22710202	27 April 2028
22.	化芯物语	9	GameFriend	PRC	32380823	6 April 2029
		41			32385876	6 April 2029
23.	魔法交锋	9	GameFriend	PRC	31007087	27 February 2029
		41			31015240	
24.	妖怪冒险团	9	GameFriend	PRC	31013097	27 February 2029
		41			30999103	27 February 2029
25.	步步惊心之南秦风云	9, 41	Wish Interactive	Singapore	40201713730R	17 July 2027
26.		9, 41	Suzhou FriendTimes	Hong Kong	304725801	6 November 2028
		9		PRC	34441017	27 July 2029
		41			34445470	27 July 2029
27.		9, 41	GameFriend	EU	017934798	26 July 2028
		9		PRC	31905937	20 May 2029
		41			31899118	27 May 2029

No.	Trademark	Class	Register owner	Place of registration	Registration number	Expiry date
28.		9, 41	GameFriend	EU	017931279	16 July 2028
		9		PRC	31894106	20 May 2029
		41			31894113	20 May 2029
29.		9	GameFriend	PRC	31826361	13 April 2029
30.	妖怪餐厅	41	GameFriend	PRC	30305998	20 April 2029
31.	料理怪兽	41	GameFriend	PRC	35137664	20 July 2029
32.	妖之食肆	9	GameFriend	PRC	34951409	20 July 2029
33.	异世界物语	9	GameFriend	PRC	34492908	27 July 2029
		41				34503281
34.		41	Suzhou FriendTimes	PRC	34367796	27 July 2029
35.		9	Suzhou FriendTimes	PRC	34371108	27 July 2029
		41				34359197
36.		41	Suzhou FriendTimes	PRC	34359936	27 July 2029

(ii) Trademarks applications pending

As at the Latest Practicable Date, we have applied for the registration of the following trademarks which we consider to be material to our business:

No.	Trademark	Class	Applicant	Place of application	Application number	Date of application
1.		9	Suzhou FriendTimes	PRC	35007535	29 November 2018
		41		PRC	35004391	29 November 2018
		9, 41		EU	018002037	19 December 2018
		9		Malaysia	TM2018018142	20 December 2018
		41		Malaysia	TM2018018146	20 December 2018
		9, 41		U.S., Singapore, Australia, United Kingdom, South Korea, Vietnam	2018000007047	28 December 2018
		9, 41		Japan	2018-164240	28 December 2018
		9		Thailand	190100433	4 January 2019
		41		Thailand	190100936	8 January 2019
		9, 41		Canada	1942906	28 January 2019
2.		9, 41	Suzhou FriendTimes	Japan	2018-093347	20 July 2018
3.		9, 41	Suzhou FriendTimes	Japan	2018-119977	21 September 2018
4.		9	GameFriend	Malaysia	2018064733	27 July 2018
		41		Malaysia	2018064760	27 July 2018
		9, 41		U.S., Singapore, Australia	2018000004409	15 August 2018
		9, 41		Canada	1915148	15 August 2018
5.		9, 41	GameFriend	Canada	1915147	15 August 2018
		9, 41		U.S., United Kingdom, Australia	2018000004437	17 August 2018
6.	妖の食肆	9	GameFriend	PRC	34725399	16 November 2018
		41		PRC	34736297	16 November 2018
7.	妖小白	9	GameFriend	PRC	34716565	16 November 2018
		41		PRC	34730170	16 November 2018

<u>No.</u>	<u>Trademark</u>	<u>Class</u>	<u>Applicant</u>	<u>Place of application</u>	<u>Application number</u>	<u>Date of application</u>
8.	料理怪兽	9	GameFriend	PRC	35148082	6 December 2018
9.	妖之食肆	41	GameFriend	PRC	34946484	27 November 2018
10.	930亿光年的偶遇	9	GameFriend	PRC	36251982	30 January 2019
		41			36247911	30 January 2019
11.	王冠与征服	9	Purple Wing	PRC	34118827	18 October 2018
		41			34125862	18 October 2018
12.	精灵食肆	9	Cheeryoo	PRC	38314568	28 May 2019
		41			38306341	
		32			38510813	
		35			38509295	
		33			38506284	
		16			38505101	
		29			38498437	
		25			38498329	
		28			38492312	
		30			38491398	
		26			38488654	
		18			38483830	
		43			38482949	

(b) Patents*(i) Registered patents*

As at the Latest Practicable Date, we had registered the following patents which we consider to be material to our business:

No.	Patent	Class	Registered owner	Place of registration	Registration number	Expiry Date
1.	A kind of iOS channel-packaging tool without repeated compilation (一種iOS無須反復編譯的渠道打包方法)	Invention	Suzhou FriendTimes	PRC	201810459603.6	15 May 2038
2.	A real-time game service alarm method (一種實時遊戲業務告警方法)	Invention	Suzhou FriendTimes	PRC	201810520767.5	28 May 2038
3.	An automatic method, device and equipment for path finding (一種自動尋路方法、裝置和設備)	Invention	Suzhou FriendTimes	PRC	201810726203.7	4 July 2038
4.	A method, device, equipment and storage medium for optimal path acquisition (一種最佳路徑獲取方法、裝置、設備及存儲介質)	Invention	Suzhou FriendTimes	PRC	201810725575.8	4 July 2038
5.	A method and system for automatic game setting up server tools (自動架設遊戲服務器的方法及系統)	Invention	Suzhou FriendTimes	PRC	201810974059.9	24 August 2038
6.	A kind of system performance testing method, device, equipment and storage medium (一種系統性能測試方法、裝置、設備及存儲介質)	Invention	GameFriend	PRC	201811366408.5	16 November 2038

(ii) Patents applications pending

As at the Latest Practicable Date, we have applied for the registration of the following patents which we consider to be material to our business:

No.	Patent	Class	Applicant	Place of application	Application number	Date of application
1.	A mobile phone push notification system and method compatible with all platforms (兼容全平台手機推送系統及方法)	Invention	Suzhou FriendTimes	PRC	201810459621.4	15 May 2018
2.	A method, device, equipment and storage medium for picking up coordinates (一種拾取座標的方法、裝置、設備及存儲介質)	Invention	Suzhou FriendTimes	PRC	201810639084.1	20 June 2018

No.	Patent	Class	Applicant	Place of application	Application number	Date of application
3.	An analysis method, device and server for pre-game running state (一種遊戲運行前狀態的分析方法、裝置及服務器)	Invention	Suzhou FriendTimes	PRC	201810689612.4	28 June 2018
4.	A method and system for realising game real-time dynamic loading configuration (一種實現遊戲實時動態加載配置的方法及系統)	Invention	Suzhou FriendTimes	PRC	201810800471.9	20 July 2018
5.	A system and method for application publishing and configuration (一種應用發布和配置的系統及方法)	Invention	Suzhou FriendTimes	PRC	201810972646.4	24 August 2018
6.	A game screen recording method based on IOS system (一種基於IOS系統的遊戲屏幕錄屏方法及裝置)	Invention	Suzhou FriendTimes	PRC	201810972665.7	24 August 2018
7.	An implementation method of mouth animation based on speech recognition (一種基於語音識別的口型動畫實現方法及裝置)	Invention	Suzhou FriendTimes	PRC	201810972661.9	24 August 2018
8.	Game map allocation method and system (遊戲地圖的分配方法及系統)	Invention	Suzhou FriendTimes	PRC	201810971117.2	24 August 2018
9.	A load balancing method for game room server (一種遊戲房間服的負載均衡方法)	Invention	Suzhou FriendTimes	PRC	201810972630.3	24 August 2018
10.	A player matching method and system within game system (一種遊戲系統內的人員匹配方法及系統)	Invention	Suzhou FriendTimes	PRC	201810973264.3	24 August 2018
11.	2d game map editing method and device (2d遊戲地圖編輯方法及裝置)	Invention	Suzhou FriendTimes	PRC	201811652903.2	29 December 2018
12.	A kind of game battle checking method and system (一種遊戲戰鬥驗算方法及系統)	Invention	Suzhou FriendTimes	PRC	201811630184.4	29 December 2018
13.	A kind of adaptive UI adaptation method and system (一種自適應的UI適配方法及系統)	Invention	Suzhou FriendTimes	PRC	201811630282.8	29 December 2018
14.	Customized animation configuration method, device, equipment and storage medium (自定義動畫配置方法及裝置、設備及存儲介質)	Invention	Suzhou FriendTimes	PRC	201811652969.1	29 December 2018

No.	Patent	Class	Applicant	Place of application	Application number	Date of application
15.	A kind of multi-segment instruction control method, device, touch screen terminal and storage medium (一種多段指令控制方法、裝置、觸屏終端和存儲介質)	Invention	GameFriend	PRC	201811036459.1	6 September 2018
16.	A kind of game control method, device and terminal applied to mobile terminal (一種應用於移動終端的遊戲控制方法、裝置及終端)	Invention	GameFriend	PRC	201811173977.8	9 October 2018
17.	A kind of shadow processing method, device and terminal device in game scene (一種遊戲場景中的陰影處理方法及裝置及終端設備)	Invention	GameFriend	PRC	201811177864.5	10 October 2018
18.	A kind of method and system for displaying customized objects and scenes based on mobile games (一種基於移動端手遊的自定義物件和場景的展示方法及系統)	Invention	GameFriend	PRC	201811177862.6	10 October 2018
19.	Large scene map segmentation method and player perspective scene updating method (大場景地圖分割方法及應用其的玩家視角場景更新方法)	Invention	GameFriend	PRC	201811177871.5	10 October 2018
20.	Cross-platform GUI touch event analytic method in Unity environment (Unity環境下的跨平台GUI觸摸事件解析方法)	Invention	GameFriend	PRC	201811177893.1	10 October 2018
21.	A kind of mobile phone game installation package configuration method and game installation and operation method thereof (一種手機遊戲安裝包配置方法及應用其的遊戲安裝運行方法)	Invention	GameFriend	PRC	201811375350.0	19 November 2018
22.	A kind of 2D mobile game UI, story editing method and system (一種2D手機遊戲UI、劇情編輯方法及系統)	Invention	GameFriend	PRC	201811375396.2	19 November 2018
23.	A kind of method, device, equipment and storage medium for outputting report data (一種報表數據的輸出方法、裝置、設備和存儲介質)	Invention	GameFriend	PRC	201811366400.9	16 November 2018

No.	Patent	Class	Applicant	Place of application	Application number	Date of application
24.	A kind of data acquisition method, device, equipment and storage medium (一種數據採集方法、裝置、設備和存儲介質)	Invention	GameFriend	PRC	201811366410.2	16 November 2018
25.	A kind of method, device, equipment and storage medium for rendering block component (一種塊組件的渲染方法、裝置、設備及存儲介質)	Invention	GameFriend	PRC	201811367207.7	16 November 2018
26.	A kind of method, device, and storage medium for acquiring paging data (分頁數據的獲取方法及裝置、設備及存儲介質)	Invention	GameFriend	PRC	201811407787.8	23 November 2018
27.	Method, device, equipment and storage medium for determining lottery information (抽獎信息確定方法、裝置、設備以及存儲介質)	Invention	GameFriend	PRC	201811406292.3	23 November 2018
28.	Website barrage display method, device, equipment and storage medium (網頁彈幕顯示方法、裝置、設備及存儲介質)	Invention	GameFriend	PRC	201811535112.1	14 December 2018
29.	Image preview method, device, equipment and storage medium (圖像預覽方法、裝置、設備及存儲介質)	Invention	GameFriend	PRC	201811535459.6	14 December 2018
30.	Game application automatic log-in method, device, terminal and storage medium (遊戲應用程序自登錄方法、裝置、終端及存儲介質)	Invention	GameFriend	PRC	201811536897.4	14 December 2018
31.	A kind of method, device and terminal for game-controlling based on blowing (一種基於吹氣進行遊戲控制的方法、裝置及終端)	Invention	Purple Blaze	PRC	201811380597.1	20 November 2018
32.	A kind of image processing method, device and terminal applied in game scene (一種應用於遊戲場景中圖像處理方法、裝置及終端)	Invention	Purple Blaze	PRC	201811380447.0	20 November 2018
33.	Customer service chat method, device, customer service, server and storage medium (客服聊天方法、裝置、客服端、服務器及存儲介質)	Invention	Purple Blaze	PRC	201910324890.4	22 April 2019

No.	Patent	Class	Applicant	Place of application	Application number	Date of application
34.	Picture processing method, device, computer device and storage medium (圖片處理方法、裝置、計算機設備及存儲介質)	Invention	Purple Blaze	PRC	201910324219.X	22 April 2019
35.	A kind of master-slave server system application method, system, server and storage medium (一種主從式服務器系統應用方法、系統、服務器及存儲介質)	Invention	Cheeryoo	PRC	201811605456.5	26 December 2018
36.	A kind of information processing method, system and server (一種信息處理方法、系統及服務器)	Invention	Cheeryoo	PRC	201811605460.1	26 December 2018
37.	A kind of method, device, device and storage medium for friend recommendation (一種好友推薦方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910204096.6	18 March 2019
38.	A kind of data reporting method, device, storage medium and terminal device (一種數據上報方法、裝置、存儲介質及終端設備)	Invention	Suzhou Eagle	PRC	201910204294.2	18 March 2019
39.	Test data communication, test method, device, device and storage medium (測試數據通信、測試方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910325025.1	22 April 2019
40.	Method, system and device for quickly searching resources in game map (在遊戲地圖中快捷搜索資源的方法、系統及裝置)	Invention	Suzhou Eagle	PRC	201910333612.5	24 April 2019
41.	Resource batch verification method and system based on 3dsMAX (基於3dsMAX的資源批量校驗方法及系統)	Invention	Suzhou Eagle	PRC	201910386764.1	9 May 2019
42.	A kind of random number generation method, device and terminal for equalizing load (一種用於均衡負載的隨機編號生成方法、裝置和終端)	Invention	Purple Wing	PRC	201910389892.1	10 May 2019
43.	A kind of method and device for merging prefabricated parts of different branches of the same project (一種同一項目不同分支工程的預製件合併方法及裝置)	Invention	Purple Wing	PRC	201910389845.7	10 May 2019

No.	Patent	Class	Applicant	Place of application	Application number	Date of application
44.	A kind of distributed method, system, device and storage medium for game test (一種分佈式遊戲測試方法、系統、裝置及存儲介質)	Invention	Purple Wing	PRC	201910510363.2	13 June 2019
45.	Data binding method, device, equipment and storage medium of multi-level linkage selector (多級聯動選擇器的數據綁定方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910528264.7	18 June 2019
46.	Login sign-in method, device, equipment and storage medium (登錄簽到方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910578387.1	28 June 2019
47.	A kind of method, device, equipment and storage medium for business data transmission (一種業務數據發送方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910579109.8	28 June 2019
48.	A kind of method, device, equipment and storage medium for applications publication (一種應用程序的發佈方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910690514.7	29 July 2019
49.	A kind of method, device, equipment and storage medium for page display (一種頁面顯示方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910690533.X	29 July 2019
50.	A kind of method, device, equipment and storage medium for file saving (一種文件保存方法、裝置、設備及存儲介質)	Invention	Suzhou Eagle	PRC	201910630692.0	12 July 2019
51.	A kind of method, device, system, server and storage medium for message processing (一種消息處理方法、裝置、系統、服務器及存儲介質)	Invention	Suzhou Eagle	PRC	201910629163.9	12 July 2019

(c) Domain names

As at the Latest Practicable Date, we have registered the following domain names which we consider to be material to our business:

No.	Domain name	Registered owner	Date of registration	Expiry date
1.	friendtimes.net	Suzhou FriendTimes	16 January 2016	16 January 2022
2.	wysd.com	Suzhou FriendTimes	14 August 2004	14 August 2022
3.	haowanyou.com	Suzhou FriendTimes	12 May 2013	12 May 2022
4.	bojoy.net	Suzhou FriendTimes	12 December 2010	12 December 2022
5.	friendtimes.com.cn	Suzhou FriendTimes	14 December 2015	14 December 2022
6.	friendtimes.cn	Suzhou FriendTimes	14 December 2015	14 December 2022
7.	9917.com	Suzhou FriendTimes	25 June 2003	25 June 2023
8.	wysd.cn	Suzhou FriendTimes	15 September 2014	15 September 2020
9.	wysd.com.cn	Suzhou FriendTimes	31 January 2018	31 January 2020
10.	haowanyou.net	GameFriend	February 28, 2014	28 February 2022
11.	ziyan666.com	Purple Blaze	19 June 2017	19 June 2022
12.	ziyigame.com	Purple Wing	23 March 2018	23 March 2024
13.	qinyoujoy.com	Cheeryoo	23 March 2018	23 March 2024
14.	qinyoujoy.cn	Cheeryoo	20 March 2019	20 March 2020
15.	wishgame.net	Wish Interactive	10 October 2016	10 October 2022

(d) Copyrights

As at the Latest Practicable Date, we have registered the following copyrights which we consider to be material to our business:

(i) Software copyrights

No.	Name of copyright	Copyright owner	Version	Copyright registration number	Place of registration	Registration date
1.	Suzhou FriendTimes GOIS game operation integrated system software (玩友時代 GOIS遊戲運營集成系統軟件)	Suzhou FriendTimes	V1.0	2012SR095982	PRC	13 October 2012
2.	Suzhou FriendTimes Royal Legend mobile game software (玩友時代宮廷風雲手機遊戲軟件)	Suzhou FriendTimes	V2.0	2016SR067565	PRC	1 April 2016
3.	Suzhou FriendTimes Royal Tales mobile game software (玩友時代宮廷Q傳手機遊戲軟件)	Suzhou FriendTimes	V3.0	2016SR077370	PRC	14 April 2016
4.	Suzhou FriendTimes Royal Legend — Dream Back to Tang Dynasty online game software (玩友時代宮廷計之唐宮夢網絡遊戲軟件)	Suzhou FriendTimes	V2.0	2016SR077333	PRC	14 April 2016

No.	Name of copyright	Copyright owner	Version	Copyright registration number	Place of registration	Registration date
5.	Suzhou FriendTimes Legend of Empress mobile game software (玩友時代熹妃傳手機遊戲軟件)	Suzhou FriendTimes	V3.0	2018SR075817	PRC	30 January 2018
6.	Suzhou FriendTimes Fate: Royal Revenge mobile game software (玩友時代京門風月手機遊戲軟件)	Suzhou FriendTimes	V2.0	2018SR502660	PRC	29 June 2018
7.	GameFriend SDK recharge service software (好玩友SDK增值業務軟件)	GameFriend	V1.0	2015SR071660	PRC	29 April 2015
8.	GameFriend GFM-Engine mobile technology development engine software (好玩友GFM-Engine移動技術開發引擎軟件)	GameFriend	V1.0	2015SR074087	PRC	5 May 2015
9.	GameFriend game development and publishing management system software (好玩友遊戲開發發布管理系統軟件)	GameFriend	V1.0	2015SR257293	PRC	12 December 2015
10.	GameFriend Pantheon's War mobile game software (好玩友諸神幻想手機遊戲軟件)	GameFriend	V1.0	2017SR284225	PRC	19 June 2017
11.	GameFriend Dynasty of Kingdoms mobile game software (好玩友帝王雄心手機遊戲軟件)	GameFriend	V1.0	2017SR341321	PRC	4 July 2017
12.	GameFriend platform system — Youcai SDK recharge service software (好玩友平台系統 — 友財SDK增值業務軟件)	GameFriend	V1.0	2017SR502210	PRC	11 September 2017
13.	GameFriend Wizardlord mobile game software (好玩友至尊法師手機遊戲軟件)	GameFriend	V1.0	2018SR358631	PRC	21 May 2018
14.	GameFriend platform system-OAM operation and maintenance management system software (好玩友平台系統 — OAM運維管理系統軟件)	GameFriend	V1.0	2018SR390420	PRC	28 May 2018
15.	GameFriend Story: Cyborg Fantasy mobile game software (好玩友化芯物語手機遊戲軟件)	GameFriend	V1.0	2018SR614545	PRC	3 August 2018
16.	GameFriend game resource detection system software (好玩友遊戲資源檢測系統軟件)	GameFriend	V1.0	2018SR707717	PRC	3 September 2018
17.	GameFriend game engine performance detection system software (好玩友遊戲引擎性能檢測系統軟件)	GameFriend	V1.0	2018SR704380	PRC	3 September 2018

<u>No.</u>	<u>Name of copyright</u>	<u>Copyright owner</u>	<u>Version</u>	<u>Copyright registration number</u>	<u>Place of registration</u>	<u>Registration date</u>
18.	GameFriend social platform software (好玩友社交平台軟件)	GameFriend	V2.0	2018SR1087332	PRC	28 December 2018
19.	GameFriend Royal Chaos mobile game software (好玩友熹妃Q傳手機遊戲軟件)	GameFriend	V2.0	2018SR1087342	PRC	28 December 2018
20.	GameFriend Wizardlord mobile game software (好玩友魔法交鋒手機遊戲軟體)	GameFriend	V1.0	2018SR358631	PRC	21 May 2018
21.	GameFriend Encounter after 93 Billion Light-years mobile game software (好玩友930億光年的偶遇手機遊戲軟體)	GameFriend	V1.0	2019SR0531229	PRC	28 May 2019
22.	Purple Blaze Rise of Queendom mobile game software (紫焰宮廷計手機遊戲軟件)	Purple Blaze	V1.0	2017SR265340	PRC	14 June 2017
23.	Cheeryoo Tale of Empress mobile game software (沁遊浮生為卿歌手機遊戲軟件)	Cheeryoo	V1.0	2018SR562166	PRC	18 July 2018
24.	Cheeryoo Yokai Kitchen mobile game software (沁游妖之食肆手機遊戲軟件)	Cheeryoo	V1.0	2019SR008216	PRC	3 January 2019
25.	Cheeryoo Yokai Kitchen mobile game software (沁游精靈食肆手機遊戲軟件)	Cheeryoo	V1.0	2019SR0538042	PRC	29 May 2019
26.	Cheeryoo Fate: The Loved Journey mobile game software (沁游此生無白手機遊戲軟件)	Cheeryoo	V1.0	2019SR0677072	PRC	2 July 2019

(ii) Text copyrights

<u>No.</u>	<u>Name of copyright</u>	<u>Copyright owner</u>	<u>Copyright registration number</u>	<u>Place of registration</u>	<u>Registration date</u>
1.	Consort Xuanji (璇璣王妃)	Suzhou FriendTimes	蘇作登字 -2016-A-00121142	PRC	13 September 2016
2.	Rise of Queendom: The Supreme Empress (宮廷計之至尊皇妃)	Suzhou FriendTimes	蘇作登字 -2016-A-00121141	PRC	13 September 2016

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Interests and short positions of the Directors and the chief executives

Immediately following completion of the Capitalisation Issue and the Global Offering (assuming that the Over-Allotment Option is not exercised), so far as our Directors are aware, the interests or short positions of our Directors and chief executives in our Shares, underlying shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which will be required, pursuant to the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Hong Kong Stock Exchange, in each case once our Shares are listed, will be as follows:

<u>Name of Director</u>	<u>Capacity/ Nature of interest</u>	<u>Number of Shares held ⁽¹⁾</u>	<u>Approximate percentage of issued share capital ⁽²⁾</u>
Mr. Jiang	Interest in a controlled corporation ⁽³⁾	1,549,762,500	70.44%
Mr. Xu Lin	Interest in a controlled corporation ⁽⁴⁾	7,141,975	0.325%
Mr. Wu Jie	Interest in a controlled corporation ⁽⁵⁾	3,570,987	0.162%
Mr. Sun Bo	Interest in a controlled corporation ⁽⁶⁾	3,570,987	0.162%

Notes:

- (1) All interest stated are long positions.
- (2) The calculation is based on the total number of 2,200,000,000 Shares in issue immediately after the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised).
- (3) The Shares are registered under the name of Eternal Heart, Ling Long, Lucky Fish, Warm Sunshine and Purple Crystal, the issued share capital of which is ultimately owned as to 100%, 100%, 100%, 100% and 71.35% by Mr. Jiang, respectively. Accordingly, Mr. Jiang is deemed to be interested in all of the Shares held by Eternal Heart, Ling Long, Lucky Fish, Warm Sunshine and Purple Crystal for the purpose of Part XV of the SFO.

- (4) The Shares are registered under the name of Purple Crystal, the issued share capital of which is ultimately owned as to 4.94% by Mr. Xu Lin. Accordingly, Mr. Xu Lin is deemed to be interested in 4.94% of the Shares held by Purple Crystal for the purpose of Part XV of the SFO.
- (5) The Shares are registered under the name of Purple Crystal, the issued share capital of which is ultimately owned as to 2.47% by Mr. Wu Jie. Accordingly, Mr. Wu Jie is deemed to be interested in 2.47% of the Shares held by Purple Crystal for the purpose of Part XV of the SFO.
- (6) The Shares are registered under the name of Purple Crystal, the issued share capital of which is ultimately owned as to 2.47% by Mr. Sun Bo. Accordingly, Mr. Sun Bo is deemed to be interested in 2.47% of the Shares held by Purple Crystal for the purpose of Part XV of the SFO.

(b) Interests of the Substantial Shareholders

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors or chief executives are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares or the underlying Shares which, once the Shares are listed, would fall to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

2. Particulars of service contracts

Each of Mr. Jiang, Mr. Xu Lin, Mr. Wu Jie and Mr. Sun Bo, all being our executive Directors, has entered into a service agreement with our Company with an initial term of three years commencing from the Listing Date, and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other.

Each of Mr. Zhu Wei, Ms. Tang Haiyan and Mr. Zhang Jinsong, all being our independent non-executive Directors has entered into a letter of appointment with our Company and the terms and conditions of each of such letters of appointment are similar in all material respects. Each of our independent non-executive Directors is appointed with an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any members of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors’ remuneration

The aggregate remuneration (including directors’ fees, salaries, allowances, discretionary bonuses, share-based compensations, contributions to retirement benefits schemes and other benefits in kind) paid to our Directors for the three years ended 31 December 2018 and the three months ended 31 March 2019 was approximately RMB3.4 million, RMB4.1 million, RMB4.6 million and RMB1.2 million, respectively.

Save as the disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors for the three years ended 31 December 2018.

Pursuant to the arrangements currently in force, the aggregate amount of remuneration (excluding discretionary bonuses) payable to and the benefits in kind receivable by our Directors for the year ending 31 December 2019 is estimated to be approximately RMB5.8 million.

4. Agent fees or commissions received

Save as disclosed in this prospectus, none of our Directors nor any of the parties listed in the paragraph headed “Qualification of experts” in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any capital of our Company or any member of our Group within the two years preceding the date of this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors has any interest or short position in the shares, underlying shares and debentures of our Company or our associated incorporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Hong Kong Stock Exchange, in each case once our Shares are listed on the Hong Kong Stock Exchange;
- (b) so far as is known to our Directors, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “Qualification of experts” in this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed by or leased to our Company or any member of our Group, or are proposed to be acquired or disposed of by or leased to our Company or any member of our Group;
- (d) save in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the paragraph headed “Qualification of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “Qualification of experts” in this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any member of our Group; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) none of our Directors or their close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

D. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any member of our Group.

2. Litigation

Save as disclosed in this prospectus, as at the Latest Practicable Date, neither we nor any member of our Group were engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and the permission to deal in, the Shares in issue and the to be issued or sold as mentioned in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-Allotment Option). The Sole Sponsor has confirmed to the Hong Kong Stock Exchange that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The fees payable to the Sole Sponsor in respect of the services as sponsor for the Listing are approximately US\$640,000 and are payable by us.

4. Preliminary expenses

Our estimated preliminary expenses are approximately US\$3,230 and have been paid by us.

5. Bilingual prospectus

The English language and Chinese versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

6. Binding effect

This prospectus shall have effect, if an application is made pursuant of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

8. Qualification of experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who gave opinions or advice which are contained in this prospectus:

<u>Name</u>	<u>Qualifications</u>
Guotai Junan Capital Limited	A corporation licenced to conduct Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants
Tian Yuan Law Firm	Legal advisers to our Company as to PRC laws
Campbells	Legal advisers to our Company as to Cayman Islands laws
Bae, Kim & Lee LLC	Legal advisers to our Company as to South Korea laws
Frost & Sullivan (Beijing) Inc. Shanghai Branch Co.	Independent industry consultant

9. Consent of experts

Each of the experts as referred to in the paragraph headed “Qualification of experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or legal opinion (as the case may be) and references to their names included in the form and context in which it respectively appears.

None of experts named above has any shareholders’ interests in our Company or any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any member of our Group.

10. No material adverse change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 March 2019 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

11. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within the two years immediately preceding the date of this prospectus, neither our Company, nor any member of our Group has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company, or any member of our Group is under opinion or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to the Underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any member of our Group;
 - (iv) within the two years immediately preceding the date of this prospectus, no commission, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
 - (v) no founder, management or deferred shares of our Company or any member of our Group have been issued or agreed to be issued; and
 - (vi) we have no outstanding convertible debt securities or debentures.
- (b) Our Directors confirm that there has not been any interruption in the business of our Group which may have or have had a material adverse effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.
- (c) None of the member of our Group is listed on any stock exchange or traded on any trading system.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration include:

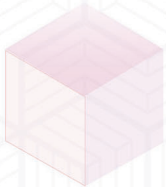
- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to in “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 1. Summary of material contracts”; and
- (c) the written consents referred to in “Appendix IV — Statutory and General Information — D. Other Information — 9. Consent of Experts”.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of William Ji & Co. LLP in Association with Tian Yuan Law Firm Hong Kong Office at Suite 702, 7/F, Two Chinachem Central, 26 Des Voeux Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the Accountants’ Report prepared by KPMG, Certified Public Accountants, Hong Kong, the text of which is set out in “Appendix I — Accountants’ Report”;
- (c) the audited financial statements of our Group for the three years ended 31 December 2018 and the three months ended 31 March 2019;
- (d) the report on unaudited pro forma financial information from KPMG, Certified Public Accountants, Hong Kong, the text of which is set out in “Appendix II — Unaudited Pro Forma Financial Information”;
- (e) the legal opinion issued by Tian Yuan Law Firm, our legal advisers as to PRC laws, in respect of certain aspects of our Group and our property interests in the PRC;
- (f) the letter of advice issued by Campbells, our legal advisers as to Cayman Islands laws, summarising certain aspects of the Cayman Companies Law as referred to in “Appendix III — Summary of Our Constitution and Cayman Companies Law”;
- (g) the legal opinion issued by Bae, Kim & Lee LLC, our legal advisers as to South Korea laws, in respect of certain aspects of our Group in South Korea;
- (h) the Companies Law;
- (i) the material contracts referred to in “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 1. Summary of material contracts”;

- (j) the service contracts and letters of appointment with directors, referred to in “Appendix IV — Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders”;
- (k) the industry report prepared by Frost & Sullivan, our industry consultant; and
- (l) the written consents referred to in “Appendix IV — Statutory and General Information — D. Other Information — 9. Consent of experts”.



FRIENDTIMES INC.