



XD Inc. 心动有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Stock Code : 2400

Sole Sponsor, Sole Global Coordinator
Joint Bookrunner and Joint Lead Manager



A CITIC Securities
Company

Joint Bookrunners and Joint Lead Managers
(In alphabetical order)



IMPORTANT

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



XD Inc.

心动有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 63,600,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 6,360,000 Shares (subject to reallocation)
Number of International Offer Shares	: 57,240,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$15.80 per Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund)
Nominal value	: US\$0.0001 per Share
Stock code	: 2400

Sole Sponsor, Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



A CITIC Securities
Company

Joint Bookrunners and Joint Lead Managers

(In alphabetical order)



BOC INTERNATIONAL



工银国际



中泰國際
ZHONGTAI INTERNATIONAL

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 “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” 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 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 fixed by agreement between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, December 5, 2019 (Hong Kong time) and, in any event, not later than Monday, December 9, 2019 (Hong Kong time). The Offer Price will be not more than HK\$15.80 and is currently expected to be not less than HK\$11.10 per Offer Share. If, for any reason, the Offer Price is not agreed by Monday, December 9, 2019 (Hong Kong time) between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and us, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator, on behalf of the Underwriters, and with our consent may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that is stated in this prospectus (which is HK\$11.10 to HK\$15.80) at any time 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 in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of our Company at www.xd.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in “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 “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 Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See “Underwriting—Underwriting Agreements and Expenses—Hong Kong Public Offering—Grounds for Termination” in this prospectus.

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

November 29, 2019

EXPECTED TIMETABLE⁽¹⁾

Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Thursday, December 5, 2019
Application Lists open ⁽³⁾	11:45 a.m. on Thursday, December 5, 2019
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Thursday, December 5, 2019
Latest time for completing payment of WHITE FORM eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, December 5, 2019
Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Thursday, December 5, 2019
Application Lists close ⁽³⁾	12:00 noon on Thursday, December 5, 2019
Expected Price Determination Date ⁽⁵⁾	12:00 noon on Thursday, December 5, 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 to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.xd.com ⁽⁶⁾ on or before	
	Wednesday, December 11, 2019
(2) Announcement of the results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for Hong Kong Offer Shares—11. Publication of Results" in this prospectus	
	Wednesday, December 11, 2019
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.xd.com ⁽⁶⁾ from	
	Wednesday, December 11, 2019
Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk (alternatively: English https://www.eipo.com.hk/en/Allotment ; Chinese https://www.eipo.com.hk/zh-hk/Allotment) with a "search by ID" function from	
	Wednesday, December 11, 2019
Dispatch of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before ⁽⁷⁾⁽⁹⁾	
	Wednesday, December 11, 2019
Dispatch of refund cheques and White Form e-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⁾	
	Wednesday, December 11, 2019
Dealings in the Shares on the Stock Exchange expected to commence at	9:00 am on Thursday, December 12, 2019

(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.eipo.com.hk after 11:30 a.m. on the last day for lodging applications. **If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day of lodging applications, when the Application Lists close.**

EXPECTED TIMETABLE⁽¹⁾

- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force and/or Extreme Conditions in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, December 5, 2019, the Application Lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for 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 around Thursday, December 5, 2019 and, in any event, not later than Monday, December 9, 2019. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and us by Monday, December 9, 2019, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting—Underwriting Agreement and Expenses—Hong Kong Public Offering—Grounds for Termination” 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.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.
- (9) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from the Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. and 1:00 p.m. on Wednesday, December 11, 2019 or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations who are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation’s chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants’ stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies—Personal Collection—(iv) If you apply via Electronic Application Instructions to HKSCC” in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Share certificates and/or refund cheques (if applicable) for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed “How to Apply for Hong Kong Offer Shares—13. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus.

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.

CONTENTS

This prospectus is issued by our Company 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 subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security 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 authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents or representatives of any of them, or any other person or party involved in the Global Offering. Information contained on our website, located at www.xd.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Offer Shares.

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

OVERVIEW

Our mission is to impact each and every gamer by promoting the spirit of craftsmanship.

We develop and operate quality games in China and overseas. We also operate TapTap, a leading game community and platform in China. According to Frost & Sullivan, among PRC game operators who earned a majority of game operating revenue overseas in 2018, we ranked fifth in terms of revenue from mobile games in 2018. According to the same source, TapTap was the largest game community and platform in China by average MAUs in 2018.

We have a diverse portfolio of games across different genres. As of September 30, 2019, we operated 42 online games, comprising many popular games of major game genres such as RPG (Ragnarok M and Shen Xian Dao (HD) (神仙道高清重製版)), CCG (Girls' Frontline (少女前線)), SLG (Heng Sao Qian Jun (橫掃千軍)) and battle arena game (Sausage Man (香腸派對)). In 2016, 2017, 2018 and the nine months ended September 30, 2019, the average MAUs of our online games were 1.9 million, 3.7 million, 8.8 million and 19.2 million, respectively. As of September 30, 2019, we also operated 12 pay-to-play premium games, such as ICEY (艾希) and Muse Dash (喵斯快跑). We believe that premium games further enrich our game portfolio and enhance our brand recognition among core gamers. As of September 30, 2019, our game pipeline included 11 online games and seven premium games which we expect to release by 2020.

We have strong in-house game development capabilities. As of September 30, 2019, we had released ten games developed by us, comprising eight online games, including a joint-developed game, Ragnarok M, and two premium games. In 2018, we generated 58.3% of our game operating revenue from self-developed games including a joint-developed game, Ragnarok M, contributing to 39.5% of our game operating revenue. As of September 30, 2019, we had eight game development studios supported by a game development team of 552 employees, accounting for 49.3% of our total employees as of the same date. Over 75% of our game development employees have a bachelor's degree or higher, and are specialized in areas such as computer sciences, software engineering, network systems administration, and multi-media design and production. In 2016, 2017, 2018, our research and development expenses were RMB79.4 million, RMB117.4 million and RMB197.8 million, respectively, representing a CAGR of 57.8%. In the five months ended May 31, 2019, our research and development expenses were RMB92.5 million representing 9.0% of our revenue for the same period.

Our expertise in the game industry has enabled us to effectively identify games with potential and introduce them to gamers. Being a pioneer among PRC game operators that entered the overseas markets, we are committed to introducing excellent games to more people overseas. Our games are offered in over 100 countries and regions across the globe. As of September 30, 2019, we operated 30 of our 42 online games and seven of our 12 premium games in overseas markets. In 2016, 2017, 2018 and the five months ended May 31, 2019, our game operating revenue generated from overseas markets accounted for 2.1%, 31.7%, 61.5% and 67.8% of our game operating revenue, respectively.

To help gamers discover attractive games and share gameplay experiences, we co-founded TapTap in 2016 through our investment in Yiwan. In 2016, 2017, 2018 and the nine months ended

SUMMARY

September 30, 2019, TapTap mobile app had average MAUs of 0.9 million, 10.2 million, 15.0 million and 17.0 million, respectively. According to Frost & Sullivan, as of May 31, 2019, over 84% of TapTap's users were born after 1990, who grew up with improved living standards and better education and are typically internet savvy and more willing to spend on games. According to the same source, we have a large number of experienced gamers on TapTap who are willing to actively share their gameplay experience and TapTap's game ratings have become the most authoritative reference standards in the mobile game industry in China. TapTap has not only created a vibrant and engaging mobile game community that attracts and retains gamers, but also serves as a powerful distribution, testing and evaluation platform for game developers, which further enables us to monetize our user base. With the free-to-distribute policy for game developers in respect of distributing free-to-play games and efficient internal game review procedures, TapTap enables game developers to conveniently distribute their games on TapTap for download or testing. In addition, by feeding gamers with personalized contents, TapTap helps developers promote their games through target marketing. As of September 30, 2019, we attracted over 10,000 game developers who registered with TapTap and made available over 6,500 mobile games for gamers to download and news information on over 41,000 games.

We enjoy strong synergy between our online games and TapTap. Our diverse game portfolio has attracted a growing user base for TapTap who are passionate about discussing games and sharing gameplay experience, while TapTap's game community allows us to better understand and meet gamers' needs for high-quality games and effectively follow market trends. Our strong user base and our unique free-to-distribute model have enabled us to retain and attract a growing number of game developers to enhance our game portfolio. Our open and convenient TapTap platform levels the playing field for game developers of all sizes and encourages them to develop attractive games for our users.

We grew rapidly during the Track Record Period. In 2016, 2017, 2018 and the five months ended May 31, 2019, our revenue was RMB765.5 million, RMB1,344.4 million, RMB1,887.1 million and RMB1,033.0 million, respectively, and our profit for the year/period was RMB23.4 million, RMB120.5 million, RMB352.7 million and RMB267.5 million, respectively. We develop, publish and operate games and generate game operating revenue, and provide online marketing services on TapTap and generate information service revenue. See "Business—Our Revenue Model."

Our Game Portfolio and Pipeline

Our game portfolio consisted of 42 online games and 12 premium games as of September 30, 2019. The following table sets out certain key information of our major popular online games:

Title	Source	Launch date	Genre	Major operating markets	Life cycle stage as of September 30, 2019	Expected remaining lifespan as of the Latest Practicable Date ⁽⁴⁾	Expiration date of licensing agreement	Our role	Revenue recognition method applied
Ragnarok M	Self-developed ⁽²⁾	January 2017	MMORPG	China, Hong Kong, Macau, Taiwan, South Korea, Japan, Southeast Asia, North America, South America and Australia	Maturity ⁽³⁾	3-5 years	— ⁽⁵⁾	As principal for China and as agent of the game publishers for overseas markets	Gross basis for China and net basis for overseas markets
Sausage Man (香腸派對)	Licensed	April 2018	Battle arena game	China	Growth	3-5 years	April 2021	Principal	Gross
Ulala (不休的烏拉拉)	Licensed	May 2019	Placement game	Hong Kong, Macau and Taiwan, South Korea, Japan, America and Southeast Asia	Growth	3-5 years	May 2022	Principal	Gross
Girls' Frontline (少女前線)	Licensed	January 2017	CCG	Hong Kong, Macau, Taiwan and South Korea	Maturity	2-4 years	January 2020	Principal	Gross
Heng Sao Qian Jun (橫掃千軍)	Self-developed	October 2015	SLG	China	Maturity	2-4 years	—	Principal	Gross
Shen Xian Dao HD (神仙道高清重製版)	Self-developed	March 2016	RPG	China	Maturity	3-5 years	—	Principal	Gross
Identity V (第五人格)	Licensed	September 2018	Asymmetrical battle arena	South Korea	Maturity	2-4 years	September 2021	Agent of the game developer	Net
LifeAfter (明日之後)	Licensed	April 2019	MMORPG	South Korea	Maturity	2-4 years	April 2022	Agent of the game developer	Net
Azur Lane (碧藍航線)	Licensed	March 2018	CCG	South Korea	Maturity	2-4 years	March 2021	Principal	Gross
Tales of Erin (蒼藍境界)	Licensed	August 2018	RPG	Japan	Maturity	2-4 years	December 2021	Principal	Gross
Shen Xian Dao (Web) (神仙道頁遊) ⁽¹⁾	Licensed	May 2011	RPG	China	Maturity	2-3 years	May 2022	Principal	Gross

(1) Other than Shen Xian Dao (Web) (神仙道頁遊), all other games listed in this table are mobile games.

(2) Ragnarok M was jointly developed by Gravity, Dream Network and us. See "Business—Our Online Games—Ragnarok M."

(3) See "Business—Our Online Games—Game Portfolio—Ragnarok M" for more information on the life cycle stage of Ragnarok M in different geographical markets as of September 30, 2019.

(4) The expected remaining lifespans are estimated based on the industry average lifespans by different genres of games, our past experience of operating similar games and the current performance of the relevant game. However, the actual lifespans of these games may differ from the time presented in the table.

(5) See "Business—Our Online Games—Game Portfolio—Ragnarok M" for more information on the expiration dates of licensing agreements of Ragnarok M in different geographical markets as of September 30, 2019. Our agreement with Dream Network in relation to the operation of Ragnarok M in China will expire on December 8, 2020.

SUMMARY

SUMMARY

In 2016, 2017, 2018 and the five months ended May 31, 2019, our top five online games for each period contributed to 90.9%, 83.1%, 75.6% and 81.6% of our game operating revenue, respectively, and 89.6%, 77.5%, 63.7% and 67.4% of our revenue for the same period, respectively. See “Business—Our Online Game—Game Performance.”

Ragnarok M, which is our top game in terms of revenue contribution during the Track Record Period, was jointly developed by Gravity, Dream Network and us. It is the mobile version of Ragnarok Online, which was developed by Gravity and launched in South Korea in 2002. Based on the various agreements among Gravity, Dream Network and us, Dream Network, which was granted by Gravity the license to develop and publish certain games based on Ragnarok Online in China, supplied us with the materials associated with Ragnarok Online such as characters, music and storylines. Dream Network was mainly involved in the works such as the supply of contents of Ragnarok Online in accordance with its agreements with Gravity and discussion of development plan. All local versions of Ragnarok M in overseas markets were made based on the PRC version after performing localization works. Gravity holds the intellectual property rights of Ragnarok M, and we own the design patents over certain subjects designed by us in the game and the patents over some self-developed information technologies used in Ragnarok M, none of which is of significance to our operation of Ragnarok M or provision of technical and operation support to Gravity or its associates. We wrote and currently hold the source code of the game, which allows us to better control the game and more effectively update game content, make local versions and fix technical issues. For countries and districts other than Hong Kong, Taiwan, Macau, South Korea and Japan, we also have been carrying out a substantial amount of operating works. As such, we believe that the possibility of us being replaced by Gravity and Dream Network in publishing and operating of Ragnarok M in the future is minimal. We are the sole publisher and operator of Ragnarok M in China. For countries and districts outside China, Gravity or its associates are the publisher and we provide technical support to them. In addition, apart from technical support, we also provide Gravity or its associates with operation support in overseas markets other than Hong Kong, Macau, Taiwan, South Korea and Japan. According to the relevant agreements, Dream Network has no contractual obligation to undertake any substantive work in either publishing or operating Ragnarok M in overseas markets. We are entitled to a certain percentage of the gross billings of Ragnarok M depending on our roles and the geographic markets in which this game is operated. See “Business—Our Online Games—Ragnarok M.”

The following table sets out certain key information of some of our major popular premium games in operation as of September 30, 2019:

Title	Source	Launch Date	Genre	Operating Markets	Expiration date of licensing agreement	Our role	Revenue recognition method applied
ICEY (艾希)	Licensed	November 2016	ARPG	China and overseas	2024 to 2027 ⁽¹⁾	Principal	Gross
Muse Dash (喵斯快跑) . .	Licensed	June 2018	Music Game	China and overseas	June 2021	Principal	Gross
To the Moon (去月球) . . .	Self-developed	May 2017	RPG	China and overseas	—	Principal	Gross
Heimdallr (海姆達爾) . . .	Self-developed	July 2018	RPG	China and overseas	—	Principal	Gross
The Swords (說劍)	Licensed	February 2016	Casual Game	China	November 2021	Principal	Gross

(1) Expiration dates vary for different distribution platforms.

SUMMARY

The table below sets forth certain information of our online game pipeline as of September 30, 2019:

Title	Source	Expected Launch Date	Genre	Expected Launch Markets
The Furious Yama (大王不高興)	Licensed	2 nd half 2019	RPG	South Korea
#COMPASS (戰鬥天賦解析系統)	Licensed	2 nd half 2019	MOBA	China
KarDia tou Abel (牧羊人之心)	Licensed	1 st half 2020	RPG	Japan
Arknights (明日方舟)	Licensed	1 st half 2020	CCG	Hong Kong, Macau and Taiwan
Another Eden: The Cat Beyond Time and Space (另一個伊甸：超越時空的貓)	Licensed	2 nd half 2020	RPG	China
Caravan Stories (旅行物語)	Licensed	2 nd half 2020	RPG	China and South Korea
Fantasy World (創想世界)	Self-developed	2 nd half 2020	Simulation	China
Vitality Idol II (元氣偶像季2)	Self-developed	2 nd half 2020	Simulation	China
Project A	Self-developed	2 nd half 2020	CCG	China
Project B	Self-developed	2 nd half 2020	MMORPG	China
Project C	Self-developed	2 nd half 2020	Placement game	China

As of September 30, 2019, our game pipeline also included seven premium games which we expect to release by 2020. See “Business—Our Premium Games—Game pipeline.”

KEY OPERATING DATA

As of December 31, 2016, 2017, 2018 and September 30, 2019, the number of cumulative registered players of our online games were 15.1 million, 38.4 million, 91.3 million, and 165.1 million. The performance of our online games is affected by three key metrics: (1) MAU; (2) MPU; and (3) ARPPU. The following table sets forth these key metrics of our online games for the periods indicated:

	Year ended December 31,			Five months ended May 31,	Nine months ended September 30,
	2016	2017	2018	2019	
Average MAUs ⁽¹⁾ (in thousands)	1,872.1	3,650.7	8,760.8	18,029.7	19,177.2
Average MPUs ⁽²⁾ (in thousands)	169.5	244.2	412.2	637.0	640.3
ARPPU ⁽³⁾ (RMB per month)	368	415	312	264	N/A

(1) Average MAUs are calculated by dividing the aggregate of the total MAUs of each online game for the respective period by the number of months of that period.

(2) Average MPUs are calculated by dividing the aggregate of the total MPUs of each online game for the respective period by the number of months of that period.

(3) ARPPU is calculated by dividing our total online game revenue for the respective period by the aggregate of the total MPUs of each online game for the respective period.

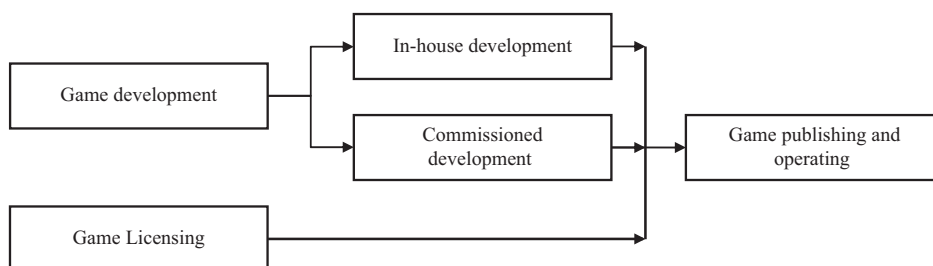
The increases in average MAUs of our online games during 2016, 2017 and 2018 are primarily attributable to: (i) the launch of Ragnarok M in China in 2017 and in some overseas markets in 2018; and (ii) the popularity of Sausage Man (香腸派對) launched in 2018. The average MAUs of our online games further increased to 18.0 million in the five months ended May 31, 2019 compared to 8.8 million in 2018, primarily attributable to (i) the average MAUs of Sausage Man (香腸派對) continued to grow in the five months ended May 31, 2019; and (ii) the successive launch of Ragnarok M in several overseas markets and the growth of its average MAUs in China in the five months ended May 31, 2019. See “Business—Our Online Games—Game Performance.” The average MPUs of our online games increased during the Track Record Period, primarily due to the launch of Ragnarok M in China in 2017 and in various overseas markets in 2018 and the five months ended May 31, 2019 and the monetization of Sausage Man (香腸派對) since February 2019. The ARPPU of our online games increased in 2017 compared to 2016, primarily due to the launch of several games with higher

SUMMARY

ARPPUs in 2017. The ARPPU of our online games decreased in 2018 compared to 2017, primarily due to the increase of the proportion of game operating revenue from Ragnarok M in overseas market in 2018, for which our revenue represents a certain percentage of gross billings. The ARPPU of our online games further decreased in the five months ended May 31, 2019 because the ARPPU of Sausage Man (香腸派對) is relative low at the start of its monetization. See “Financial Information—Principal Components of Combined Statement of Comprehensive Income—Revenue—Games.”

BUSINESS FLOW OF GAME OPERATING BUSINESS

The following diagram shows the business flow of our game operating business:



- *In-house development.* We have our own in-house game development studios to design and develop games. See “Business—Game Development—In-house development.”
- *Commissioned development.* We occasionally engage third-party game development studios specialized in different areas of expertise to perform commissioned game development for us. See “Business—Game Development—Commissioned development.”
- *Game licensing.* We constantly review and select attractive games made by third-party game developers to enrich our game portfolio. We typically enter into game licensing agreements with such game developers governing our rights and obligations. See “Business—Our Business Flow—Game Licensing.”
- *Game publishing and operating.* We publish and operate both self-developed games and licensed games. See “Business—Game Publishing and Operation.”

OUR REVENUE SHARING ARRANGEMENT

We normally have revenue sharing arrangements with other parties, mainly third-party game developers and distribution platforms, with respect to the proceeds generated from our game operation. The revenue generation processes vary depending on our role in the game publishing and operation process. See “Financial Information—Principal Components of Combined Statements of Comprehensive Income—Revenue—Game operating.”

OUR SUPPLIERS

Our major suppliers include game developers and distribution platforms. As of May 31, 2019, we had maintained business relationship with our five largest suppliers for at least three years. For 2016, 2017, 2018 and the five months ended May 31, 2019, purchase from our five largest suppliers amounted to a total of approximately RMB212.3 million, RMB 393.4 million, RMB341.0 million and RMB151.3 million, respectively, accounting for approximately 50.0%, 53.1%, 44.0% and 44.3% of our cost of revenue for the same periods respectively. See “Business—Our Suppliers.”

SUMMARY

OUR STRENGTHS

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

- Proven track record of developing and operating popular games;
- Vibrant and engaging game community and platform;
- Established overseas game publishing and operating capabilities;
- Excellent game development and data analytics capabilities; and
- Experienced management team dedicated to innovation.

OUR STRATEGIES

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

- Further enhance our game portfolio;
- Increase active user base and engagement of TapTap;
- Deepen overseas operations;
- Upgrade information infrastructure and technology; and
- Seek strategic investments and acquisitions.

RISK FACTORS

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

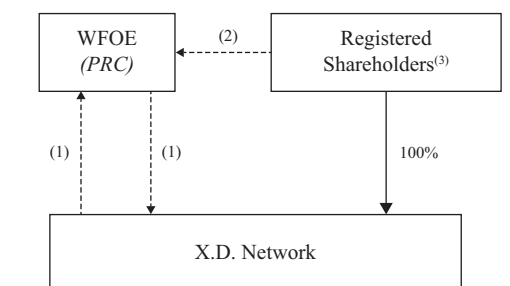
- If we fail to maintain and grow our user base or keep our gamers engaged through our games, our growth and business may not be sustainable.
- A substantial amount of our revenue is derived from sales of in-game virtual items, and failure to monetize effectively through this item-based revenue model may adversely affect our business.
- We derived a substantial amount of revenue from a small number of popular games and a small group of high-spending gamers during the Track Record Period.
- The PRC laws regulating the playing time and users’ age of online games may adversely affect our business and operations.
- We face challenges in expanding operations overseas that we may not be able to successfully deal with, which may adversely affect our business.
- Any loss or deterioration of our relationship with our game developer partners may materially and adversely affect our business and results of operations.
- Hacking activities may adversely affect our reputation and business.
- Our intangible assets and goodwill may be subject to impairment.
- The determination of the fair value changes of certain of our financial assets requires the use of estimates that are based on unobservable inputs, and therefore inherently involves a certain degree of uncertainty.

SUMMARY

CONTRACTUAL ARRANGEMENTS

In line with common practice in industries in China subject to foreign investment restrictions and prohibitions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our PRC Consolidated Affiliated Entities through the Contractual Arrangements between WFOE, on the one hand, and our PRC Consolidated Affiliated Entities and their respective shareholders, on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of X.D. Network and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were our subsidiaries. See “Contractual Arrangements.”

The following simplified diagram illustrates the flow of economic benefits from our PRC Consolidated Affiliated Entities to WFOE as stipulated under the Contractual Arrangements:



“ ————— ” denotes legal and beneficial ownership in the equity interest

“ - - - - - ” denotes the Contractual Arrangements

- (1) WFOE provides technical consultation and other services in exchange for service fees from X.D. Network. See “—Our Contractual Arrangements—Exclusive Service Agreement.”
- (2) The Registered Shareholders executed an exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in X.D. Network. See “—Our Contractual Arrangements—Exclusive Option Agreement.” The Registered Shareholders granted first priority security interests in favor of WFOE, over the entire equity interests in X.D. Network held by Registered Shareholders. See “—Our Contractual Arrangements—Equity Pledge Agreement.” The Registered Shareholders executed the Voting Rights Proxy Agreement and Powers of Attorney in favor of WFOE, for the exercise of all shareholders’ rights in X.D. Network. See “—Our Contractual Arrangements—Voting Rights Proxy Agreement and Powers of Attorney.” The spouse of each Relevant Individual Shareholder executed an undertaking in favor of WFOE. See “—Our Contractual Arrangements—Spouse Undertakings.”
- (3) Xindong Holding Co., Ltd. (心動控股有限公司), Shanghai Jiexin Investment Management Partnership (Limited Partnership), Fuzhou Tianmeng Digital Company Limited (福州天盟數碼有限公司), Shanghai Muxinyinxi Investment Management Partnership (Limited Partnership), Dongfang Xinghui (Shanghai) Investment Center (Limited Partnership) (東方星輝(上海)投資中心(有限合夥)), Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司), Tibet Taifu Culture Media Co., Ltd. (西藏泰富文化傳媒有限公司), Xiamen Quince Chuangying Equity Investment Partnership (Limited Partnership), Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), Tianjin Jinwutong Investment Management Partnership (Limited Partnership) and the Relevant Individual Shareholders (including Mr. Huang, Mr. Dai, Mr. Zhao, Mr. Hong Shen, Mr. Shen Sheng, Mr. Wang Chenguang, Mr. Pan Zuqiang, Ms. Zhang Aifen, Ms. Chen Ying, Mr. Jia Shaochi, Mr. Huang Yecheng, Ms. Pan Chenping and Mr. Huang Xiwei) are collectively referred to as “Registered Shareholders.”

For the risks relating to the Contractual Arrangements, see “Risk Factors—Risks Related to Our Contractual Arrangements.”

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming the Over-Allotment Option is not exercised), the family trust of Mr. Huang, our founder, executive Director, Chairman of the Board and Chief Executive Officer, will be interested in and will control approximately 37.17% of the total issued share capital of our Company through Happy Today Holding Limited. Therefore Mr. Huang and Happy Today Holding Limited will remain our Controlling Shareholders upon the Listing. For further background of Mr. Huang, see “Directors and Senior Management.”

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PRIOR QUOTATION AND LISTING ON THE NEEQ AND THE DELISTING

X. D. Network was converted into a joint stock limited company in May 2015. On November 4, 2015, the shares of X.D. Network became quoted and listed on the NEEQ under the stock code of 833897. With a view to achieving our overall strategic objective to develop an international financing platform and maximize our shareholders' value, we sought to voluntarily delist X.D. Network's shares from the NEEQ in October 2018. In December 2018, X.D. Network's application for delisting was approved by the NEEQ, and the shares of X.D. Network ceased to be quoted on the NEEQ on December 25, 2018. We subsequently decided to apply for the Listing of our Shares on the Stock Exchange as we believe the Stock Exchange would enable us to diversify our shareholder base with Hong Kong and international investors.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables present our summary combined financial information for the years or as of the dates indicated. This summary has been derived from our combined financial information set forth in the Accountant's Report in Appendix I to this prospectus. The summary combined financial data set forth below should be read together with, and is qualified in its entirety by reference to, the combined financial information included in the Accountant's Report in Appendix I to this prospectus, including the accompanying notes and the information set forth in "Financial Information." Our combined financial information was prepared in accordance with IFRS.

Summary Combined Statements of Comprehensive Income

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(Unaudited)										
(RMB in thousands except for percentages)										
Revenue	765,521	100.0	1,344,399	100.0	1,887,108	100.0	758,604	100.0	1,033,032	100.0
Cost of revenue	(424,797)	(55.5)	(741,651)	(55.2)	(776,309)	(41.1)	(316,114)	(41.7)	(341,265)	(33.0)
Gross profit	340,724	44.5	602,748	44.8	1,110,799	58.9	442,490	58.3	691,767	67.0
Selling and marketing expenses	(186,289)	(24.3)	(244,358)	(18.2)	(447,989)	(23.7)	(160,146)	(21.1)	(240,031)	(23.2)
Research and development expenses	(79,434)	(10.4)	(117,443)	(8.7)	(197,780)	(10.5)	(59,763)	(7.9)	(92,508)	(9.0)
General and administrative expenses	(66,693)	(8.7)	(83,840)	(6.2)	(107,315)	(5.8)	(36,452)	(4.8)	(79,275)	(7.7)
Net impairment losses on financial assets ..	(654)	(0.1)	(960)	(0.1)	(299)	0.0	(303)	0.0	(222)	0.0
Fair value changes on investments measured at fair value through profit or loss	(15,605)	(2.0)	(21,069)	(1.6)	(3,351)	(0.2)	(6,516)	(0.9)	7,714	0.7
Other income	6,386	0.8	958	0.1	8,141	0.4	383	0.1	8,260	0.8
Other gains/(losses), net	44,203	5.8	(2,091)	(0.1)	24,232	1.3	(1,395)	(0.2)	(559)	0.0
Operating profit	42,638	5.6	133,945	10.0	386,438	20.4	178,298	23.5	295,146	28.6
Finance income	1,183	0.2	3,024	0.2	4,993	0.3	1,833	0.2	4,164	0.4
Finance costs	(1,987)	(0.3)	(2,085)	(0.2)	(2,320)	(0.1)	(809)	(0.1)	(1,273)	(0.1)
Share of results of investments accounted for using equity method	(18,509)	(2.4)	7,587	0.6	285	0.0	56	0.0	(841)	(0.1)
Profit before income tax	23,325	3.1	142,471	10.6	389,396	20.6	179,378	23.6	297,196	28.8
Income tax expenses ..	45	0.0	(21,934)	(1.6)	(36,675)	(1.9)	(21,953)	(2.9)	(29,674)	(2.9)
Profit for the year/period	23,370	3.1	120,537	9.0	352,721	18.7	157,425	20.7	267,522	25.9
Profit for the year/period attributable to:										
Equity holders of the Company ..	25,181	3.3	116,630	8.7	285,028	15.1	128,559	16.9	184,808	17.9
Non-controlling interests	(1,811)	(0.2)	3,907	0.3	67,693	3.6	28,866	3.8	82,714	8.0

SUMMARY

The following table summarizes our revenue by business segment for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(Unaudited)									
	(RMB in thousands except for percentages)									
Games	765,521	100.0	1,263,408	94.0	1,592,347	84.4	646,729	85.3	856,339	82.9
Game operating ...	754,454	98.5	1,253,617	93.3	1,588,115	84.1	643,988	84.9	853,848	82.7
Online										
games	748,931	97.8	1,216,094	90.5	1,544,485	81.8	635,701	83.8	840,177	81.3
Premium										
games	5,523	0.7	37,523	2.8	43,630	2.3	8,287	1.1	13,671	1.4
Others ⁽¹⁾	11,067	1.5	9,791	0.7	4,232	0.3	2,741	0.4	2,491	0.2
Information services ...	—	—	80,991	6.0	294,761	15.6	111,875	14.7	176,693	17.1
Total revenue	765,521	100.0	1,344,399	100.0	1,887,108	100.0	758,604	100.0	1,033,032	100.0

(1) Others in game operating are primarily derived from licensing copyrights of our games or game contents to other game publishing companies for agreed periods, and other game publishers pay license fees for the right to operate our games in specified geographic areas. The license fees normally comprise of a fixed lump sum and variable fees calculated based on a predetermined rate on the cash paid by gamers collected by the publishers related to the licensed games.

During the Track Record Period, our game revenue increased in absolute amount, primarily reflecting the growth of our game operating business, but decreased as a percentage of our total revenue, attributable to an increase in our revenue from information service business during the same period, as we started to generate revenue from our information service business from 2017 after we consolidated Yiwan in December 2016 and expanded our online marketing business on TapTap since then.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB in thousands except for percentages)									
Revenue recognized on a gross basis	739,519	98.0	1,155,384	92.2	1,100,627	69.3	501,444	77.9	417,508	48.9
Revenue recognized on a net basis	14,935	2.0	98,233	7.8	487,488	30.7	142,544	22.1	436,340	51.1
Total	754,454	100.0	1,253,617	100.0	1,588,115	100.0	643,988	100.0	853,848	100.0

During the Track Record Period, as a percentage of the total game operating revenue, our game operating revenue recognized on a gross basis decreased and that recognized on a net basis increased, mainly as a result of the increased revenue from Ragnarok M in overseas markets.

SUMMARY

The following tables set forth our cost of revenue by business segment and by nature for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(Unaudited)										
(RMB in thousands except for percentages)										
Games	424,797	55.5	709,207	52.8	740,911	39.3	303,939	40.1	324,833	31.4
Information services ..	—	—	32,444	2.4	35,398	1.8	12,175	1.6	16,432	1.6
Total	424,797	55.5	741,651	55.2	776,309	41.1	316,114	41.7	341,265	33.0

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Unaudited)										
(RMB in thousands except for percentages)										
Commissions charged by distribution platforms and payment channels	288,278	67.9	348,927	47.0	331,081	42.6	154,309	48.8	122,579	35.9
Sharing of proceeds to game developers	63,964	15.1	204,836	27.6	193,694	25.0	85,388	27.0	73,979	21.7
Bandwidth and servers custody fee	19,152	4.5	66,704	9.0	85,080	11.0	24,712	7.8	75,900	22.2
Employee benefits expenses	20,443	4.8	33,788	4.6	47,156	6.1	14,947	4.7	14,562	4.3
Amortization of intangible assets	16,621	3.9	31,598	4.3	42,540	5.5	13,894	4.4	23,762	7.0
Impairment charges	3,000	0.7	28,503	3.8	41,564	5.4	9,434	3.0	—	—
VAT input transfer out and tax surcharges	8,849	2.1	19,563	2.6	22,386	2.9	9,234	2.9	12,604	3.7
Others ⁽¹⁾	4,490	1.0	7,732	1.1	12,808	1.5	4,196	1.4	17,879	5.2
Total	424,797	100.0	741,651	100.0	776,309	100.0	316,114	100.0	341,265	100.0

(1) Others mainly include professional and technical services and depreciation of property, plant and equipment.

Our cost of revenue for game business primarily consists of commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers where we act as a principal, bandwidth and servers custody fee and employee benefits expenses. Our cost of revenue for information service business primarily consists of bandwidth and servers custody fee and employee benefits expenses. Commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers fluctuate during the Track Record Period, primarily due to the change in game operating revenue recognized on a gross basis.

For details, see “Financial Information—Results of Operations—Cost of Revenue.”

SUMMARY

Summary Combined Statements of Financial Position

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Total non-current assets ⁽¹⁾	338,825	338,247	448,369	475,714
Total current assets	371,191	972,334	1,276,331	1,384,915
Total assets	710,016	1,310,581	1,724,700	1,860,629
Total non-current liabilities	35,387	27,099	39,753	36,779
Total current liabilities	164,714	325,727	342,387	393,560
Total liabilities	200,101	352,826	382,140	430,339
Net current assets	206,477	646,607	933,944	991,355
Total equity	509,915	957,755	1,342,560	1,430,290

(1) As of December 31, 2016, 2017, 2018 and May 31, 2019, our intangible assets were RMB104.0 million, RMB175.0 million, RMB192.2 million and RMB193.9 million, respectively, representing 30.7%, 51.7%, 42.9% and 40.8% of our total non-current assets, respectively. As of the same dates, our goodwill, primarily in relation to our consolidations of Yiwan and Longcheng, were RMB45.1 million, RMB101.7 million, RMB101.7 million and RMB101.7 million, respectively, representing 43.4%, 58.1%, 52.9% and 52.4% of our intangible assets, respectively.

Selected Combined Statements of Cash Flows

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	(RMB in thousands)			(Unaudited)	
Operating cash flows before movements in working capital	59,481	245,256	486,568	222,032	340,294
Changes in working capital	(60,845)	60,268	(287,864)	(119,478)	19,047
Income tax (paid)/refunded	(7,287)	(9,793)	(25,150)	(9,381)	9,799
Net cash (used in) / generated from operating activities	(8,651)	295,731	173,554	93,173	369,140
Net cash generated from / (used in) investing activities	74,206	(131,542)	(199,568)	(209,454)	(141,257)
Net cash (used in) / generated from financing activities	(10,567)	249,140	1,255	(8,992)	(158,340)
Net increase/(decrease) in cash and cash equivalents	54,988	413,329	(24,759)	(125,273)	69,543
Cash and cash equivalents at beginning of the year/period	114,529	178,127	577,972	577,972	573,233
Exchange gain/(loss) on cash and cash equivalents	8,610	(13,484)	20,020	(8,232)	3,524
Cash and cash equivalents at end of the year/period	178,127	577,972	573,233	444,467	646,300

In 2016, we had net cash used in operating activities mainly attributable to: (i) an increase in prepayments for revenue sharing for Ragnarok M; and (ii) an increase in trade receivables, mainly in line with our revenue growth, after adjusting non-cash and non-operating items for profit before income tax.

We recorded net decrease in cash and cash equivalents in 2018, mainly attributable to (i) an increase in trade receivables related to Ragnarok M in Southeast Asia launched in October 2018, the revenue of which was not settled before the year end, and (ii) net cash used in investing activities, which was primarily attributable to purchase of intangible assets (including prepayments for intangible assets) for new games such as Errant: Hunter's Soul (獵魂覺醒) and Identity V (第五人格).

SUMMARY

In the five months ended May 31, 2019, we had net cash used in investing activities, which was primarily attributable to (i) net cash used on investment in wealth management products issued by banks; and (ii) purchase of intangible assets (including prepayments for intangible assets) for new games such as Langrisser (夢幻模擬戰) and Samurai Spirits Online (侍魂：隴月傳說). We also recorded net cash used in financing activities, mainly as a result of payments for share repurchases and acquisition of additional interests in Yiwan.

For details, see “Financial Information—Liquidity and Capital Resources—Cash Flows.”

KEY FINANCIAL RATIOS

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

	As of or year ended December 31,			As of or five months ended May 31,	
	2016	2017	2018	2018	2019
				(Unaudited)	
Net profit margin ⁽¹⁾	3.1%	9.0%	18.7%	20.7%	25.9%
Gross margin ⁽²⁾	44.5%	44.8%	58.9%	58.3%	67.0%
Return on equity ⁽³⁾	4.8%	16.4%	30.7%	15.4%	19.3%
Return on total assets ⁽⁴⁾	3.4%	11.9%	23.2%	11.4%	14.9%
Current ratio ⁽⁵⁾	2.25	2.99	3.73	3.26	3.52

(1) Net profit margin equals profit for the year/period divided by revenue for the respective year/period.

(2) Gross margin equals gross profit for the year/period divided by revenue for the respective year/period.

(3) Return on equity equals profit for the year/period divided by the average balance of total equity at the beginning and the end of the respective year/period.

(4) Return on total assets equals profit for the year/period divided by the average balance of total assets at the beginning and the end of the respective year/period.

(5) Current ratio equals current assets divided by current liabilities as of the respective dates.

Our gross margin increased to 67.0% in the five months ended May 31, 2019 from 58.3% in the same period of 2018, primarily due to (i) the increase in the contribution from game operating revenue on a net basis to total operating revenue, mainly arising from the solid performance of Ragnarok M in overseas markets; and (ii) an increase in the gross margin of our information service business, as our cost of operations remained relatively stable as such business expanded.

Our gross margin increased to 58.9% in 2018 from 44.8% in 2017, primarily due to (i) the increase in the contribution from game operating revenue recognized on a net basis to total game operating revenue, such as Ragnarok M in overseas markets; (ii) an increase in the contribution of revenue from our information service business to total revenue, which in general enjoys a higher gross margin than the game business, as our cost of operations remained relatively stable as our information service business scaled up, while we need to pay commissions to distribution platforms and payment channels and shares of proceeds to game developers for game operating as a certain percentage of our revenue recognized on a gross basis; and (iii) our gross margin of information service business increased, as our cost of operations remained relatively stable as such business expanded. Our gross margin remained relatively stable in 2016 and 2017.

LEGAL COMPLIANCE

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, we had complied with laws and regulations in the PRC that are relevant to our PRC business in all material respects. In addition, after consultation with our legal advisers in the relevant

SUMMARY

jurisdictions, our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant laws and regulations in all material respects in those foreign jurisdictions in which we have significant presence, namely South Korea, Taiwan and Hong Kong.

DIVIDEND

Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividends have been paid or declared by our Company during the Track Record Period since our Company was incorporated on January 25, 2019, and there is no assurance that dividends of any amount will be declared or be distributed in any year. We do not have an expected dividend distribution ratio. In 2016, 2017, 2018 and the five months ended May 31, 2019, X.D. Network, our primary operating entity, paid dividends of nil, RMB35.0 million, RMB50.1 million and nil, respectively. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, we had launched six new online games, comprising Langrisser (夢幻模擬戰) for South Korea in June 2019, Samurai Spirits Online (侍魂：隴月傳說) for Japan in August 2019, Divinity Saga (神諭文明) for Southeast Asia in August 2019, Wasteland Lords (荒野領主) for Hong Kong, Macau and Taiwan in September 2019, #COMPASS (戰鬥天賦解析系統) for China in November 2019, and The Furious Yama (大王不高興) for South Korea in November 2019 as well as new local versions of existing games, such as Ragnarok M for Japan in June 2019 and for Europe in October 2019, and Ulala (不休的烏拉拉) for overseas markets comprising over 50 countries and districts in September 2019 and for China in October 2019. In particular, Ulala (不休的烏拉拉) ranked among top ten on the top grossing chart of App Store in Taiwan for over 60 consecutive days, ranked among top four on the free game chart of App Store in the United States for four consecutive days and ranked among top ten on the top grossing chart of APP Store in China for 14 consecutive days; while Langrisser (夢幻模擬戰), a SLG mobile game set in a fantasy world based on the tactical RPG game series of the same name, which was developed by an independent third party game developer and co-published by us and the game developer in the South Korean market, ranked among top five on the top grossing chart of Google Play in South Korea for over 60 consecutive days following its release. For Ragnarok M launched in Europe, we provide technical support and operation support, and Gravity or its associates pay us 43% of the gross billings from App Store and Google Play as our service fees. Subsequent to the Track Record Period, we obtained preapproval from NAPP for Ulala (不休的烏拉拉) in September 2019.

Subsequent to September 30, 2019 and up to the Latest Practicable Date, we had two new licensed games in our online game pipeline for 2019 and 2020, including Ren Sheng Ruo Zhi Ru Chu Jian (人生若只如初見), a simulation game expected to be launched in the first half of 2020 for Hong Kong, Macau, Taiwan and South Korea, and Horcrux College (魂器學院), a placement game expected to be launched in the first half of 2020 for Hong Kong, Macau and Taiwan.

SUMMARY

We also experienced general increases in the average MAUs and MPUs for our games subsequent to the Track Record Period. In the nine months ended September 30, 2019, the average MAUs of our online games were 19.2 million, compared to 18.0 million in the five months ended May 31, 2019, primarily attributable to the continual growth of Sausage Man (香腸派對) and the launch of new games and local versions. The average MPUs of our online games increased slightly from approximately 637,000 in the five months ended May 31, 2019 to approximately 640,300 in the nine months ended September 30, 2019 due to our continuing marketing efforts. Our total number of cumulative registered players of the online games increased from 131.8 million as of May 31, 2019 to 165.1 million as of September 30, 2019, primarily due to the newly launched games and local versions of existing games.

Moreover, TapTap continued to grow subsequent to the Track Record Period, which was in line with our continued efforts on optimizing user experience and attracting new users. TapTap's registered users increased from 45.1 million as of May 31, 2019 to 52.1 million as of September 30, 2019. The average MAUs of TapTap mobile app increased from 16.2 million in the five months ended May 31, 2019 to 17.0 million in the nine months ended September 30, 2019.

On October 25, 2019, NAPP issued the New Anti-addiction Notice which took effect from November 1, 2019. For details of the New Anti-addiction Notice, the summary of the principal implications of the New Anti-addiction Notice on our game operating business and the measures to be taken by us, see “Regulatory Overview—PRC Laws and Regulations—Regulations on Real-Name Registration and Anti-Addiction System,” “Risk Factors—Risks Related to Our Business and Industry—The PRC law regulating the playing time and users’ age of online games may adversely affect our business and operations” and “Business—Licenses and Permits.”

Our Directors confirm that there have been no material adverse changes in our financial or trading positions or prospects since May 31, 2019, being the date of our last audited financial statements as set out in the Accountant’s Report in Appendix I to this prospectus, and up to the date of this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK\$13.45 per Share (being the mid-point of the Offer Price Range of between HK\$11.10 and HK\$15.80 per Share), we estimate that we will receive net proceeds of approximately HK\$769.6 million from the Global Offering after deducting the underwriting commissions and other estimated expenses paid and payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- approximately 35% of the net proceeds, or HK\$269.4 million, for developing our games and game-related technology;
- approximately 30% of the net proceeds, or HK\$230.9 million, for developing TapTap;
- approximately 15% of the net proceeds, or HK\$115.4 million, for expanding our game publishing and operating business;
- approximately 10% of the net proceeds, or HK\$77.0 million, for selective and strategic investments and acquisition; and
- approximately 10% of the net proceeds, or HK\$77.0 million, for working capital and general corporate uses.

SUMMARY

See “Future Plans and Use of Proceeds” in this prospectus for details of our use of proceeds from the Global Offering.

OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 63,600,000 Shares are issued pursuant to the Global Offering, and (ii) 423,958,500 Shares are issued and outstanding following the completion of the Global Offering saved as disclosed in note (2) below, assuming no exercise of Over-allotment Option.

	Based on an Offer Price of HK\$11.10	Based on an Offer Price of HK\$15.80
Market capitalization of our Shares ⁽¹⁾	HK\$4,705.9 million	HK\$6,698.5 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$4.04 (RMB3.62)	HK\$4.72 (RMB4.23)

(1) The calculation of market capitalization is based on 423,958,500 Shares expected to be in issue immediately upon completion of the Global Offering, assuming no exercise of Over-allotment Option.

(2) The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that 423,958,500 Shares are expected to be in issue immediately upon completion of the Global Offering, assuming no exercise of Over-allotment Option.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We estimate our listing expenses to be approximately RMB76.9 million (or HK\$85.8 million) (assuming an Offer Price of HK\$13.45 per Offer Share (being the mid-point of the indicative Offer Price range) and no exercise of the Over-allotment Option). In 2018 and the five months ended May 31, 2019, we incurred listing expenses of approximately RMB20.1 million, out of which RMB17.5 million was expensed and RMB2.6 million was recorded as prepayment and will be capitalized upon the completion of the Global Offering. We expect to further incur approximately RMB56.8 million of listing expenses after May 31, 2019 upon the completion of the Global Offering, of which approximately RMB26.8 million is expected to be expensed and the remaining RMB30.0 million is directly attributable to our issue of Offer Shares and will be capitalized. Our Directors do not expect such expenses to materially impact our results of operations in 2019.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in “Glossary of Technical Terms” in this prospectus.

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“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 that is (are) in relation to the application of the Hong Kong Public Offering
“Application Lists”	the application lists for the Hong Kong Public Offering
“Articles” / “Articles of Association”	the amended and restated articles of association of our Company, conditionally adopted on November 19, 2019 with effect from the Listing Date, and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than Saturday, Sunday and public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Catalog”	the Catalog of Industries for Encouraged Foreign Investment (2019 Edition) (《鼓勵外商投資產業目錄(2019年版)》)
“Cayman Companies Law” / “Companies Law”	the Companies Law (2018 Revision), Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus only, Hong Kong, the Macau Special Administrative Region and Taiwan
“Co-managers”	Futu Securities International (Hong Kong) Limited, Aristo Securities Limited and China Galaxy International Securities (Hong Kong) Co., Limited
“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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	XD Inc. (心动有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 25, 2019
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, X.D. Network and the Registered Shareholders, details of which are described in the section headed “Contractual Arrangements”
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Huang and Happy Today Holding Limited, further details of which are described in the section headed “Relationship with our Controlling Shareholders”
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“Dream Network”	The Dream Network Technology Co., Ltd. (上海駿夢網絡科技有限公司), a company established in the PRC on September 9, 2009 and a wholly-owned subsidiary of Fuchun Technology Co., Ltd. (富春科技股份有限公司), which is listed on Shenzhen Stock Exchange (stock code: 300299) and whose <i>de facto</i> controller (實際控制人) is Miao Pinzhang, who directly and indirectly held over 30% voting rights in Fuchun Technology Co., Ltd. (富春科技股份有限公司) as of June 30, 2019. Dream Network is an interactive entertainment company engaged in development and operation of mobile and web games. As of June 30, 2019, its registered capital was RMB13.6 million. The

DEFINITIONS

	<i>de facto</i> controller (實際控制人) of Dream Network does not have any past or present relationships with the Company and its subsidiaries, their directors, senior management, the Controlling Shareholders or any of their respective associates
“EIT Law”	PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) adopted by the National People’s Congress on March 16, 2007, and became effective on January 1, 2008 and amended on February 24, 2017 and on December 29, 2018
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Foreign Investment Law”	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) adopted by the National People’s Congress on March 15, 2019 with effect from January 1, 2020
“GAPP” and “NAPP”	General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署), currently known as National Administration of Press and Publication (國家新聞出版總署) since March 2018
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Gravity”	GRAVITY Co., Ltd., a company established in South Korea on April 4, 2000 and listed on NASDAQ (ticker symbol: GRVY)
“ GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we”, “us” or “our”	our Company, our subsidiaries and our PRC Consolidated Affiliated Entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time (or our Company and any one or more of its subsidiaries, as the context may require)
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Hong Kong Offer Shares”	the 6,360,000 Shares initially being offered by us for subscription pursuant to the Hong Kong Public Offering (subject to reallocation as described in “Structure of the Global Offering”)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong, on the terms and subject to the conditions described in this prospectus and the Application Forms relating thereto, as further described in “Structure of the Global Offering—The Hong Kong Public Offering”
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting—Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated November 28, 2019 relating to the Hong Kong Public Offering entered into between, among others, the Sole Sponsor, the Sole Global Coordinator, the Controlling Shareholders, Mr. Dai, the Joint Bookrunners, the Hong Kong Underwriters and us as further described in “Underwriting—Underwriting Agreements and Expenses—Hong Kong Public Offering—Hong Kong Underwriting Agreement”
“IFRS”	International Financial Reporting Standards, which include standards and interpretations as issued from time to time by the International Accounting Standards Board
“Implementation Program”	the Implementation Program on Comprehensive Prevention and Control of Juveniles Myopia (《綜合防控兒童青少年近視實施方案》) released by eight PRC government authorities at national government level, including NAPP and the Ministry of Education on August 30, 2018
“Independent Third Party(ies)”	an individual or a company who, to the best of our Directors’ knowledge, information and belief, having made reasonable enquiries, is not a connected person (within the meaning of the Listing Rules)
“International Offer Shares”	57,240,000 Shares (subject to reallocation and the exercise of the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this prospectus) being offered by our Company for subscription at the Offer Price pursuant to the International Offering
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, as further described in the

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	section headed “Structure of the Global Offering” in this prospectus
“International Underwriter(s)”	the group of international underwriters expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or about the Price Determination Date by, among others, the Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, Dynasty Vision Limited, Mr. Dai, the International Underwriters and us in respect of the International Offering, as further described in “Underwriting—Underwriting Agreements and Expenses—International Offering”
“Joint Bookrunners”	CLSA Limited, BOCI Asia Limited, ICBC International Capital Limited and Zhongtai International Securities Limited
“Joint Lead Managers”	CLSA Limited, BOCI Asia Limited, ICBC International Securities Limited and Zhongtai International Securities Limited
“Latest Practicable Date”	November 20, 2019, being the latest practicable date for ascertaining certain information in this prospectus before its publication
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about December 12, 2019, on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Longcheng”	Shanghai Longcheng Network Technology Co., Ltd. (上海龍成網絡科技有限公司), a company established in the PRC on September 14, 2015, and a non-wholly owned subsidiary of our Company, or together with one or more of its subsidiaries, as the context may require
“M&A Rules”	the Rules on the 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), jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), the MOFCOM, the SAT, the SAIC, the CSRC and the SAFE on August 8, 2006 and re-issued by the MOFCOM on June 22, 2009

DEFINITIONS

“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“Memorandum” / “Memorandum of Associations”	the amended and restated memorandum of association of our Company, conditionally adopted on November 19, 2019, with effect from the Listing Date, and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOC” and “MCT”	Ministry of Culture of the PRC (中華人民共和國文化部), which is reformed and known as the Ministry of Culture and Tourism (中華人民共和國文化和旅遊部) since March 2018
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Dai”	Mr. Dai Yunjie (戴雲傑), co-founder, an executive Director and President of our Company, and our substantial shareholder
“Mr. Huang”	Mr. Huang Yimeng (黃一孟), co-founder, an executive Director and Chairman of the Board and Chief Executive Officer of our Company, and our Controlling Shareholder
“Mr. Zhao”	Mr. Zhao Yuyao (趙宇堯), co-founder and our Shareholder
“NASDAQ”	the Nasdaq stock market in the United States
“NDRC”	National Development and Reform Commission (中華人民共和國發展與改革委員會) of the PRC
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“Negative List”	Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 Edition) (外商投資准入特別管理措施(負面清單) (2019年版))
“New Anti-addiction Notice”	the Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) issued by NAPP on October 25, 2019, which took effect from November 1, 2019
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1.0%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%) at which the Hong Kong Offer Shares are to be subscribed, to be confirmed in the manner further described in the section headed “Structure of the Global Offering” in this prospectus

DEFINITIONS

“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Option Existing Shares”	up to 5,480,000 existing Shares to be sold by the Over-allotment Option Grantor pursuant to the exercise of the Over-allotment Option
“Option New Shares”	up to 4,060,000 new Shares to be issued by the Company pursuant to the exercise of the Over-allotment Option
“Option Shares”	the Option Existing Shares and the Option New Shares
“Over-allotment Option”	the option to be granted by the Company and the Over-allotment Option Grantor to the International Underwriters exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) pursuant to which the Over-allotment Option Grantor may be required to sell the Option Existing Shares in full, following which the Company may be required to issue the Option New Shares, up to a total of 9,540,000 Option Shares (representing 15% of the Offer Shares initially available under the Global Offering) in aggregate at the Offer Price to cover over-allocation, if any, in the International Offering
“Over-allotment Option Grantor”	Dynasty Vision Limited, in the capacity of a grantor of the Over-allotment Option pursuant to the International Underwriting Agreement
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely X.D. Network and its respective subsidiaries. For further details of these entities, see “History, Reorganization and Corporate Structure” and “Contractual Arrangements”
“PRC Legal Adviser”	Zhong Lun Law Firm, the PRC legal adviser to our Company
“Price Determination Agreement”	the agreement to be entered into by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about Thursday, December 5, 2019, on which the Offer Price will be determined and in any event, no later than Monday, December 9, 2019
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Ragnarok M”	Ragnarok M: Eternal Love (仙境傳說：守護永恆的愛)

DEFINITIONS

“Registered Shareholders”	the shareholders of X.D. Network as set out in “Contractual Arrangements—Overview of Our Contractual Arrangements”
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the offshore and onshore reorganization as set out in “History, Reorganization and Corporate Structure—Corporate Reorganization”
“RMB”	Renminbi, the lawful currency of the PRC
“RSU(s)”	restricted share unit(s)
“RSU Holding Entity”	Heart Assets Limited, a company incorporated in the British Virgin Islands holding our Shares pursuant to the RSU Scheme on trust or on behalf of the grantees of our Company
“RSU Scheme”	the restricted share unit Scheme of our Company adopted on June 3, 2019
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which is reformed and known as the State Administration of Market Regulation of the PRC (中華人民共和國市場監督管理總局) since March 21, 2018
“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 (中華人民共和國新聞出版總署) and the 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), which has been reformed and is currently known as the State Administration of Radio and Television of the PRC (中華人民共和國國家廣播電視總局) under the State Council and the NAPP under the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部) since March 2018
“SAT” or “State Administration of Taxation”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SMPPB”	Shanghai Municipal Press and Publication Bureau (上海市新聞出版局)

DEFINITIONS

“Share(s)”	ordinary shares in the share capital of our Company with a par value of US\$0.0001
“Shareholder(s)”	holder(s) of our Shares
“Sole Global Coordinator”	CLSA Limited
“Sole Sponsor”	CLSA Capital Markets Limited
“Stabilizing Manager”	CLSA Limited
“Stock Borrowing Agreement”	the stock borrowing agreement that may be entered into between the Stabilizing Manager and Dynasty Vision Limited on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Track Record Period”	the three years ended December 31, 2016, 2017, 2018 and the five months ended May 31, 2019
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States”	the United States of America
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	the PRC value-added tax
“VIE(s)”	variable interest entity(ies)
“WFOE” or “XD Interactive”	XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司), a wholly foreign-owned enterprise established in the PRC on June 6, 2019 by XD (HK) Limited, an indirect wholly-owned company of our Company
“ WHITE Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicants’ own name

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“White Form eIPO”	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 White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“X.D. Network”	X.D. Network Inc. (心動網絡股份有限公司), a company established in the PRC on July 29, 2011 and our PRC Consolidated Affiliated Entity
“Xindong Investment”	Shanghai Xindong Investment Management Co., Ltd. (上海心動投資管理有限公司), a wholly-owned subsidiary of X.D. Network established in the PRC on August 8, 2014
“Xinxuan Network”	Xinxuan (Beijing) Network Technology Co., Ltd. (心炫(北京)網絡科技有限公司), a company established in the PRC on March 27, 2019 and a wholly owned subsidiary of our Company
“YELLOW Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“Yiwan”	Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司), a company established in the PRC on March 28, 2016, and our PRC Consolidated Affiliated Entity
“%”	per cent

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

The English names of the PRC entities, PRC laws or regulations, and the 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.

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. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

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.

“ACT”	action game, which emphasizes physical challenges where real-time hand-eye coordination is usually required and usually include a series of subdivisions, such as shooting games, platform games and battle arena games
“Android”	a mobile operating system developed and maintained by Google Inc. used in smartphones and tablets
“App Store”	a digital distribution platform operated and developed by Apple Inc., which is the official app store for the iOS operating system
“ARPG”	action role-playing game, which incorporates elements of action or action-adventure games and normally has real-time combat system rather than turn-based or menu-based combat system
“ARPPU”	average revenue per month per paying user, which represents our revenue recognized for a particular game or all of our games, as applicable, in the period divided by the number of paying users of the game or all of our games, as applicable, in such period
“asymmetrical battle arena game”	a type of battle arena game with several gamers breaking into two different groups where number of team member is not symmetrical, with one catcher and the other fugitives competing in one scenario
“battle arena game”	a subdivision of ACT and where gamers are usually break into different teams consisting of equal number of team members and team members within one team have to cooperate with each other to compete with other teams
“beta testing”	a form of external user acceptance testing
“CAGR”	compound annual growth rate
“casual games”	games that are typically designed with simple gameplay and targets at wide and mass gamers
“CCG”	collective card games, in which players acquire cards into a personal collection from which they create customized decks of cards and challenge other players in matches by strategically crafting customized decks that play to synergies of card combinations

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“CPA”	cost per acquisition, also known as cost per action, which refers to an online advertising pricing model where the advertiser pays for a specified acquisition, for example a sale, click, or form submit
“CPS”	cost per sale, which refers to an online advertisement pricing model where the advertiser pays on the basis of the number of sales that are directly generated by an advertisement
“DAUs”	daily active users, which measures the stickiness of an online product by measuring how many unique product users visit the product daily
“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
“Google Play”	a digital distribution platform operated and developed by Google LLC. It serves as both the official app store for the Android operating system, and a digital media store offering music, books, movies, and television programs
“gross billings”	total amount paid by paying users during a given period to purchase in-game virtual items on our platform
“iOS”	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple devices, such as iPhones and iPads
“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
“MAUs”	monthly active users, which refers to the number of users who log into a particular game or all of our games, as applicable, in the relevant calendar month for games, and refers to the number of users who access the TapTap mobile app in the relevant calendar month for TapTap, both of which include multiple accounts held by one single user. Average MAUs for a particular period are calculated by dividing the aggregate of the MAUs during that period by the number of months of that period
“MMORPG”	massively multiplayer online-role-playing games
“MOBA”	multiplayer online battle arena games
“mobile games”	games that are played on smartphones or tablets

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“MPUs”	monthly paying users, which refers to the number of paying users in the relevant calendar month in our games
“music games”	a genre of mobile games of which the gameplay is oriented around the player’s interactions with a musical score or individual songs
“nijigen”	romanized Japanese word which literally means second dimension, which refers in particular to anime, manga and video games, or the fictional world or characters created in such works
“pay-to-play”	a business model used in the online game industry, under which users are required to pay in order to play games
“placement games”	games where storyline usually develops automatically based on a series of operation rules pre-set by the system and usually does not require much game controls and users gain experience points based on the development of the storyline
“premium games”	games for which gamers need to pay a fixed price before downloading such games, after which the users will have unlimited access to play such games
“registered users”	the accumulated number of user accounts on our platform. An individual may register more than one account and these accounts will count as more than one registered user
“RPG”	role-playing games, which refers to games that involve a large number of users who interact with each other in an evolving fictional world; each user adopts skill sets (such as melee combat or casting magic spells) and controls the avatars’ actions; there are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the users, and the storyline continuously evolves even while the users are offline and away from the games
“SLG”	simulation games, which refers to, in a broad sense, games designed to closely simulate aspects of real world activities and, in a narrow sense and for purpose of this prospectus, turn-based strategy games
“TMT”	telecommunications, media and technology
“virtual items”	in-game non-physical items available for purchase, including consumables, avatars, skills, privileges, or other in-game features or functionality
“web games”	games that are played in a web browser on PC without downloading any client or app

FORWARD-LOOKING STATEMENTS

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

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

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

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You should carefully read and consider all of the information in this prospectus including the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result, you may lose part or all of your investment.

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

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

If we fail to maintain and grow our user base or keep our gamers engaged through our games, our growth and business may not be sustainable.

To achieve the sustainable growth of our business, we must continuously make strong efforts to attract new gamers, retain existing gamers and ultimately improve the monetization of our games. This requires that we continually launch popular games and release updates of our existing games to keep gamers engaged.

The success of user monetization largely depends on our ability to continue to retain and expand our user base and convert more registered users into paying users. Releasing new games or version updates can help retain and expand our user base. However, developing new games may go through many iterations and setbacks. Therefore, we may not be able to formulate accurate plans for game development. Gamers might lose faith in us because of unexpected delays in releasing new games. In addition, despite our efforts in sourcing and developing high-quality games, there can be no assurance that the games we launch will gain popularity within a short period of time. If a new game does not gain commercial success and we fail to introduce additional games or updates in a timely manner to maintain our user base, our existing games would eventually lose popularity, resulting in a decline in our total active users and paying users.

We also cannot guarantee that our existing games will sustain their current level of popularity. Gamers may lose interest in our games over time, or they may not choose our games if they become outdated, and they may choose to play games offered by our competitors if they offer better games or gameplay experience.

As a result, our user base may not increase at the rate we anticipate or at all, which may, in turn, materially and adversely affect our business, results of operations, financial condition and prospects.

A substantial amount of our revenue is derived from sales of in-game virtual items, and failure to monetize effectively through this item-based revenue model may adversely affect our business.

A majority of our games are free to download and play, adopting an item-based revenue model. A relatively small fraction of users who play our games within a certain period become paying users, which is consistent with the industry norms. Our sustainable revenue growth, therefore, depends in part on our ability to effectively encourage more gamers to make or increase their in-game virtual item purchases. Spending in our games is discretionary and gamers can be sensitive to price. We put great

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effort into marketing and pricing in-game virtual items to optimize user monetization, which may not be effective as expected. We might also fail to identify and introduce new and popular virtual items and price them appropriately.

In addition, this item-based revenue model may cease to be commercially viable. There can be no assurance that gamers will continue to accept this model. New revenue models may emerge given the rapidly evolving game industry and competitive landscape, which may force our transition into such new models and we may experience difficulties in effectively adjusting to such new models. As a result, our business, results of operations, financial condition and prospects may be materially and adversely affected.

We derived a substantial amount of revenue from a small number of popular games and a small group of high-spending gamers during the Track Record Period.

We derived a significant amount of revenue from a small number of popular games. Our revenue from our top five online games in terms of game operating revenue accounted for 90.9%, 83.1%, 75.6% and 81.6% for 2016, 2017, 2018 and the five months ended May 31, 2019, respectively. Particularly, Ragnarok M, a popular game launched in China in January 2017 and subsequently in other overseas markets, greatly contributed to our revenue growth in 2017, 2018 and the five months ended May 31, 2019. In addition, we also face concentration risk relating to certain of our games. For example, the top 5% of gamers of Ragnarok M contributed the majority of the gross billings of this game. There is no guarantee that we will not lose those high-spending gamers or such gamers will maintain the same spending habit in Ragnarok M or other popular games in the future. If any of those happens, our revenue from Ragnarok M or other popular games may decrease accordingly.

We expect our existing popular games to continue to contribute a substantial portion of our revenue in the foreseeable future. However, our top games may have a finite life span and may fall out of favor with gamers. There can be no assurance that our efforts in enhancing existing popular games will sustain their current level of popularity and extend their life cycles, and any such decline may materially and adversely affect our business and results of operations.

The PRC laws regulating the playing time and users' age of online games may adversely affect our business and operations.

In 2007, eight PRC government authorities, including the GAPP, the Ministry of Education and the MIIT, jointly issued a notice requiring all Chinese online game operators to adopt an “anti-addiction compliance system” in an effort to curb addiction to online games by minors (“Anti-addiction Notice”). Under the anti-addiction compliance system, three hours or less of continuous play is defined to be “healthy,” three to five hours is defined to be “fatigue” and five hours or more is defined to be “unhealthy.” Game operators, including ourselves, are required to reduce the value of game benefits for minor players by half when those players reach the “fatigue” level, and to zero when they reach the “unhealthy” level. In July 2011, these government authorities further issued the Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games (《關於啓動網絡遊戲防沉迷實名驗證工作的通知》), which provides, among other things, that the relevant authorities should strengthen the implementation of authentication of gamers' names in online games (but excluding mobile games). This system allows game operators to identify which gamers are minors. In addition to the provisions of the foregoing notices, the GAPP did not require mobile games to be equipped with the anti-addiction compliance system in order to be approved in

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practice before the implementation of the New Anti-addiction Notice. As such, we believe that the anti-addiction compliance system is not a compulsory requirement for mobile games before the implementation of the New Anti-addiction Notice, and therefore have not implemented an anti-addiction compliance system in all of our mobile games. However, there can be no assurance that the government authorities will not subsequently take a view contrary to our understanding, that our current anti-addiction compliance system will not be regarded as insufficient by relevant government authorities in the PRC, or that the implementation of anti-addiction compliance systems may be required to obtain preapproval from NAPP in the future, failure of which may materially and adversely affect our business. Failure to comply with the requirements under the Anti-addiction Notice may subject us to penalties, including but not limited to suspension of our operation of online games, revocation of the licenses and approvals for our operations, rejection or suspension of our applications for approvals, licenses, or filings for any new game, or prohibiting us from operating any new game.

On August 30, 2018, eight PRC government authorities at national government level, including NAPP and the Ministry of Education, released the Implementation Program. As a part of the plan to prevent myopia among children, the Implementation Program plans to regulate the number of new online games and restrict the amount of time juveniles spend playing on electronic devices. As of the Latest Practicable Date, no implementation rule has been issued to regulate the number of new online games, and as advised by our PRC Legal Adviser, it is impracticable to forecast the expected quota on the number of online games approved for publication per year in the future. Although it is unclear when and how the Implementation Program on regulating the number of new online games will be enforced, the risk exists that 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.

On October 25, 2019, NAPP issued the New Anti-addiction Notice which mainly stipulates that: (i) the real-name registration system shall be implemented; (ii) the time slot and duration for playing online games by minors shall be subject to strict control; (iii) the provision of paid services to minors shall be regulated; (iv) the regulation of the industry shall be enhanced; and (v) the development and implementation of appropriate-age reminding system shall be explored. As the New Anti-addiction Notice came into effect on November 1, 2019, we are not fully compliant with the requirements thereunder. According to an interview conducted on November 12, 2019 by our PRC Legal Adviser, the Sole Sponsor and its legal advisers with the SMPPB, a competent authority in the view of our PRC Legal Adviser, the SMPPB confirmed that a grace period has been given to online game companies like us to take active measures to gradually comply with the requirements of the New Anti-addiction Notice. Although we have developed a detailed plan for system upgrade and are in the process of conducting various system upgrading works to ensure the full compliance of the requirements under the New Anti-addiction Notice, we may be nevertheless considered non-compliant if the regulators take a different view, or if our system is not fully upgraded by the end of the grace period, the length of which also remains uncertain at the discretion of the relevant government authorities. Should the relevant local government authorities find us not satisfying the relevant requirements, they may order us to take rectification measures within a limited period of time or even revoke our relevant licenses, which may materially and adversely affect our business, financial condition, results of operations and prospects.

Although we have implemented real-name registration systems in all of our web games and mobile games since October 2017, not all of our mobile game users from China have registered in our account system using their Chinese identification information. See “Business—Licenses and Permits.”

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According to our IT system record, containing over 46 million user accounts registered with Chinese identification information, in 2018 and the nine months ended September 30, 2019, users below 18 years old who registered with us using their Chinese identification information made top-up payments of approximately RMB2.39 million and RMB8.49 million in aggregate, respectively, representing approximately 0.90% and 2.85%, respectively, of the total top-up payments made by all users who registered with us using their Chinese identification information during the relevant period in China. As our IT system record of registered users with Chinese identification information does not capture all our Chinese users, the contribution of users below 18 years old to our financial results may be more significant than that illustrated above. Furthermore, the implementation of the New Anti-addiction Notice may lead to a decrease in the number of minors in our user base and the play time of minor users, thereby leading to a decrease in the minor users' revenue contribution to our online game business, and may materially and adversely affect our results of operations and prospects.

The performance of our popular game, Ragnarok M, may be affected by other games of the same genre with similar contents.

Ragnarok M was jointly developed by Gravity, Dream Network and us. It is the mobile version of Ragnarok Online, which was developed by Gravity. Dream Network, which was granted by Gravity the license to develop and publish certain games based on Ragnarok Online in China, supplied us with the materials associated with Ragnarok Online such as characters, music and storylines and we are responsible for designing, developing and testing Ragnarok M. However, the intellectual property rights of Ragnarok Online granted to us by Dream Network during the game development process were not exclusive in China. If other game companies with better game development technologies, more abundant capital resources or more extensive distribution networks are granted intellectual property rights of Ragnarok Online to develop and publish similar games, especially those of the same game genre as Ragnarok M, that compete directly with Ragnarok M, our user base may shrink and the level of user engagement may decrease, and consequently our business, results of operations, financial condition and prospects may be materially and adversely affected.

We face challenges in expanding operations overseas that we may not be able to successfully deal with, which may adversely affect our business.

Expansion into overseas markets is important for our growth. As of September 30, 2019, we released 30 online games and seven premium games in overseas markets. We generated 2.1%, 31.7%, 61.5% and 67.8% of total game operating revenue from overseas markets in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively. We plan to keep expanding our business globally.

We face risks associated with expanding into markets where we have limited or no experience or recognition. We may be unable to attract a sufficient number of users, fail to anticipate competitive conditions or face difficulties in operating effectively in these new markets. Due to the evolving and potentially conflicting regulatory environment over the game industry, particularly mobile games, across the globe, we may be required to comply with more stringent compliance requirements in our principal overseas markets, such as South Korea, Taiwan, Hong Kong and Southeast Asia. Failure to timely comply with them may adversely affect our business overseas. We may become exposed to risks inherent in transacting business globally, including those relating to:

- identifying appropriate overseas markets;
- challenges caused by distance, language and cultural differences;

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- customizing games and other offerings that appeal to the tastes and preferences of gamers in overseas markets;
- competition from local game developers, publishers and operators with existing market share in those markets and with a better understanding of user preferences;
- protecting and enforcing our intellectual properties;
- the inability to extend our proprietary brand, content or technology into new jurisdictions;
- implementing alternative payment methods for in-game virtual items in a manner that complies with local laws and practices;
- adapting to local business practices;
- foreign exchange rate fluctuations;
- lower levels of consumer spending and fewer growth opportunities compared with our existing geographic markets;
- credit risk and payment fraud; and
- political, economic and social instability.

We may have difficulty in adequately responding to the challenges and uncertainties we face. In addition, as we expand further into new countries and regions, these risks could intensify. One or more of these factors could adversely impact our overseas operations. If we are unable to manage the risks and costs of our international expansion effectively, our growth, results of operations, financial condition and prospects may be materially and adversely affected, and our efforts to expand overseas may not succeed.

Any loss or deterioration of our relationship with our game developer partners may materially and adversely affect our business and results of operations.

We work with game developers to publish and operate licensed games. We also offer online marketing services to them through TapTap. We have benefited from the strong brand recognition of some of these developers and the success of their games in China and overseas markets. We believe this is crucial to expanding our user base as well as enhancing our ability to operate and monetize our games. However, there can be no assurance that we would be able to maintain stable relationships with existing game developer partners. For example, any failure on our part to help game developer partners effectively localize, operate or monetize games developed by them would adversely affect our relationship with them and further affect our business and results of operations.

Our game licensing agreements typically have an initial term of two to five years, renewable upon satisfaction of certain conditions. Our game developer partners may terminate agreements with us prior to expiration or they may refuse to renew such agreements. Even if they are willing to renew the agreements, they may demand terms less commercially favorable to us than the existing agreements. They may choose to partner with our competitors, allowing our competitors to enhance their game portfolios and effectively compete against us. They may also fail to perform their obligations under the license agreements, and parties may fail to reach timely agreement on the version of game products to be published and the publication plan, which may cause delays in our game launch schedule.

We provide online marketing services through TapTap. If our pricing mechanism or distribution performance fails to meet our game developer partners' expectation, they may switch to

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other distribution platforms or seek to cooperate with other distribution platforms. In addition, as we continually enhance our in-house game development capabilities, our game developer partners may regard us as a competitor, which may therefore adversely impact our relationship with them. Any loss or deterioration of our relationship with any of our game developer partners may result in a loss to our revenue and, in turn, materially and adversely affect our business and results of operations.

Failure to maintain relationships with third-party channels that distribute our games may materially and adversely affect our business.

Apart from our own distribution platforms, which include www.xd.com and TapTap, we publish our games through third-party distribution platforms, such as App Store and Google Play. We rely on these third parties to promote our games, record gross billings, process payments from gamers and, in some instances, maintain the security of their channels and provide certain user services. These third-party distribution platforms may have strong bargaining power in dealing with game developers and publishers, including us, and subject us to their standard service terms and conditions for the promotion and distribution of our games. Our business and results of operations may be adversely affected if these third-party distribution platforms fail to effectively promote our games or otherwise do not fulfill their obligations to us, or if they lack relevant government licenses to distribute our games. If our collaboration with an existing third-party distribution platform terminates, we may not be able to find a replacement in a timely manner and the distribution of our games may be adversely affected. Any failure on our part to maintain good relationships with a sufficient number of popular distribution platforms could cause the number of downloads and active users of our games to decrease, which may have a material adverse effect on our business, results of operations and financial condition.

Hacking activities may adversely affect our reputation and business.

We primarily rely on proprietary encryption and authentication technology to provide the security and authentication necessary to enable the secure transmission of confidential user information, including user name and password. However, our security controls over user and game data may not prevent the improper disclosure of personally identifiable information. A party using hacking technology who is able to circumvent these security measures could misappropriate proprietary information or cause interruptions in our operations. Any system failure or security breach or lapse that results in the mishandling of user data could harm our reputation and brand and, consequently, our business, in addition to exposing us to potential legal liability.

In addition, game operators also face problems arising from the use of unauthorized character enhancements, theft of user account information and other hacking or cheating activities. We may from time to time encounter such activities, and have implemented measures in our games to detect, identify and resolve such issues. However, these measures may not be effective, and the continued occurrences of such activities in our games may harm user experience and adversely affect the image of our games and gamers' perception of game reliability, drive away gamers and reduce in-game spending, shorten the life span of games, and adversely affect our results of operations.

Our failure to timely obtain preapproval for publication of online games from the NAPP before game launch may adversely affect our game pipelines.

Publishing and monetizing mobile games in China is subject to preapproval by the NAPP. See “Regulatory Overview—Regulations on Online Games Publishing and Operation—Online Game

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Examination and Publishing.” Accordingly, mobile games with in-game virtual items, which we intend to publish, are subject to preapproval by the NAPP. If we fail to obtain preapprovals from the NAPP, none of them can be successfully launched in China as scheduled, which may adversely affect our game pipeline. See “Business—Our Online Games—Game Pipeline.” Going forward, if any online games with in-game virtual items published or to be published by us fail to complete such preapproval in time, or at all, these games may not be allowed to be released or may be ordered to be suspended or cease operation, and, as a result, our business and results of operations may be materially and adversely affected.

If we fail to maintain and grow TapTap’s level of popularity and user base, our business and results of operations may be materially and adversely affected.

We operate TapTap to provide a comprehensive suite of contents and services to serve the needs of game developers and gamers such as game distribution, game discovery and social networking and community functions. See “Business—TapTap.” We rely on a sufficient level of popularity and user base of TapTap to attract game developers and publishers to use our online marketing services.

To maintain and grow our user base on TapTap, we need to continue to popularize TapTap with quality mobile game content and enhance user engagement. Accordingly, we have invested and expect to continue to invest in the development and promotion of TapTap. However, there can be no assurance that our investment and development strategy for TapTap will succeed, as the content offered through TapTap by us and gamers may not successfully stimulate the interests of other gamers and attract them to TapTap. In addition, our competitors may develop and promote more attractive game communities and platforms that divert our existing and new users away. If TapTap loses its popularity, our user base may suffer as a result. Accordingly, developers may not choose TapTap for online marketing services, and our business and results of operations may be adversely affected.

Furthermore, only the Android version of TapTap’s mobile app currently offers the game download function. Any changes in the Android system’s policy may affect TapTap’s game distribution services, which may, in turn, have a material adverse effect on our business, results of operations and financial condition.

Our business is subject to third-party payment processing-related risks.

We make available a variety of mobile payment solutions to gamers, including internet bank, mobile bank and payment through third-party partners, such as WeChat Pay and Alipay, to facilitate in-game purchases of virtual items. We rely on payment channel partners to provide payment processing services to gamers, which may subject us to payment collection issues beyond our control, or even fraud and other illegal activities in connection with these payment methods. Interruption in the ability of gamers to use these payment channels could adversely affect our payment collection, and in turn, our revenue.

Our payment channel partners are entitled to a prescribed percentage of the gross billings charged to gamers. If they fail to remit to us the proceeds collected from gamers in a timely fashion or at all, or if they become unwilling or unable to provide payment services or if their service quality deteriorates, our business may be disrupted.

Our payment channel partners are also subject to evolving rules and regulations, regulatory or otherwise, governing electronic funds transfers, which could become difficult or impossible for them to

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comply with. As a result, they may be subject to fines or higher transaction fees or lose their ability to accept credit and debit card payments when processing electronic funds transfers or facilitating other types of online payments from gamers, all of which may adversely affect our payment collection and monetization, and, in turn, our results of operations and financial condition.

We also rely on the stability of payment transmissions by payment channel partners to ensure that uninterrupted payment services are available to gamers. We do not have control over the security measures of third-party payment channels. If any of them fails to process, or ensure the security of, user payments for any reason, our reputation may suffer, and we may lose paying users and potential purchases, which, in turn, may materially and adversely affect our business, results of operations, financial condition and prospects.

If we are unable to compete effectively, our business and results of operations may suffer.

We face competition in several major aspects of our business, particularly from companies that publish and operate mobile games. Our competitors may have substantially more financial, technical and other resources, longer operating histories, as well as broader game offerings and larger market share. We may be unable to compete successfully against such competitors or new market entrants, which may adversely affect our business and results of operations.

The mobile game industry in China is highly competitive, which is characterized by the frequent introduction of new products and services, short product life cycles, evolving industry standards, rapid adoption of technological and product advancements, as well as price sensitivity on the part of gamers. In addition, our mobile game business faces competition from other entertainment formats and mobile apps and content, such as television, movies, music, electronic books, sports, social network services, and other recreational options on the internet. If we are not able to compete effectively, our user base may shrink and the level of user engagement may decrease, which could lead to a decrease in the number of our paying users and make us less attractive to game developers and other business partners. As a result, our market share may decrease, and our results of operations may be materially and adversely affected.

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

Our technology infrastructure is critical to the performance of our games and to gamer satisfaction. If a particular game is unavailable when gamers attempt to access it, they may stop playing that game or become unlikely to return to the game as often, if at all. Accordingly, failure or significant interruption in our technology infrastructure would harm our reputation and operations.

Some elements of our technology infrastructure are maintained by third parties beyond our control. For example, we leased a number of physical servers hosted by data server providers in Beijing and we also work with cloud server service providers for cloud computing, data storage and bandwidth services. We may experience website disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. Our growing operations are likely to place increasing pressure on our servers and network capacity as we launch more games and further expand our user base. Our infrastructure is also vulnerable to damage from fires, floods, earthquakes, power loss, and telecommunication failures. To the extent that our disaster recovery systems are not adequate, or we do not address issues such as

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capacity constraints effectively, upgrade our systems as needed and continually develop our technology infrastructure to accommodate increasing traffic, our business and results of operations may suffer.

Undetected programming errors or defects in our games could harm our reputation and materially and adversely affect our business.

Our mobile games are subject to frequent improvement and updates and may contain bugs or flaws that may become apparent only after the updated apps are accessed by gamers. From time to time, gamers may inform us of programming bugs affecting their experience, and we may not be able to resolve such programming bugs or flaws in a timely manner. As a result, we may lose gamers, and our reputation and market acceptance of our games may also suffer, therefore adversely affecting our business.

Gamers may violate our game policies which may harm gameplay experience and affect our business.

We have established game policies against unauthorized and inappropriate user behavior. For example, we do not allow gamers to sell or transfer virtual items. Virtual items offered in our games have no monetary value outside of our games. Nonetheless, some of our users or third parties sell or purchase our virtual items through unauthorized third parties in exchange for real money or other real-world assets. We generate no revenue from these unauthorized transactions and do not permit, or facilitate, these unauthorized transactions. Notwithstanding our measures and efforts to deter such behavior, we do not have effective controls over these unauthorized transactions. Any such unauthorized purchase and sale could impede our revenue and profit growth by reducing revenue from authorized transactions, creating downward pressure on prices we charge for our virtual items, increasing our cost to develop technological measures to curtail unauthorized transactions and to respond to dissatisfied gamers.

We may not be successful in promoting our brand or enhancing brand recognition, and negative publicity may harm our business.

The reputation of our brands such as X.D. Network, X.D. Global and TapTap as a quality game publisher and game community is growing among gamers in China and overseas. However, we may not be able to effectively promote our brand or enhance brand recognition. In addition, negative publicity or disputes regarding our brands, games and services, company or management could materially and adversely affect public perception of us and the games and services we offer, regardless of their veracity, which may, in turn, adversely affect our business and prospects.

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

We regard the intellectual property rights granted to us by our game developer partners, as well as our own copyrights, trademarks and other intellectual properties, as critical to our success. Unauthorized use of these intellectual properties may harm our brand and reputation and adversely affect our business. We have historically relied on a combination of trademark and copyright laws, trade secret protection, restrictions on disclosure and other agreements of similar functions to protect our intellectual properties.

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Although our contracts with our business partners prohibit the unauthorized use of our brands and intellectual properties, there can be no assurance that they will comply with these terms. These agreements may not effectively prevent the disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, although we currently enter into confidentiality and non-compete agreements or similar provisions with our employees and impose stringent obligations on our core research and development employees with respect to confidentiality, there can be no assurance that such confidentiality or non-compete agreements or provisions will not be breached, that we will have adequate remedies for any breach, or that our proprietary technology, know-how or other intellectual properties will not otherwise become known to, or be independently developed by, third parties.

In addition, our failure to protect our game developer partners' intellectual properties granted to us will also subject us to severe consequences, including loss of game distributorships and payment of indemnity. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, which could result in substantial costs and diversion of our management attention and resources, therefore disrupting our business and having a material adverse effect on our business and results of operations.

Third parties may claim that we infringe their proprietary rights, which may adversely affect our business.

We may from time to time receive claims that we infringe the intellectual property rights of others. Although we are not the game developer for games that we license, third parties may claim that, as operator of the games, we shall also be liable for any infringement upon the third parties' rights, jointly, with the developer. We typically rely on our game developer partners' representations that their games do not infringe upon third parties' intellectual property rights in most cases and we require indemnification should any such representations become inaccurate and we suffer damage as a result, including any damage resulting from third-party claims. However, games we license may from time to time infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties and indemnification may not be adequate in recovering our loss. Any such claim or litigation, 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 litigation, we could be required to modify, redesign or cease operating the games, pay monetary amounts as damages or enter into royalty or licensing arrangements with the valid intellectual property holders. Any royalty or licensing arrangements that we may seek in such circumstances may not be available to us on commercially reasonable terms or at all. Also, if we acquire technology licenses 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.

Some of our employees were previously employed at other companies, including our competitors. We may hire additional personnel to expand our development team and technical support team as our business grows. To the extent these employees were 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.

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Our data analytics may be inaccurate and affect our ability to adopt appropriate business strategies.

We rely on our data analytics capabilities to continue developing and operating games and TapTap, improve user experience, and optimize user monetization. Our game operation team routinely collects and stores in-game user behavioral data utilizing our data analysis engine. In addition, it is possible that our data may be inaccurate due to technical errors, security breaches or hacking incidents, or the game operators may refuse to share any such data with us. Therefore, we might fail to gather or retain data timely, or ensure the quality of data, which would yield inaccurate or misleading analytical results. Furthermore, there is inherent limitation in statistical inferences that rely on the faulty premise that past behavior predicts future behavior.

We assess our business performance by utilizing a set of key performance indicators, such as MAUs, MPUs and ARPPU. While data analytics have proven beneficial to our business, we might make poor operational and strategic decisions, which may materially and adversely affect our business and prospects.

Our business generates and processes a large amount of data, and the improper use or disclosure of such data may harm our reputation and business.

Our business generates and processes a large quantity of personal, transaction, demographic and behavioral data. We face risks inherent in handling large volumes of data and in protecting the security of such data, including those relating to:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

We are subject to laws and regulations of the PRC and other countries and regions relating to the collection, use, retention, security and transfer of personally identifiable information with respect to our customers and employees. In many cases, these laws not only apply to third-party transactions, but may also restrict cross-border transfers of personally identifiable information. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. For example, our games published in the U.S. make us subject to the Children's Online Privacy Protection Act, or the COPPA, which regulates the collection of information online from children under the age of 13 and the Federal Trade Commission Act, which prohibits unfair or deceptive actions both online and offline and has been applied to data security and online privacy regulation. The Federal Trade Commission is an enforcer of failure to comply with privacy policies and other data protection laws and regulations and is also COPPA's primary enforcer. If we fail to accurately anticipate the application, interpretation or legislative expansion of COPPA, we could be subject to the U.S. governmental enforcement actions, litigations and penalties or adverse publicity. In addition, if we plan to publish games in Europe in the future, the European General Data Protection Regulation, or the GDPR, took effect in May 2018 may apply to our business in Europe. The GDPR

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imposes operational requirements on companies that receive or process personal data of residents of the European Union that are different from those currently in place within the European Union. Failure to comply with the GDPR may result in substantial fines and other administrative penalties. The GDPR may increase our responsibility and liability in relation to data protection and we may be required to put in place additional mechanisms ensuring the compliance with the GDPR. This may be onerous and if our efforts to comply with the GDPR or other applicable European Union laws and regulations are not successful, it could adversely affect our business in the European Union. Any failure, or perceived failure, by us to comply with any privacy policies or regulatory requirements or privacy protection-related laws, rules and regulations could result in proceedings or actions against us by government authorities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

In addition, the secure transmission of confidential information, such as users' debit and credit card numbers and expiration dates, billing addresses and other personal information, over public networks, including our websites, TapTap and games, is essential for maintaining user confidence. We do not have control over the security measures of our third-party payment channel partners, and their security measures may not be adequate. We could be exposed to litigation and possible liability if we fail to safeguard confidential user information, which could harm our reputation and our ability to attract or retain users, and may materially and adversely affect our business.

Our business operations are heavily dependent on the performance and reliability of the internet infrastructure and telecommunications networks in China.

Our game operation and distribution depend heavily on the performance and reliability of the internet infrastructure in China. Almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. In addition, the national networks in China are connected to the internet through international gateways controlled by the PRC government. These international gateways are the only channels through which a domestic gamer can connect to the internet. We may not have access to alternative networks in the event of disruptions, failures or other problems with the PRC's internet infrastructure.

The mobile network in China is mainly operated by three mobile carriers, all of which are controlled by the PRC government. Mobile coverage may not be reliable, and any disruption in the operation of the mobile carriers may have a negative impact on gamers' ability to download and activate our games, as well as their gameplay and payment experience. There is no assurance that the PRC's mobile network infrastructure will continue to improve and further support the operation and expansion of our business.

Any failure to maintain the satisfactory performance, reliability, security and availability of our network and computer infrastructure may cause significant harm to our business operations and the distribution of our games. Any server interruptions, breakdowns or system failures, including failures which may be attributable to events within or outside our control that could result in a sustained shutdown of all or a material portion of our services, could adversely impact our ability to operate our games and service gamers and lead to attrition and revenue reduction. Our network systems are also vulnerable to damage from computer viruses, fire, flood, earthquake, power outages, telecommunications failures, computer hacking and other similar events.

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Our success depends on the continuing and collaborative efforts of our management team and other key personnel.

Our future success depends heavily upon the continuing services of our senior management team and key personnel. If any of our senior management or other key personnel, especially our two founders including our chief executive officer, Mr. HUANG Yimeng, and our president Mr. DAI Yunjie, are unable or unwilling to continue in their present positions, we may not be able to replace them timely with suitable candidates, especially in light of the intense competition for talent in the game industry and the limited pool of qualified candidates. As a result, our business may be disrupted, and our results of operations and financial condition may be materially and adversely affected. If any member of our management team or other key personnel joins a competitor or forms a competing company, we may lose customers, distributors, know-how, and key personnel. Some of our key employees entered into an employment agreement with us that contains confidentiality and non-compete provisions. If a dispute arises between any of such key employees and us, there can be no assurance as to the extent any of these agreements may be enforced.

We are subject to risks relating to external investments.

During the Track Record Period, we made minority investments in companies which are recorded as investments accounted for using equity method and long-term investments measured at fair value though profit or loss in our financial statements. As of December 31, 2016, 2017, 2018 and May 31, 2019, our investments accounted for using equity method was RMB72.3 million, RMB43.3 million, RMB44.3 million and RMB43.5 million, respectively, and our long-term investments measured at fair value though profit or loss was RMB50.0 million, RMB36.5 million, RMB33.7 million and RMB38.1 million, respectively. We are subject to the risk that the companies in which we invest may make business, financial or management decisions with which we do not agree or that the majority shareholders or the management of the companies may take risks or otherwise act in a manner that does not serve our interests. In particular, our carrying value of our investments accounted for using equity method may be affected by a number of factors such as share of results, impairment, dilution issuance of equity securities and currency translation differences.

We may in the future acquire intellectual properties, game distribution licenses and quality games, and enter into strategic acquisitions or alliances with third parties. Such acquisitions could subject us to a number of risks, including risks associated with non-performance by the counterparty, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. These transactions could require that our management develop expertise in new areas, manage new business relationships and attract new types of gamers. We may also experience difficulties integrating any investments, acquisitions and/or partnerships into our existing business and operations, which would require significant attention from our management and could result in a diversion of resources from our existing business, which, in turn, could have an adverse effect on our business operations. In addition, acquired assets or businesses may not generate the financial results we expect and could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business.

Our short-term investments primarily consist of wealth management products issued by large reputable commercial banks and these wealth management products invest principally in low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China,

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including, among others, treasury bonds, corporate bonds, medium-term notes, short-term commercial papers and interbank deposits. In 2016, 2017, 2018 and the five months ended May 31, 2019, we had fair value gains on short-term investments measured at fair value through profit or loss of RMB2.8 million, RMB1.9 million, RMB9.1 million and RMB3.1 million, respectively. However, in general, neither the principal or return of any wealth management products is protected or guaranteed by the issuing bank. Thus, we may record fair value loss in our short-term investments in the future, which would adversely affect our financial performance.

Our intangible assets and goodwill may be subject to impairment.

As of May 31, 2019, we had intangible assets of RMB193.9 million, mainly including game licenses of RMB71.7 million and trade names of RMB11.9 million, as well as goodwill of RMB45.1 million and RMB56.5 million in connection with the acquisition of Yiwan and Longcheng in 2016 and 2017, respectively. See “History, Reorganization and Corporate Structure— Our Major Subsidiaries and PRC Consolidated Affiliated Entities.”

Pursuant to applicable accounting standards, intangible assets such as goodwill, that are not amortized are subject to assessment for impairment annually or more frequently if certain events or changes in circumstances indicate that it might be impaired. An impairment loss is recognized for the amount by which the assets’ carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. The impairment may be further affected by the assumptions made by the management. If any of these assumptions does not materialize, or if the performance of our business is not consistent with such assumptions, we may be required to have a significant write-off of our intangible assets and record a significant impairment loss. Any significant impairment of intangible assets could have a material adverse effect on our business, financial condition and results of operations. For detailed discussion on the impairment testing and sensitivity and headroom on how changes in the valuation parameters will affect the impairment assessment for each cash generating unit, see the sections headed “Financial Information— Impairment of Non-financial Assets” and “Financial Information—Impairment of Goodwill.”

The determination of the fair value changes of certain of our financial assets requires the use of estimates that are based on unobservable inputs, and therefore inherently involves a certain degree of uncertainty.

We use significant unobservable inputs, such as expected volatility, discount for lack of marketability, expected rate of return and discount rate, in valuing our financial assets at fair value through profit or loss. The fair value change of financial assets at fair value through profit or loss may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such assets and liabilities. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operation and financial condition.

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There are uncertainties about the recoverability of our deferred tax assets, which could adversely affect our results of operations.

We recorded deferred tax assets of RMB18.3 million, RMB8.0 million, RMB8.4 million and RMB8.3 million, respectively, as of December 31, 2016, 2017, 2018 and May 31, 2019. For each reporting period, we evaluate our deferred tax assets to determine whether it is probable that they will be realized. In determining whether it is probable that the deferred tax assets will be realized, we assess the likelihood that we will be able to recover our deferred tax assets using historical levels of income, estimates of future income, future reversal of existing taxable temporary differences, taxable income in carryback years and tax planning strategies. See note 2.16 to the Accountant's Report in Appendix I to this prospectus for further details on our accounting policy with respect to deferred tax assets. Such determination requires significant judgment from our management on the tax treatment of certain transactions as well as assessment on the probability, timing and adequacy of future taxable profits for the deferred tax assets to be recovered. If such judgments turn out to be incorrect or imprecise, we may need to adjust our tax provisions accordingly. Furthermore, we cannot predict any future movements in our deferred tax assets and to what extent they may affect our financial position in the future. Any of these events may have a material adverse effect on our business, financial condition and results of operation.

Our other income is primarily non-recurring in nature, and therefore we may not recognize such income or gains in the future.

In 2016, 2017, 2018 and the five months ended May 31, 2019, our other income was RMB6.4 million, RMB1.0 million, RMB8.1 million and RMB8.3 million, respectively, which mainly represent the government subsidies we received. While such income had an impact on our reported profit for the relevant period, they were non-recurring in nature. In view of the fact that the government subsidies were made at the full discretion of the relevant government authorities, there is no assurance that we will continue to be eligible for similar government subsidies or other forms of government support, or, that if we are eligible, that we will continue to receive and/or enjoy the same level of subsidies. Therefore, we may not record such income in the future, which may in turn adversely affect our profitability.

Our other gains are primarily non-recurring in nature, and therefore we may not recognize such gains in the future.

In 2016 and 2018, we had other gains (net) of RMB44.2 million and RMB24.2 million, respectively. Our gains (net) primarily consist of (i) fair value changes on our previously held equity interests in Yiwang and Longcheng as a result of our consolidation of them; (ii) re-measurement gain relating to our investments in one of our associates using the equity method reclassified to long-term investment measured at fair value through profit or loss in 2018, after we were granted redemption rights from this associate; and (iii) foreign exchange gains, mainly relating to fluctuations of foreign exchange rates affecting the foreign currencies held in our bank accounts and trade receivables. Our gains during the Track Record Period were non-recurring in nature and to the extent we do not have similar opportunities, our financial results may not be as favorable.

We had net decrease in cash and cash equivalents or negative net cash flow from operating activities for a certain period during the Track Record Period.

In 2016, we recorded negative net cash flow from operating activities of approximately RMB8.7 million. In 2018, we recorded net decrease in cash and cash equivalents of RMB24.8 million.

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See “Financial Information—Liquidity and Capital Resources—Cash Flows.” We cannot assure you that we will not experience negative net operating cash flow in the future. Negative net operating cash flow requires us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we will be in default of our payment obligations and may not be able to implement our business strategies as planned. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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

Our games and TapTap enable gamers to exchange information, generate and distribute content, and engage in various other online activities. We are unable to always verify gamers’ identities or the sources of all information or content made by our users despite the current measures implemented. Therefore, it is possible that certain gamers may engage in illegal, obscene or inflammatory conversations or activities, including the publishing of inappropriate or illegal content that may result in an adverse impact among the gamer community. In severe circumstances, certain such information or content may be deemed unlawful under applicable laws and regulations, and relevant 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 or proceedings based on the nature or content of the information improperly displayed, which may materially and adversely affect our reputation, business and prospects.

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

We generate revenue from overseas markets in relation to our international business, and therefore, we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Hong Kong dollar. We also pay licensing fees for foreign game developers and intellectual property providers, which are primarily in US dollars. During the Track Record Period, we did not hedge against any foreign exchange risk. Fluctuations in exchange rates could therefore result in foreign currency exchange losses, which may have an adverse impact on our results of operations and financial condition. Even if we were to hedge against such risk exposures, the availability and effectiveness of hedges may be limited, and we may not be able to hedge our exposure successfully, or at all.

The life cycle stages of our games may not be indicative of their rate of growth.

Historically, most of our mobile games experienced in their life cycles (i) the growth stage, during which the number of gamers and revenue generated by the game experience rapid growth; (ii) the maturity stage, during which revenue tends to be continuously generated by the game and the number of gamers generally remains stable during this stage; and (iii) the recession stage, during which the number of gamers and revenue generated by the game may decrease. In general, as we test the viability and build up the user base for a new game during the growth stage, and gradually phase out an old game during the recession stage, we strive to maintain a game at the mature stage, during which we are able to generate steady revenue from its paying users. However, each game matures at a different pace depending on its popularity, and its progression through the three life cycle stages is neither guaranteed nor an indication of its rate of growth, or of our ability to monetize that game. Accordingly, if we are unable to achieve a similar rate of growth for a majority of our games, we may fail to monetize our users and generate revenue as anticipated, and our results of operations, financial condition and profitability could be materially and adversely affected as a result.

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

In 2016, 2017 and 2018 and the five months ended May 31, 2019, 2.1%, 31.7%, 61.5% and 67.8% of our game operating revenue was generated from overseas markets, respectively. These overseas markets primarily included South Korea, Hong Kong, Taiwan and Southeast Asia. The international tax environment is evolving, with new policy proposals and regulations at various stages of implementation around the world, dealing with, among other things, the digitalization 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 revenue earned by highly digitalized businesses from customers in jurisdictions where an entity does not have operation, such as a permanent establishment. 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 jurisdictions where 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, there are two further policy developments which may affect our potential tax liabilities in the future: (i) the proposal by certain countries to introduce digital services taxes, or equivalent, which broadly seeks to tax the revenue of highly digitalized businesses from activities relating to advertising or data; and (ii) 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 where the customer is located. The foregoing proposals may potentially lead to changes in tax regulations of jurisdictions relevant to our business, which may impose on our business tax liabilities including new or additional taxes and increase our compliance costs, therefore materially and adversely affecting our financial condition and results of operations.

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

Certain key operating metrics, such as MAU, DAU, MPU and ARPPU, in this prospectus are calculated using our internal data that have not been independently verified by third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are inherent challenges in measuring usage and user engagement across our large user base. In addition, our key operating metrics are derived and calculated based on different assumptions and estimates, and you should be cautious of such assumptions and estimates when assessing our operating performance.

Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in data availability, sources and methodology. If third parties do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and third parties may be less willing to allocate their resources or spending to us, which could adversely affect our business and operating results.

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

We have not purchased any insurance to cover all of our assets, property and business. If we were to incur substantial losses or liabilities due to fires, explosions, floods, or other natural disasters,

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accidents or business interruptions, our results of operations could be materially and adversely affected.

We are subject to credit risk primarily in relation to our collection of our trade receivables.

Our trade receivables at the end of each reporting period were primarily due from distribution platforms and game publishers as well as due from online marketing service customers. Depending on the credit history of our customers and our relationships with them, we typically offer a credit period of 30 to 120 days. For our game operating business in particular, we generally offer a credit period of 30 to 90 days for third-party distribution platforms such as App Store, Google Play and other Android-based app stores, and of 90 to 120 days for game publishers. As of December 31, 2016, 2017, 2018 and May 31, 2019, our trade receivables amounted to RMB60.0 million, RMB216.0 million, RMB449.1 million and RMB385.3 million, respectively, of which RMB0.5 million, RMB1.2 million, RMB1.6 million and RMB1.8 million were impaired. We made such provisions for impairment based on expected credit loss. If our strategic relationship with distribution platforms and game publishers and online marketing service customers are terminated or scaled-back; or if distribution platforms and game publishers and online marketing service customers alter the co-operative arrangements; or if they experience financial difficulties in paying us, our corresponding trade receivables might be adversely affected in terms of recoverability, which may adversely affect our operation and financial position.

Our results of operations are subject to seasonal fluctuations due to seasonality.

We experience seasonality in our business, and as a result, comparing our operating results on a period-to-period basis may not be meaningful. We typically experience increased levels of in-game spending among paying users during holiday seasons in China, particularly the Chinese New Year holiday. We also sometimes conduct marketing and promotional activities to capitalize on the increased user traffic during such periods, which may further stimulate spending in our games. Accordingly, due to the seasonality of our business, the results of any period of a fiscal year are not necessarily indicative of the results that may be achieved for the full fiscal year or for the corresponding period of any subsequent fiscal year.

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

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of Directors and other significant corporate actions. Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, our Controlling Shareholders will be interested in 37.17% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

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Our interests in leased property may be defective and our right to lease the properties affected by such defects may be challenged, which could cause disruption to our business.

As of the Latest Practicable Date, with respect to two of our leased properties for a total gross floor area of 2,269.67 square meters, the relevant lessor had not provided us with valid property ownership certificates. Such leased property was used as office premise. The absence of the property ownership certificates limited our ability to determine whether the lessor has the right to lease the properties to us, and if the lessor is not the legal owner and has not been duly authorized by the legal owner, the relevant lease agreement may be deemed invalid and, as a result, we may face challenges from the legal owners of the properties or other third parties, and may be forced to vacate the relevant property and seek another office premise. We might incur additional expenses during the process.

RISKS RELATED TO OUR CONTRACTUAL ARRANGEMENTS

We conduct certain aspects of our businesses in the PRC through X.D. Network, or through our PRC Consolidated Affiliated Entities by means of contractual arrangements. If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be materially and adversely affected.

We conduct the operation of our business in China mainly through X.D. Network, or our PRC Consolidated Affiliated Entities. We receive substantially all of the economic benefits of our PRC Consolidated Affiliated Entities as their primary beneficiary through contractual arrangements with them and their shareholders. For a description of these contractual arrangements, see “Contractual Arrangements.”

Various regulations in China currently restrict or prevent foreign-invested entities from engaging in telecommunication services, including operating mobile games. On December 11, 2001, the State Council promulgated the Provisions on Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were subsequently amended on September 10, 2008 and on February 6, 2016. Under such regulations, foreign ownership in companies that provide value-added telecommunication services shall not exceed 50%. Under the Negative List, foreign investment in the value-added telecommunications services (excluding e-commerce) is “restricted”. Further, the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《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 “MIT Notice”) issued by Ministry of Information Industry of the PRC (the “MII”, which is the predecessor of the MIIT) in July 2006, reiterates restrictions on foreign investment in telecommunications businesses. Under the MIT Notice, a PRC company that holds a license to conduct value-added telecommunications businesses, or a VATS License, in the PRC is prohibited from leasing, transferring or selling the license to foreign investors in any form and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in the PRC. Furthermore, the relevant trademarks and domain names that are used in a value-added telecommunications business must be owned by the local VATS License holder or its shareholder(s). The MIT Notice further requires each VATS License holder to have appropriate facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. X.D. Network and Yiwang each holds a VATS License. However, due to the lack of interpretative guidance from the authorities, it is uncertain whether the MIIT would consider our corporate structures and contractual arrangements as a

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type of foreign investment in telecommunication services in the PRC. Therefore, it is unclear what impact the MIT Notice might have on us.

In August 2011, the MOFCOM promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》), or the MOFCOM Security Review Rules, to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》), or Circular No. 6, which was promulgated on February 3, 2011 and came into effect on March 5, 2011. Under these rules, a security review by the MOFCOM is required for foreign investors' mergers and acquisitions that have "national defense and security" implications and mergers and acquisitions by which foreign investors may acquire "actual control" of domestic enterprises that have "national security" implications. The MOFCOM Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that mobile game businesses fall within the scope of transactions subject to security review. We do not believe we are required to submit our existing contractual arrangement to the MOFCOM for a security review. However, as there is no clear statutory interpretation regarding the implementation of these rules, there is no assurance that the MOFCOM will have the same view as ourselves when applying these national security review-related circulars and rules.

The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Although we believe we comply, and will continue to comply with current PRC regulations, the PRC government may not agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing requirements or policies or with requirements or policies that may be adopted in the future. It is possible that a PRC court, arbitration tribunal or other regulatory authority may determine that such contractual arrangements are illegal or invalid. If the PRC government determines that we are not in compliance with applicable laws, it may levy fines on us, confiscate our income that they deem to have been obtained through illegal operations, revoke or refuse to renew any business and operating licenses required to conduct our operations in the PRC, revoke the agreements constituting the contractual arrangements, require us to discontinue or restrict our operations, suspend the operation of our games, require us to alter our ownership structure or operations, or impose additional conditions or restrictions on our business operations with which we may not be able to comply, or take other regulatory or enforcement actions against us that could be harmful to our business.

If the PRC government determines that our ownership structure does not comply with the restrictions contained in the GAPP Notice, we could be subject to severe penalties.

We are subject to relevant PRC regulations on operators of online games. On September 28, 2009, the GAPP, together with the National Copyright Administration, and the National Working Group for Crackdown on Pornography and Illegal Publications, jointly issued a Circular on Implementation of the Regulation on the Three Provisions of the State Council and the Relevant Interpretations and Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹

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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》), or the GAPP Notice. The GAPP Notice provides, among other things, that foreign investors are not permitted to invest in online game operating businesses in the PRC via wholly-owned, equity joint venture or cooperative joint venture investments, and expressly prohibits foreign investors from gaining control over or participating in PRC Consolidated Affiliated Entities’ online game operations through indirect routes, such as establishing other joint venture companies, entering into contractual arrangements with or providing technical support for such operating companies, or through a disguised form, such as incorporating user registration, user account management or payment through game cards into online gaming platforms that are ultimately controlled or owned by foreign investors. Due to the ambiguity among various regulations on online games and a lack of interpretative materials from the relevant PRC authorities governing online game operations, there are uncertainties regarding whether PRC authorities would consider our corporate structure and contractual arrangements to be foreign investment in online game business. While we are not aware of any online game companies which use the same or similar contractual arrangements as ours having been penalized or ordered to terminate operations by PRC authorities claiming that the contractual arrangements constitute control over, or participation in the operation of, online game operating businesses through indirect means, it is unclear whether and how the various regulations of the PRC authorities might be interpreted or implemented in the future. If our contractual arrangements were deemed to be such an “indirect means” or “disguised form” under the GAPP Notice, our contractual arrangements may be challenged by the competent press and publication authority. If we, our PRC Consolidated Affiliated Entities are found to be in violation of the GAPP Notice to operate our mobile games, the competent press and publication authority, in conjunction with relevant regulatory authorities, would have the power to investigate and deal with such violations, including in the most serious cases where relevant licenses and registrations would be suspended or revoked.

Our Contractual Arrangements with X.D. Network and its shareholders may not be as effective in providing control as direct ownership. X.D. Network and its shareholders may fail to perform their obligations under these Contractual Arrangements.

We have relied and expect to continue to rely on the Contractual Arrangements with X.D. Network to conduct our domestic business primarily. For a description of the Contractual Arrangements, see “Contractual Arrangements.” These Contractual Arrangements provide us with effective control over X.D. Network through which we operate our business and allow us to obtain economic benefits from it. However, the Contractual Arrangements may not be as effective in providing control as does direct ownership. For example, if X.D. Network or its shareholders fail to perform their respective obligations under the Contractual Arrangements, or if they take other actions that are detrimental to our interests, we may incur substantial costs and resources in connection with our enforcing these arrangements. To enforce these arrangements, we may rely on legal remedies available under applicable PRC laws, including seeking specific performance and claiming damages. In particular, if shareholders of X.D. Network refuse to transfer their equity interests to us or our designated persons when we exercise the purchase option pursuant to the Contractual Arrangements, we may need to initiate legal actions to compel them to fulfill their contractual obligations. Such arbitration and legal proceedings and disputes may cost us substantial financial and other resources and result in disruption of our business, and the outcome might not be in our favor. The relevant PRC arbitral panel may conclude that our Contractual Arrangements violate PRC law or are otherwise unenforceable and we could consequently lose our ability to consolidate X.D. Network’s results of operations, assets and liabilities in our combined financial statements and/or to transfer the revenue of X.D. Network to WFOE, our wholly-owned subsidiary. In addition, the shareholders of X.D. Network

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may not continuously act in the best interests of our Company and follow our instructions despite their contractual obligations to do so.

If we had direct ownership of X.D. Network, we would be able to exercise our rights as shareholders, rather than our rights under the voting rights proxy agreement and powers of attorney, to effect changes to its board of directors, which in turn could implement changes at the management and operational levels. However, under the current contractual arrangements, as a legal matter, if X.D. Network or its shareholders fail to perform their obligations under the Contractual Arrangements, we may incur substantial costs to enforce such arrangements and rely on legal remedies under the PRC law, which may not be sufficient or effective. For example, if we sought to enforce the exclusive option agreements for the transfer of equity interests in X.D. Network, the transfer would be subject to approval by governmental authorities, such as the MOFCOM, and the transfer price requirements of the relevant government authorities. The transferee would be required to comply with various requirements, including qualification and maximum foreign shareholding percentage requirements. As these governmental authorities have wide discretion in granting such approvals, we could fail to obtain such approval. In addition, our Contractual Agreements might not be enforceable in the PRC if its governmental authorities or courts took the view that such contracts contravened PRC law or were otherwise not enforceable for public policy reasons.

All of the Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with the PRC law, and any disputes would be resolved in accordance with PRC legal procedures. However, the legal system in the PRC is not as developed as in other jurisdictions, such as Hong Kong. There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. As a result, uncertainties in the PRC legal system could limit our ability to enforce the Contractual Arrangements. If we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our PRC Consolidated Affiliated Entities, and our ability to conduct our business may be negatively affected.

If we are unable to enforce these contractual arrangements, or other obstacles in the process of enforcing these contractual arrangements, a substantial portion of our business and operations in the PRC could be disrupted, which could materially and adversely affect our results of operations and damage our reputation. See “—Risks Related to Doing Business in the PRC—Uncertainties and changes in the PRC legal system could materially and adversely affect our business.”

Our ability to enforce the equity pledge agreements may be subject to limitations based on PRC laws and regulations.

Under the Contractual Arrangements, WFOE entered into an equity pledge agreement with X.D. Network and its shareholders. Under the equity pledge agreement, the shareholders of X.D. Network agreed to pledge their equity interests in X.D. Network to WFOE to secure the X.D. Network and the shareholders' performance of their obligations under the relevant contractual arrangements.

The equity pledge agreements with our PRC Consolidated Affiliated Entities' shareholders provide that the pledged equity interests constitute security for all of the payment obligations of the PRC Consolidated Affiliated Entities and the shareholders under the contractual arrangements. However, it is possible that a PRC court may take the position that the amount indicated on the equity

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pledge registration documents filed with the local branch of the SAIC represents the full debt amount that the pledge secures. If this is the case, the obligations that are supposed to be secured in these equity pledge agreements in excess of the amount indicated on the equity pledge registration documents could be determined by the PRC court as unsecured debt, in which case the protection of our interest in the PRC Consolidated Affiliated Entities' payments to us is limited.

The shareholders of X.D. Network have potential conflicts of interest with us, which may adversely affect our business.

We conduct a substantial portion of our operations, and generate a substantial portion of our revenue, through X.D. Network. Our control over X.D. Network is based upon the Contractual Arrangements. Certain shareholders of X.D. Network may potentially have a conflict of interest with us. Thus, conflicts of interest between their duties to our Company and their interests as the controlling shareholders of our PRC Consolidated Affiliated Entities may arise. They may not act entirely in our interest when conflicts of interest arise and conflicts of interest may not be resolved in our favor. In addition, these Registered Shareholders could violate their non-compete or employment agreements with us or their legal duties by diverting business opportunities from us. If we are unable to resolve any such conflicts, or if we suffer 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 reputation.

The shareholders of X.D. Network may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in X.D. Network and the validity or enforceability of the contractual arrangements. For example, in the event that any individual shareholder of X.D. Network divorces his or her spouse, the spouse may claim that the equity interest of X.D. Network held by such individual shareholder is part of their marital or community property. If such claim is supported by the competent PRC court, the relevant equity interest may be obtained by the individual shareholder's spouse or another third party who is not bound by our contractual arrangements, which could result in our losing effective control over X.D. Network. Similarly, if any of the equity interests of X.D. Network are inherited by a third party on whom the current contractual arrangements are not binding, we could lose our control over X.D. Network or have to maintain such control at unpredictable cost, which could cause significant disruption to our business and operations, and harm our financial condition and results of operations.

Although under our current contractual arrangements, (i) the spouse of each of the individual shareholders of X.D. Network has executed a spousal undertaking, under which such spouse has undertaken that she or he will not make any assertions in connection with the equity interests of X.D. Network, as the case may be, which are held by the Registered Shareholders, and if such spouse obtains any equity interests of X.D. Network, as the case may be, for any reasons, she or he shall be bound by the contractual arrangements and comply with the obligations thereunder as a shareholder thereof, and (ii) it is expressly provided in the agreements that the rights and obligations thereunder shall be equally effective and binding on the successors of the contracting parties, there can be no assurance that these undertakings and arrangements will be complied with or effectively enforced. If any of these undertakings or arrangements is breached or becomes unenforceable and leads to legal proceedings, it could disrupt our business, distract management and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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We may lose the ability to use and enjoy the benefits of the assets held by X.D. Network that are important to the operations of our business if such entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

X.D. Network is our primary operating entity. It holds assets and performs functions that are important to the operations of our business. If X.D. Network enters into bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If X.D. Network undergoes a voluntary or involuntary dissolution or liquidation proceeding, third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business in the PRC, which may materially and adversely affect our business, financial condition and results of operations.

Contractual arrangements with X.D. Network may result in adverse tax consequences.

Under the PRC laws and regulations, an arrangement or transaction among related parties may be subject to audit or challenge by the PRC tax authorities. If this occurs, the PRC tax authorities could request that X.D. Network adjust their taxable income in the form of a transfer pricing adjustment for PRC tax purposes if contractual arrangements among related parties do not represent arm's-length prices. Such a pricing adjustment could adversely affect us by reducing, for PRC tax purposes, expense deductions recorded by X.D. Network, which could in turn increase its tax liabilities and expenses. In addition, X.D. Network may be subject to late payment fees and other penalties for underpayment of taxes. As a result, our Contractual Arrangements with X.D. Network may result in adverse tax consequences to us. If X.D. Network generates net income from transactions with our PRC subsidiaries under the contractual arrangements in the future and the PRC tax authorities decide to make transfer pricing adjustments on their net income, our consolidated net income may be adversely affected. In addition, the PRC tax authorities may impose interest on late payments on X.D. Network for the adjusted but unpaid taxes.

If we exercise the option to acquire the equity ownership or assets of X.D. Network, the ownership transfer may subject us to substantial costs.

By virtue of our Contractual Arrangement, WFOE has the exclusive right to purchase all or any part of the equity interests in X.D. Network from its respective shareholders for a consideration of RMB1 or such minimum purchase price permitted under PRC laws and regulations or by the relevant governmental authorities. WFOE also has the exclusive right to purchase all or any part of the assets in X.D. Network at the minimum purchase price permitted under PRC laws and regulations or by the relevant governmental authorities. The respective shareholders shall return the amount of purchase price they have received to WFOE. If such a transfer takes place, the competent tax authority may require WFOE to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated under our Contractual Arrangement, in which case WFOE may be subject to a substantial amount of tax.

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

On March 15, 2019, the Foreign Investment Law was formally passed by the thirteenth National People's Congress and will take effect on January 1, 2020. The Foreign Investment Law will

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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 Foreign Investment Law stipulates certain forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. For further details of the Foreign Investment Law, see “Regulatory Overview.”

As advised by our PRC Legal Adviser, since (i) the Foreign Investment Law does not specify contractual arrangements as foreign investment; and (ii) after the promulgation of the Foreign Investment Law on March 15, 2019 and up to the Latest Practicable Date, no laws, administrative regulations or State Council provisions have been issued which specify contractual arrangements as a method of foreign investment, the Foreign Investment Law will not have a material impact on the Contractual Arrangements and each of the agreements under the Contractual Arrangements, and the legality and validity of the Contractual Arrangements would not be affected.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors investing through any other methods under laws, administrative regulations or provisions prescribed by the State Council”. Therefore, there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, and then whether our contractual arrangements will be recognized as foreign investment, whether our contractual arrangements will be deemed to be in violation of the foreign investment access requirements, and how the abovementioned contractual arrangements will be treated, are uncertain. Therefore, there is no guarantee that the contractual arrangements and the business of our PRC Operating Entities will not be materially and adversely affected in the future.

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

RISKS RELATED TO DOING BUSINESS IN THE PRC

We operate in a new and rapidly changing industry, which makes it difficult to evaluate our business and prospects. Our ability to generate revenue could suffer if the PRC mobile game market does not develop as anticipated.

The growth of the mobile game industry in the PRC and the level of demand and market acceptance of our games are subject to a high degree of uncertainty. Our future operating results depend on numerous factors affecting the mobile game industry, many of which are beyond our control. Our ability to formulate and execute publishing, distribution and marketing strategies will be significantly affected by our ability to anticipate and adapt to relatively rapid changes in the tastes and preferences of our current and potential users. New and different types of entertainment may increase in popularity at the expense of mobile games. A decline in the popularity of mobile games in particular would harm our business and prospects. As the PRC’s mobile game market has evolved rapidly in recent years, it is extremely difficult to accurately predict user acceptance and demand for our existing

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and potential new games, and the future size, composition and growth of this market. Given the limited history and rapidly evolving nature of our market, we cannot predict how much users will be willing to pay for our mobile games or whether users will have concerns over security, reliability, cost and the quality of service associated with mobile games. If acceptance of our mobile games is different than as anticipated, our ability to maintain or increase our revenue and profits could be materially and adversely affected.

Concerns about the use of personal data in compliance with PRC law could damage our reputation and deter current and potential users from using our services.

Pursuant to the applicable PRC laws and regulations concerning the use and sharing of personal data, our PRC subsidiaries and consolidated affiliated entities are required to keep our users' personal information confidential and are prohibited from disclosing such information to any third parties without the consent of users. We apply strict management and protection to any information provided by users, and under our privacy policy, without our users' prior consent, we will not provide any of our users' personal information to any unrelated third party. New laws and regulations, such as The Decision of the Standing Committee of the National People's Congress on Strengthening Network Information Protection (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》), which was issued by the Standing Committee of the PRC National People's Congress on December 28, 2012, and 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 was promulgated by the MIIT on July 16, 2013 and took effect on September 1, 2013, further enhanced the legal protection of information security and privacy on the internet. The laws and regulations also require internet operators to take measures to ensure the confidentiality of information of users. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is shared with merchants or others may adversely affect our ability to share certain data with merchants, which may limit certain methods of targeted marketing. Concerns about the security of personal data could also lead to a decline in general internet usage, which could lead to lower user traffic on our website. A significant reduction in user traffic could lead to lower revenue from paying users, which could have a material adverse effect on 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, mobile game operators may have for virtual assets.

One of the features of some of our games which helps to build a large user base and maintain loyalty is that users can accumulate virtual tools, powers and rankings as they play the games. We believe that these virtual assets are highly valued by our users, particularly long-term users. However, on occasion, such assets can be lost if, for example, a user's identity is stolen by another user or we experience a system error or crash. Other than the General Rules on the Civil Law of the People's Republic of China (《中華人民共和國民法總則》), which was passed by the National People's Congress on March 15, 2017 and took effect on October 1, 2017, and prescribes that network virtual property will be protected according to the laws and regulations stipulating the protection of such property, the Chinese government has not yet enacted any specific laws regarding virtual property rights. Accordingly, we have no basis to determine what the legal rights are, if any, associated with virtual assets and what liabilities we could be exposed to for the loss or destruction of virtual assets. In

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the case of a loss of virtual assets, we may be sued by our users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We have not been involved in any virtual assets-related law suits. However, there can be no assurance that such law suits will not be brought against us in the future.

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

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

The PRC has enacted laws and regulations governing internet access and the distribution of news and other content, as well as products and services, through the internet. The PRC government prohibits information that it believes to be in violation of PRC laws from being distributed through the internet. In particular, the MIIT, the MOC and other competent government authorities have promulgated regulations that prohibit games from being distributed through the internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise state security or secrets. 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 and revocation of our licenses for operating mobile games, any of which would materially and adversely affect our business, financial condition, results of operations and prospects.

We may also be subject to potential liability for the actions or communications of our users or for content we distribute that is deemed inappropriate. We may be required to delete content that violates PRC laws and report content that we suspect may violate PRC laws, which may harm our reputation and reduce our user base, the amount of time users spent on our games or TapTap, or the purchases of virtual items in our games and other products. It may be difficult to determine the type of content that may result in liability for us, and if we are found to be liable, we may be prevented from operating our games or TapTap or offering other services in the PRC.

Adverse changes in economic and political policies of the PRC government could negatively impact the PRC's overall economic growth, which could materially and adversely affect our business.

Our business, financial condition, results of operations and prospects depend significantly on economic developments in the PRC. The PRC's economy differs from the economies of most other countries in many respects, including the amount of government involvement in the economy, the general level of economic development, growth rates and government control of foreign exchange and the allocation of resources. While the PRC economy has grown significantly over the past few decades, this growth has remained uneven across different periods, regions and economic sectors.

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The PRC government also exercises significant control over the PRC's economic growth by strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has implemented a number of measures, such as increasing the PBOC's statutory deposit reserve ratio and imposing commercial bank lending guidelines, which had the effect of slowing the growth of credit availability. In 2008 and 2009, however, in response to the global financial crisis, the PRC government loosened such requirements. Any actions and policies adopted by the PRC government or any prolonged slowdown in the PRC's economy, in particular the mobile apps industry, could have a negative impact on our business, operating results and financial condition in a number of ways. For example, our users may reduce spending on our offerings, while we may have difficulty expanding our user base quickly enough, or at all, to offset the impact of reduced spending by our existing users.

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

We conduct our business primarily through our PRC subsidiaries and affiliated entities in the PRC. Our operations in the PRC are governed by PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements, including those governing PRC tax matters, are relatively new and amended frequently, and their interpretation and enforcement often raise uncertainties that could limit the reliability of the legal protections available to us. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retrospective effect. As a result, we may not be aware of our violations of these policies and rules until the violations have occurred. Furthermore, the PRC administrative and court authorities have significant discretion 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. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to enforce our contractual or tort rights. Such uncertainties may result in substantial operating expenses and costs, and any litigation in the PRC may result in the diversion of resources and management's attention, and therefore materially and adversely affect our business and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorizations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorizations may materially and adversely affect our business, financial condition and results of operations.

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

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Council, the MIIT, the SAIC, the MCT, the NAPP, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the internet and the mobile game industry. There exist inconsistencies and ambiguities in the regulations promulgated by different government authorities. We are required to obtain applicable permits or approvals from different regulatory authorities in order to provide mobile game services. As a result, it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

Risks and uncertainties relating to PRC regulation of internet businesses include, but are not limited to: (1) new laws, regulations or policies may be promulgated or announced that will regulate internet activities, including mobile game businesses. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties and our business operations could be disrupted; (2) there are uncertainties relating to the regulation of the internet industry in the PRC, including evolving licensing requirements. This means that permits, licenses or operations of some of our companies may be subject to challenge, or we may fail to obtain or renew permits or licenses that applicable regulators may deem necessary for our operations. If we fail to maintain or obtain the required permits or licenses, we may be subject to various penalties, including fines and discontinuation of, or restriction on, our operations. Any penalty may disrupt our business operations and may have a material adverse effect on our results of operations; and (3) 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 the PRC, including our business. There can be no assurance that we will be able to maintain our existing licenses or obtain any new licenses required under any existing or new laws or regulations. There are also risks that we may be found to be in violation of existing or future laws and regulations given the uncertainty and complexity of the PRC'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.

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

As an offshore holding company, we may rely principally 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 organized in the PRC is subject to limitations. In particular, PRC regulations permit our PRC subsidiaries to pay dividends only out of their accumulated after-tax profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, each of our PRC subsidiaries is required each year to set aside at least 10% of its annual after-tax profits (as determined under PRC accounting standards), if any, into its statutory reserve fund until the aggregate amount of that reserve reaches 50% of such entity's registered capital. These reserves are not distributable as cash dividends.

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

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of any offering to make loans or capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant authorities in the PRC. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, or FICMIS, and making registrations with other governmental authorities in the PRC. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE, or its local branches; and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long-term loan to be provided by us to our consolidated affiliated entities must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may not be able to complete such recording or registrations on a timely basis, if at all. If we fail to complete such recording or registrations, our ability to use the proceeds of this offering and to capitalize our PRC subsidiaries may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign Invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular No. 19, which took effect as of June 1, 2015 and replaced the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular No. 142 and the Circular on Relevant Issues Concerning the Pilot Reform of the Administration of the Conversion of Foreign Equity Capital of Foreign Invested Enterprises in Certain Areas or SAFE Circular No. 36 from June 1, 2015. SAFE Circular No. 19 launched a nationwide reform of the administration of the settlement of foreign exchange capital of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange (《國家外匯管理局關於改革和規範資本專案結匯管理政策的通知》), or SAFE Circular No. 16. SAFE Circular No. 19 and SAFE Circular No. 16 continue to prohibit foreign-invested enterprises from, among other things, using Renminbi funds converted from their foreign exchange capital for expenditure beyond their business scope, making investment (except for securities investment or non-guaranteed bank products), issuing loans to non-affiliated enterprises, or constructing or purchasing real estate not for self-use. The applicable foreign exchange circulars and rules may significantly limit our ability to use Renminbi converted from net proceeds from an offering to fund the establishment of new PRC subsidiaries, to invest in or acquire any other PRC companies, to provide additional funding to our

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consolidated affiliated entities or to establish new consolidated affiliated entities in the PRC, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.

The conversion of Renminbi into foreign currencies, including the Hong Kong dollar and U.S. dollar, is based on rates set by the People's Bank of China. On November 30, 2015, the Executive Board of the International Monetary Fund ("IMF") completed the regular five-year review of the basket of currencies that make up the Special Drawing Right ("SDR") and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen, and the British pound. With the development of the foreign exchange market and progress toward interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and there can be no assurance that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar or the U.S. dollar in the future.

As we may rely on dividends and other fees paid to us by our subsidiaries and X.D. Network in the PRC, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenue, earnings and financial position, and the value of, and any dividends on, our shares payable in the Hong Kong dollar or the U.S. dollar. For example, if we decide to convert our Renminbi into the Hong Kong dollar or the U.S. dollar for the purpose of making payments for dividends on our shares or for other business purposes, appreciation of the Hong Kong dollar or the U.S. dollar against the Renminbi would have a negative effect on the Hong Kong dollar or the U.S. dollar amount available to us. In addition, due to changes in exchange rate, we had a foreign exchange gains of RMB7.7 million and RMB9.5 million in 2016 and 2018, respectively and we had a foreign exchange loss of RMB10.6 million in 2017.

The net proceeds from the Global Offering are expected to be deposited overseas in currencies other than Renminbi until we complete such recording or registrations with relevant PRC regulatory authorities to convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected, as we will not be able to invest these proceeds in Renminbi-denominated assets onshore or deploy them in uses onshore where Renminbi is required, which may adversely affect our business, results of operation and financial condition.

Governmental control of currency conversion may limit our ability to utilize our revenue effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive a large proportion of our revenue in Renminbi. Under our current corporate structure, our companies in the Cayman Islands primarily rely on dividend payments from our wholly-owned PRC subsidiaries in the PRC, WFOE, to fund any cash and financing requirements we may have. See "History, Reorganization and Corporate Structure."

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange

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transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. Therefore, WFOE may pay dividends in a foreign currency to us without preapproval from the SAFE. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses, such as the repayment of loans denominated in foreign currencies. In light of the significant capital outflows from the PRC since 2016 due to the weakening of Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny over major outbound capital movements. More restrictions and a substantial vetting process have been put in place by the SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Discontinuation of any of the preferential tax treatments and government subsidies or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Our PRC subsidiaries and PRC Consolidated Affiliated Entities are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. The EIT Law and its implementing rules, both of which came into effect on January 1, 2008, and amended on February 24, 2017 and on December 29, 2018, impose a statutory rate of 25% on PRC enterprises. Under the EIT Law, its implementation regulations and other relevant rules, companies qualified as “High and New Technology Enterprise,” are entitled to enjoy a preferential enterprise income tax rate of 15%. X.D. Network has obtained/renewed its qualification as High and New Technology Enterprise in 2016, and will be subject to a reduced preferential tax rate of 15% for a three-year period from 2016 to 2018. The government grants we received were RMB6.4 million, RMB1.0 million, RMB8.1 million and RMB8.3 million in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively.

Preferential tax treatments and incentives granted to us by PRC governmental authorities are subject to review and may be adjusted or revoked at any time in the future. We cannot guarantee that the preferential tax treatments and incentives to which our PRC subsidiaries and PRC Consolidated Affiliated Entities are currently entitled would be successfully renewed. There can be no assurance that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments, potentially with retrospective effect. The discontinuation of any of our current tax treatments could materially increase our tax obligations and adversely impact our net income.

In addition, our PRC subsidiaries and PRC Consolidated Affiliated Entities have received various financial subsidies from PRC local government authorities. The financial subsidies are discretionary incentives and policies adopted by PRC local government authorities. Local governments may decide to change or discontinue such financial subsidies at any time. The discontinuation of such financial subsidies or imposition of any additional taxes could adversely affect our financial condition and results of operations.

We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a

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resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and property of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in the PRC. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in the PRC and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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

The EIT Law will affect tax exemptions on dividends to be paid by our PRC subsidiaries to us through our Hong Kong subsidiary and we may not be able to obtain certain treaty benefits under the relevant tax treaty.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the PRC EIT Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC “resident enterprise” to a foreign enterprise, unless the jurisdiction of the foreign investor’s tax residence has a tax treaty with the PRC that provides for preferential tax treatment. Pursuant to the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Double Tax Avoidance Arrangement and relevant PRC tax laws on the interpretation of the Arrangement, a preferential withholding tax rate of 5% may apply if the PRC enterprise is at least 25% held by the Hong Kong enterprise for at least 12 consecutive months prior to distribution of the dividends and certain other conditions, e.g., the beneficial ownership requirement, are met. Furthermore, under the

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Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties, which became effective in August 2015, the applicant for the preferential withholding rate is required to maintain a record with its in-charge tax authority and submit all the requisite application materials. No government approval for the application is required, although the relevant tax authorities may subsequently challenge the applicability of the preferential withholding rate. There can be no assurance that our determination regarding our qualification to enjoy the preferential tax treatment will not be challenged by the relevant PRC tax authority or that we will be able to complete the necessary filings with the relevant PRC tax authority and enjoy the preferential withholding tax rate under the Double Taxation Arrangement with respect to dividends to be paid by our PRC subsidiaries to our Company.

Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

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

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

The enforcement of labor contract law and increase in labor costs in the PRC may adversely affect our business and our profitability.

The PRC adopted a labor contract law and its implementation rules effective on January 1, 2008 and September 18, 2008, respectively. The labor contract law and its implementation rules impose more stringent requirements on employers with regard to, among others, minimum wages, severance payment upon permitted termination of the employment by an employer and non-fixed term

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employment contracts, time limits for probation periods as well as the duration and the times that an employee can be placed on a fixed term employment contract. Our employment policies and practices may violate the labor contract law or its implementation rules and we may be subject to related penalties, fines or legal fees. Compliance with the labor contract law and its implementation rules may increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the labor contract law and its implementation rules may also limit our ability to effect those changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

Failure to comply with the registration requirements for employee share option plans may subject our PRC equity incentive plan participants or ourselves to fines and other legal or administrative sanctions.

On February 15, 2012, the SAFE promulgated the Circular of the SAFE on Relevant Issues Concerning the Foreign Exchange Administration for Domestic Individuals' Participating in the Share Incentive Schemes of Overseas-Listed Companies (《國家外匯管理局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》), or SAFE Circular No.7, to replace the previous Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of Offshore Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程) issued by SAFE in March 2007. SAFE Circular No.7 regulates foreign exchange matters associated with employee stock option incentives or similar incentives permitted under applicable laws and regulations granted to PRC residents by companies whose shares are listed on offshore stock exchanges.

In accordance with SAFE Circular No. 7, all PRC residents who participate in share incentive plans of an overseas public company are required, through the PRC subsidiaries of the overseas public company, to jointly entrust a PRC agent to handle foreign exchange registration with the SAFE or its local office and complete procedures relating to the share incentive schemes, such as opening accounts and capital transfers. PRC residents include PRC nationals or foreign citizens having consecutively resided in PRC for not less than one year, acting as directors, supervisors, senior management personnel or other employees of PRC companies affiliated with such offshore listed company. A PRC agent can be one of the PRC subsidiaries of the offshore listed company participating in the share incentive scheme or another PRC institution qualified for asset trusteeship as designated by the PRC subsidiaries and in accordance with PRC laws. The foreign exchange proceeds received by PRC residents from the sale of shares under share incentive plans granted by offshore listed companies must be remitted to bank accounts in the PRC opened by the PRC agents. Further, a Notice Concerning Individual Income Tax on Earnings from Employee Stock Options, jointly issued by the Ministry of Finance and the State Administration of Taxation, or the SAT, provides that domestic companies which implement employee share option programs must file the employee share option plans and other relevant documents with local tax authorities having jurisdiction over the companies before implementing such plans, and must file share option exercise notices and other relevant documents with local tax authorities before their employees exercise any share options.

After the offering, we and our PRC employees who are granted restricted shares or exercised share options granted under our share incentive plans are subject to these regulations. We plan to complete, and advise our employees to complete, these procedures in connection with our share

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incentive plans. However, there can be no assurance that registration procedures with the SAFE or its local counterparts in full compliance with SAFE Circular No. 7 will be completed on a timely basis, if at all. The failure to complete these procedures may subject us or our PRC employees holding restricted shares or share options under our share incentive plans to fines and other legal or administrative sanctions.

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 resident may subject our PRC resident Shareholders to personal liability, may limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, may limit the ability of our PRC subsidiaries to distribute profits to us or may otherwise materially and adversely affect us.

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”), which was promulgated by the SAFE, and became effective on July 4, 2014, (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other matters, a change in the Overseas SPV’s PRC resident shareholder, the 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. Pursuant to the Circular of the SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “Circular 13”), which was promulgated on February 13, 2015 and became effective on June 1, 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 according to Circular 37 and other relevant regulations. If a shareholder who is a PRC citizen or resident does not complete the abovementioned registration, the PRC subsidiaries of the special purpose vehicle may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the special purpose vehicle, and the special purpose vehicle may be restricted to contributing additional capital to its PRC subsidiaries.

There remains uncertainty as to the interpretation and implementation of the latest SAFE rules at the practice level. We are committed to complying with and ensuring that our Shareholders who are subject to the regulations will comply with the relevant SAFE rules and regulations; however, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that the SAFE or its local branches will not release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any of such shareholders to comply with SAFE Circular 37 may result in restrictions on the foreign exchange activities of our PRC subsidiaries and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

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

On August 8, 2006, six PRC regulatory authorities, being the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which became effective on September 8, 2006 and which were amended in June 2009. The M&A Rules, governing the approval process by which foreign investors merge 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 the 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 the 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 the disguised transfer of capital from the PRC to foreign countries, and in certain structures, among others, in the structures where foreign investors merge with Chinese enterprises and establish foreign-invested enterprises, require that consideration must be paid within defined periods, generally not in excess of a year after the business license 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, 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 are prohibited.

Moreover, the Anti-Monopoly Law of the People’s Republic of China (中華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 concentrations of undertaking if certain turnover thresholds are triggered. In addition, 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 which became effective on March 3, 2011, establishes a security review system for the merger and acquisition of domestic companies by foreign investors. These security review rules specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire “actual 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.

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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.

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

We are incorporated in the Cayman Islands. Almost all of our assets are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland China 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). Under such arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgment. The arrangement came into effect on August 1, 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain. In addition, the PRC currently is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult or impossible.

We face risks of health epidemics and other disasters in the PRC, which could severely disrupt our business operations.

Our business could be materially and adversely affected by the outbreak of H1N1, or swine influenza, avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. Any adverse public health developments in the PRC could require the temporary closure of our offices. Such closures could severely disrupt our business operations and adversely affect our results of operations. Our operations are vulnerable to interruption and damage from man-made or natural disasters, including wars, acts of terrorism, earthquakes, fire, floods, environmental accidents, power loss, communications failures and similar events, all of which may disrupt our business. If any significant man-made or natural disaster were to occur in the future, our ability to operate our business could be seriously impaired.

Inflation in the PRC could negatively affect our profitability and growth.

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

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RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for the Shares and an active trading market may not develop.

Prior to completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have listed their securities in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

Investors will experience immediate dilution and may experience further dilution in the future.

As the Offer Price of our Shares is higher than the combined net tangible assets per share immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma adjusted combined net tangible assets. Our existing Shareholders will receive an increase in the pro forma adjusted combined net tangible asset value per share of their shares. In addition, holders of our Shares may experience further dilution of their interest if the Underwriters exercise the Over-allotment Option or if we issue additional shares in the future to raise additional capital.

We have not granted the RSUs pursuant to the RSU Scheme as at the Latest Practicable Date. See “Appendix IV—Statutory and General Information—D. RSU Scheme.” Any granted RSUs under the RSU Scheme, options, or any other share-based compensations that our Company may grant from time to time may result in an increase in our issued share capital, which in turn may result in a dilution of our shareholders’ shareholding interest in our Company and a reduction in earnings per Share.

Future sales or perceived sales of substantial amounts of our Shares in the public market could have a material adverse effect on the prevailing market price of our Shares and our ability to raise additional capital in the future.

The market price of our Shares could decline as a result of substantial future sales of our Shares or other securities relating to Shares in the public market. Such a decline could also occur with the

RISK FACTORS

issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could materially adversely affect the prevailing market price of our Shares and our ability to raise future capital at a favorable time and price. Our shareholders would experience a dilution in their holdings upon the issuance or sale of additional securities for any purpose.

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

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

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

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, such as our business and financial performance, capital and regulatory requirements and general business and operation conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable.

We may be required to obtain prior approval from the CSRC for the listing and trading of our Shares on the Hong Kong Stock Exchange.

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the SAIC, the CSRC, and the SAFE, jointly issued the Rules on Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which became effective on September 8, 2006 and was subsequently amended on June 22, 2009. The M&A Rules purport to require offshore special purpose vehicles that are controlled by PRC companies or individuals and that have been formed for the purpose of seeking a public listing on an overseas stock exchange through acquisitions of PRC domestic companies or assets to obtain CSRC approval prior to publicly listing their securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and the Global Offering may ultimately require approval from the CSRC. If CSRC approval is required, it is uncertain whether it would be possible for us to obtain the approval and any failure to obtain or delay in obtaining CSRC approval for the Global Offering would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies. Our PRC Legal Adviser has advised us that, based on its understanding of the current PRC laws and regulations, we will not be required to submit an application to the CSRC for the approval of the listing and trading of our Shares on the Hong Kong Stock Exchange because (i) our wholly foreign-owned PRC subsidiaries were not established through a merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules, and (ii) no provision in the M&A Rules clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules. However, there can be no assurance that relevant PRC government agencies, including the

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CSRC, would reach the same conclusion as our PRC Legal Adviser, and hence we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our ability to pay dividends outside of the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC or take other actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of the Shares. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt the Global Offering. In addition, if the CSRC or other regulatory agencies later promulgate new rules or explanations requiring that we obtain their approvals for the Global Offering, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding such approval requirement could have a material adverse effect on the trading price of the Shares.

Investors may experience difficulties in enforcing Shareholder rights.

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. The corporate affairs of our Company are governed by the Memorandum and the Articles, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take legal action against our Company and/or our Directors, actions by minority Shareholders and the fiduciary duties of our Directors to our Company under Cayman Islands laws are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of the Shareholders and the fiduciary duties of our Directors under Cayman Islands laws may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors reside. In particular, the Cayman Islands has a less developed body of securities laws. As a result of all of the above, Shareholders may have more difficulty in exercising their rights in the face of actions taken by the management of our Company, Directors or major Shareholders than they would as shareholders of a Hong Kong company or company incorporated in other jurisdictions.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this prospectus.

This prospectus, particularly the section headed “Industry Overview”, contains information and statistics relating to game markets. Such information and statistics have been derived from third-party reports commissioned by us, various government publications and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party (excluding Frost & Sullivan) involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this prospectus being inaccurate or not comparable to statistics

RISK FACTORS

produced for other economies. You should therefore not place undue reliance on such information. In addition, there can be no assurance that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

We published periodic financial information on the NEEQ in the PRC pursuant to applicable rules and regulations and you should be cautious and not place any reliance on financial information other than that disclosed in this prospectus.

We were listed on the NEEQ in 2015 and then delisted in December 2018. Pursuant to applicable PRC rules and regulations, we were required to publish periodic financial information. Interim financial information published by us in the PRC is normally derived from its management accounts and is not audited or reviewed by independent auditors. Certain historical financial information not included in this prospectus may not be directly comparable with our audited financial information. Accordingly, financial information published in the PRC by us should not be relied upon by potential investors to provide the same quality of information associated with any audited information.

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

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

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

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the 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 residents in Hong Kong. Since our principal business operations are primarily located, managed and conducted in China and will continue to be based in China, our executive Directors and senior management members are and will continue to be based in China after the Listing. At present, none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Fan Shuyang, an executive Director and one of our joint company secretaries, and Mr. Yim Lok Kwan, one of our joint company secretaries. See “Directors and Senior Management” for more information about our authorized representatives. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by the Stock Exchange by telephone, facsimile and/or email. Our Company will provide contact details of the two authorized representatives to the Stock Exchange and will inform the Stock Exchange as soon as practicable in respect of any changes in our Company’s authorized representatives. All of them have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required;
- (b) Our authorized representatives have means of contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Stock Exchange, the authorized representatives and our Directors, our Company will implement a policy to provide the up-to-date contact details of each Director (such as office phone numbers, mobile phone numbers, email addresses and facsimile numbers) to the authorized representatives and to the Stock Exchange;
- (c) Our Company will ensure that each Director who is not ordinarily resident in Hong Kong has valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period;
- (d) Our Company has, in accordance with Rule 3A.19 of the Listing Rules, appointed Guotai Junan Capital Limited as our compliance advisor, who will act as an additional channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The compliance advisor will advise on 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; and

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) Meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or our Company's compliance advisor, or directly with our Directors within a reasonable period. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives, the Directors and/or the compliance advisor of our Company in accordance with the Listing Rules.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the 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)); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Fan Shuyang and Mr. Yim Lok Kwan as joint company secretaries of our Company on June 3, 2019. See "Directors and Senior Management" for further information regarding the qualifications of Mr. Fan Shuyang and Mr. Yim Lok Kwan.

Mr. Yim Lok Kwan is a member of the Hong Kong Institute of Chartered Secretaries, and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Accordingly, whilst Mr. Fan Shuyang does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, based on the above reasons, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Fan Shuyang may be appointed as a joint company secretary of our Company on the basis of the proposed arrangements below.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

The waiver was granted for a three-year period on the condition that Mr. Yim Lok Kwan, as a joint company secretary of our Company, will work closely with, and provide assistance to, Mr. Fan Shuyang in the discharge of his duties as a joint company secretary for an initial period of three years from the Listing Date. Mr. Yim Lok Kwan is a suitably qualified person to render assistance to Mr. Fan Shuyang so as to enable him to acquire the relevant experience as is required of a company secretary under Rules 3.28 and 8.17 of the Listing Rules. In addition, Mr. Fan Shuyang will endeavor to attend relevant training and familiarize himself with the Listing Rules and duties required for a company secretary of an issuer listed on the Stock Exchange in addition to satisfying the minimum requirement under Rule 3.29 of the Listing Rules.

Prior to the expiry of the three-year period, the experience of Mr. Fan Shuyang and the need for on-going assistance from Mr. Yim Lok Kwan will be evaluated by our Company. Our Company will liaise with the Stock Exchange to enable it to assess whether, having benefited from the assistance of Mr. Yim Lok Kwan for the preceding three years, Mr. Fan Shuyang has acquired the experience within the meaning of Rule 3.28 of the Listing Rules and whether on-going assistance should be arranged so that Mr. Fan Shuyang's appointment as the Company Secretary of the Company continues to satisfy the requirements under Rules 3.28 and 8.17 of the Listing Rules. Our Company understands that the Stock Exchange may revoke the waiver if Mr. Yim Lok Kwan ceases to assist and guide Mr. Fan Shuyang during the initial three-year period from the Listing Date.

WAIVERS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. See "Connected Transactions."

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global 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 Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

Neither the delivery of this prospectus nor any subscription made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

See “Underwriting” for further information about the Underwriters and the underwriting arrangements.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be determined between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date. The Price

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Determination Date is expected to be on or around Thursday, December 5, 2019 and, in any event, not later than Monday, December 9, 2019 (unless otherwise determined between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and our Company. If, for whatever reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters and our Company on or before Monday, December 9, 2019, the Global Offering will not become unconditional and will lapse immediately.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set forth in “How to Apply for Hong Kong Offer Shares” and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in “Structure of the Global Offering”.

SELLING RESTRICTIONS ON OFFERS AND SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus and on the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the 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 authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Dealings in the Shares on the Stock Exchange are expected to commence on December 12, 2019. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All necessary arrangements have been made to enable the securities to be admitted into CCASS.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangements relating to the Over-allotment and stabilization are set out in “Structure of 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 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 any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. 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.

SHARE REGISTRAR AND HONG KONG STAMP DUTY

Our principal register of members will be maintained in the Cayman Islands by our principal registrar, Campbells Corporate Services Limited, in the Cayman Islands, and our Hong Kong register will be maintained by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited in Hong Kong.

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding and dealing in the Shares or exercising any rights attached to them. It is emphasized that none of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint 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 on, or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares or exercising any rights attached to them.

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this prospectus includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Renminbi amounts could actually be converted into another currency at the rates indicated, or at all. Unless otherwise indicated, (i) the translation between Renminbi and Hong Kong dollars was made at the rate of RMB0.8958 to HK\$1.00, the exchange rate prevailing on the November 20, 2019 published by the PBOC for foreign exchange transactions and (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.8261 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Federal Reserve Board on November 15, 2019.

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

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

For further information on our Directors, see “Directors and Senior Management.”

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. HUANG Yimeng (黃一孟)	Room 202, No. 47 Lane 700, Hongsong Road Minhang District Shanghai PRC	Chinese
Mr. DAI Yunjie (戴雲傑)	Room 403, No. 68 Lane 1424, Wanhangu Road Changning District Shanghai PRC	Chinese
Mr. SHEN Sheng (沈晟)	No. 101, Unit 3 Building No. 4, Courtyard 2 North Huayan Zone Chaoyang District Beijing PRC	Chinese
Mr. FAN Shuyang (樊舒陽)	Room 2, No.1 Lane 9, Fenyang Road Xuhui District Shanghai PRC	Chinese
<i>Non-executive Directors</i>		
Mr. TONG Weiliang (童瑋亮)	No. 305, Building 4 No.37, Gupinggang Gulou District Nanjing City Jiangsu Province PRC	Chinese
Mr. CHEN Feng (陳豐)	26 Prairie Grass Irvine CA 92603 United States	American
<i>Independent non-executive Directors</i>		
Mr. PEI Dapeng (裴大鵬)	Room 401, No. 20 Lane 500, Xianxia West Road Changning District Shanghai PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Mr. XIN Quandong (辛全東)	Room 601, No. 6 Lane 77, Fangdian Road Pudong New District Shanghai PRC	Chinese
Mr. GAO Shaoxing (高少星)	No. 302, Unit 1 Building No. 20, Zhihui City No. 169, Ziwu Avenue Chang'an District Xi'an City Shaanxi Province PRC	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	CLSA Capital Markets Limited 18/F, One Pacific Place 88 Queensway Hong Kong
Sole Global Coordinator	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
Joint Bookrunners	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong BOCI Asia Limited 26/F, Bank of China Tower 1 Garden Road Central Hong Kong ICBC International Capital Limited 37/F, ICBC Tower 3 Garden Road Hong Kong Zhongtai International Securities Limited 19 Floor, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Joint Lead Managers	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

ICBC International Securities Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

Zhongtai International Securities Limited

19 Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Legal Advisers to the Company *As to Hong Kong law and United States law*

Clifford Chance

27/F, Jardine House
One Connaught Place
Central
Hong Kong

As to PRC law

Zhong Lun Law Firm

28/31/33/36/37F, SK Tower
6A Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

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 and United States law*

Simpson Thacher & Bartlett

ICBC Tower, 35/F
3 Garden Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law

Jingtian & Gongcheng
45/F, K.Wah Centre
1010 Huai Hai Road (M)
Xuhui District
Shanghai
PRC

Auditor and Reporting Accountant PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Industry Consultant Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
1018, Tower B
Greenland Hui Center
500 Yunjin Road
Xuhui District
Shanghai
PRC

Receiving Bank(s) 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
Head Office and Principal Place of Business in the PRC	Unit A2 No. 700 Wanrong Road Shanghai PRC
Principal Place of Business in Hong Kong	40/F Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Company Website	www.xd.com (the information contained on the website does not form part of this prospectus)
Joint Company Secretaries	Mr. Fan Shuyang Room 2 No.1, Lane 9 Fen Yang Road Xuhui District Shanghai PRC Mr. Yim Lok Kwan (associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom) 40/F Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Mr. Fan Shuyang Room 2 No.1, Lane 9 Fen Yang Road Xuhui District Shanghai PRC Mr. Yim Lok Kwan 40/F Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Audit Committee	Mr. Xin Quandong (Chairman) Mr. Pei Dapeng Mr. Gao Shaoxing

CORPORATE INFORMATION

Remuneration and Appraisal Committee	Mr. Gao Shaoxing (Chairman) Mr. Dai Yunjie Mr. Xin Quandong
Nomination Committee	Mr. Pei Dapeng (Chairman) Mr. Huang Yimeng Mr. Gao Shaoxing
Strategy and Development Committee	Mr. Huang Yimeng (Chairman) Mr. Dai Yunjie Mr. Tong Weiliang Mr. Chen Feng Mr. Pei Dapeng
Principal Share Registrar	Campbells Corporate Services Limited Floor 4, Willow House, Cricket Square Grand Cayman KY1-9010 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Compliance Advisor	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Principal Banks	China Merchants Bank, Shanghai Branch, Daning Sub-branch No. 957 Guang Zhong Road Jingan District Shanghai PRC China Citic Bank, Shanghai Branch, Daning Sub-branch Block A1, No 700 Wanrong Road Jingan District Shanghai PRC

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The information and statistics set forth in this section and elsewhere in this prospectus have been derived from an industry report commissioned by us and independently prepared by Frost & Sullivan (the “Frost & Sullivan Report”), in connection with the Global Offering. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information and statistics are false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading. Our Directors confirm that, after making reasonable enquiries, there is no material adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section. However, the information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters or any other party (excluding Frost & Sullivan) involved in the Global Offering. The information and statistics may not be consistent with other information and statistics compiled within or outside China.

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 global mobile game market and related markets for the period from 2014 to 2023. The report prepared by Frost & Sullivan is referred to in this prospectus as the Frost & Sullivan Report. We agreed to pay Frost & Sullivan a fee of RMB650,000 for the preparation and use of the Frost & Sullivan Report.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe such information facilitates an understanding of the mobile game market and related markets for prospective investors. Frost & Sullivan’s independent research consists of both primary and secondary research obtained from various sources in respect of the mobile game market and related markets. Primary research involved in-depth interviews with leading industry participants and experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. We believe that the sources of this information are appropriate and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Except as otherwise indicated, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report.

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, which ensures the stable and healthy development of the mobile game market and related industries. In addition, Frost & Sullivan has developed its forecast on the following bases and assumptions: the economy in China and globally is likely to maintain stable growth in the next decade and the regional social, economic and political environment is likely to remain stable in the forecast period. Additionally, the mobile game market and related markets are expected to grow based on the macroeconomic assumptions of the economy.

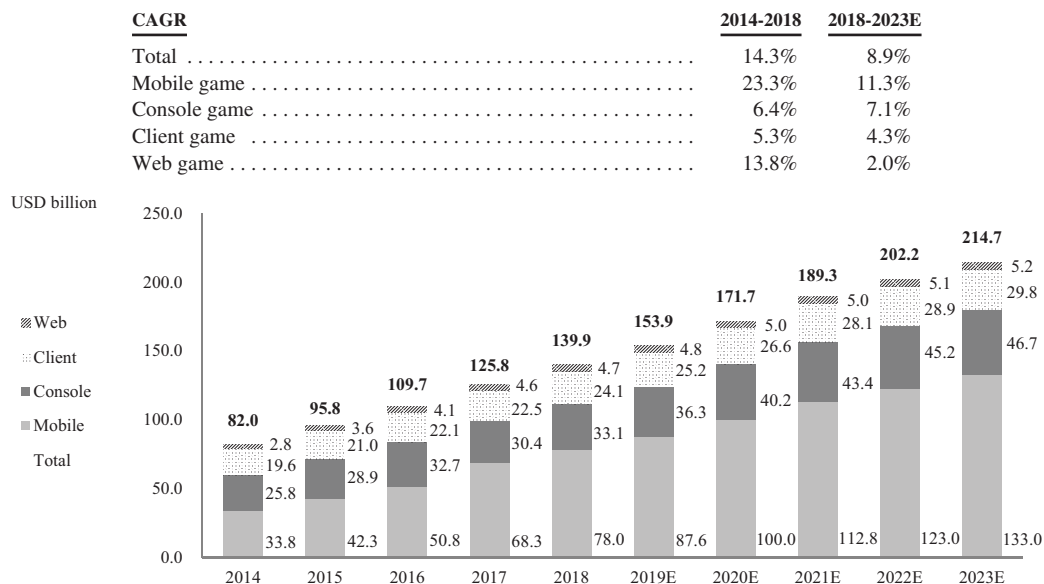
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THE GLOBAL GAME MARKET

Overview of the Global Game Market

A game, in the narrow sense, traditionally known as a video game, refers to a form of entertainment that is usually undertaken for relaxation and enjoyment. Based on the platform on which games are played, games can be classified into PC games, mobile games and console games (games that are run on consoles specifically developed for them, and with which gamers usually interact through a controller). PC games can be further categorized into client games (games that needed to be downloaded for playing on the PC) and web games.

According to Frost & Sullivan, the global game market has registered stable growth over the past few years, increasing from US\$82.0 billion in 2014 to US\$139.9 billion in 2018, at a CAGR of 14.3%. The global game market is expected to grow to US\$214.7 billion in 2023, representing a CAGR of 8.9% from 2018. The mobile game segment of the market witnessed remarkable growth, increasing from US\$33.8 billion in 2014 to US\$78.0 billion in 2018, achieving a CAGR of 23.3%, mainly due to the popularity of mobile phones and increasing penetration of mobile internet, particularly in developing countries and regions such as China and Southeast Asia. The mobile game market is expected to maintain such growth momentum and reach approximately US\$133.0 billion in 2023. The following diagram sets forth the historical and forecast market size of the global game market in terms of revenue by device from 2014 to 2023:



Source: the Frost & Sullivan Report

Game Markets in Selected Regions

The United States

The United States had the second largest game market by revenue in the world in 2018. The game market in the United States is quite influential within the global range, which is closely related to the well-established talent cultivation mechanism. According to the survey data of the Entertainment Software Association, by the end of 2018, more than 500 colleges and universities in the United States had set up majors related to games. Meanwhile, the average annual salary of employees in the United States game market is higher than that of the United States as a whole, thus attracting talent with professional knowledge from all over the world.

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Japan

Japan has been known for its animation industry for a long time, during which period a large number of high-quality intellectual property resources have been accumulated. The entire game market, including the mobile game market, in Japan has entered a stable stage compared with that of developing countries such as those in Southeast Asia. Games with renowned intellectual properties usually have accumulated a huge fan base, which tends to have comparatively higher monetization capability through adaptation. Quality intellectual property resources thus underpin the continual development of the game market in Japan.

South Korea

The game market in South Korea has maintained stable development over the years, upheld by support from the government. Asian publishers, especially those from China, are currently exploring the mobile game market in South Korea. Over the past few years, more and more PRC game developers have published their games, particularly mobile games, to South Korean gamers and have enjoyed great popularity among such gamers. Because countries in Asian regions share similar cultural identities, mobile games from China achieved high acceptance by gamers in South Korea.

Hong Kong and Taiwan

The influx of overseas games into the Hong Kong and Taiwan game market is the major factor that motivates the local game market. Local game distributors or agents have been cooperating with game developers from China and Singapore, among others, to enrich the local game market. The sound macroeconomy and high disposable income in these two regions have also provided a solid environment for the development of the game market. In addition, the popularity of online payment methods such as PayPal has made it more convenient, faster and safer for gamers to pay online, which optimizes gamers' payment experience.

Southeast Asia

As one of the fastest growing economies worldwide, Southeast Asia is expected to witness increasing market vitality in its game market, especially the mobile game market, along with rapidly increasing penetration rates of smartphones and improving internet infrastructure in those regions. Meanwhile, game developers will pay more attention to game upgrades for purposes of offering better game experience in order to improve the willingness of gamers in those regions to pay fees. Game developers from overseas are anticipated to develop a much deeper understanding of gamer preferences and to further explore the market.

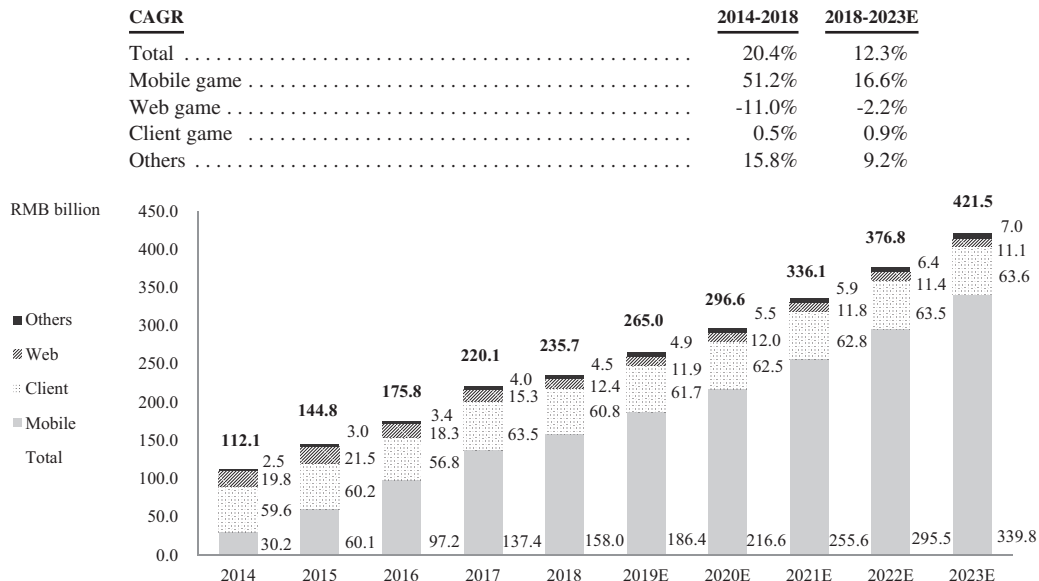
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The following table sets forth the game market size by revenue for selected countries or regions for the years indicated:

Country/Region	2014	2018	2023E	CAGR 2014-2018	CAGR 2018-2023E
	(USD in millions)				
United States					
Game market	19,500.3	28,670.0	37,824.1	10.1%	5.7%
Mobile game market	5,062.0	9,030.0	12,957.1	15.6%	7.5%
Japan					
Game market	8,329.8	13,778.7	17,144.6	13.4%	4.5%
Mobile game market	4,353.0	7,361.6	10,080.0	14.0%	6.5%
South Korea					
Game market	7,742.0	9,117.2	10,559.9	4.2%	3.0%
Mobile game market	2,622.0	4,831.2	6,902.3	16.5%	7.4%
Hong Kong and Taiwan					
Game market	866.7	1,682.0	2,572.8	18.0%	8.9%
Mobile game market	451.8	1,008.0	1,668.8	22.2%	10.6%
Southeast Asia					
Game market	1,609.9	3,199.4	4,858.1	18.7%	8.7%
Mobile game market	669.3	1,658.9	2,863.4	25.5%	11.5%

THE PRC GAME MARKET

The PRC was the largest game market in 2018 in terms of revenue, according to Frost & Sullivan. The PRC game market grew at a CAGR of 20.4% from 2014 to 2018 with total revenue reaching RMB235.7 billion in 2018. The total revenue of the PRC game market is expected to reach RMB421.5 billion in 2023, representing a CAGR of 12.3% from 2018 to 2023, mainly driven by the expected growth of mobile games. The following diagram sets forth the historical and forecast market size of the PRC game market in terms of revenue by genre from 2014 to 2023:



Source: the Frost & Sullivan Report

Generally, there are two revenue generation models for games, pay-to-play and free-to-play. Pay-to-play games require gamers to pay an initial fee to buy access to such games, while free-to-play games are those games which are free to install and play and the revenue of such games is generated

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from the sales of in-game virtual items. Currently, in the PRC game market, almost all web games and most mobile games are online games and a majority of online games are free-to-play games. Pay-to-play games include some premium games which usually have elaborately designed game interfaces and innovative game content.

THE PRC MOBILE GAME MARKET

Overview of the PRC Mobile Game Market

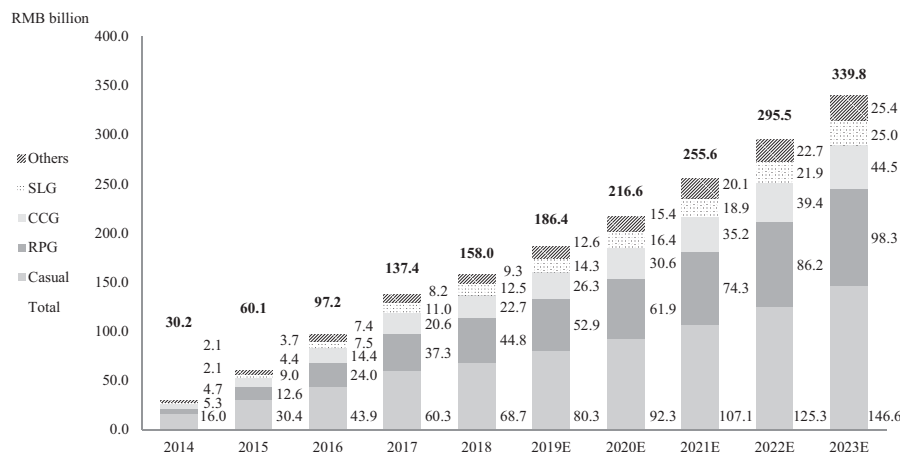
Mobile games have become a key part of mobile entertainment activities as the penetration rate of smartphones continuously increases and the coverage of mobile internet has been expanded in China. Benefiting from the portability of mobile devices, more people are switching to mobile devices for personal entertainment. This has contributed to the rapid development of the PRC mobile game market, which has further invigorated the entire PRC game market.

Under a sound macroeconomic environment where people's consumption capability grows in line with increasing disposable income, people's pursuit of cultural and entertainment activities to enrich their leisure life becomes more pronounced. Furthermore, the popularity of electronic devices, especially mobile phones, facilitates users in accessing mobile games at their convenience during leisure time. With this background, the size of the mobile game market in China achieved vigorous growth, representing a CAGR of 51.2% from 2014 to 2018, and is estimated to grow to RMB339.8 billion in 2023, mainly driven by people's expected stronger consumption of mobile games.

Generally, mobile games can be classified based on various gameplay, themes and so forth into major segments such as RPG, SLG, CCG, casual games, and others. Others include animation-based mobile games that use nijigen elements, shooting games, card and board games, sports games and so forth. All the game genres of mobile games experienced strong growth from 2014 to 2018, which was in line with that of the entire mobile game market. According to Frost & Sullivan, RPG and SLG games had the highest growth rates among the major segments during that period, and the market share of RPG games is expected to continue growing due to its sense of identification brought by game characteristics and storyline settings. The following diagram sets forth the historical and forecast market size of the PRC mobile game market in terms of revenue by genre from 2014 to 2023:

<u>CAGR</u>	<u>2014-2018</u>	<u>2018-2023E</u>
Total	51.2%	16.6%
SLG	56.2%	14.9%
CCG	48.2%	14.4%
Casual	43.9%	16.4%
RPG	70.5%	17.0%
Others	45.1%	22.3%

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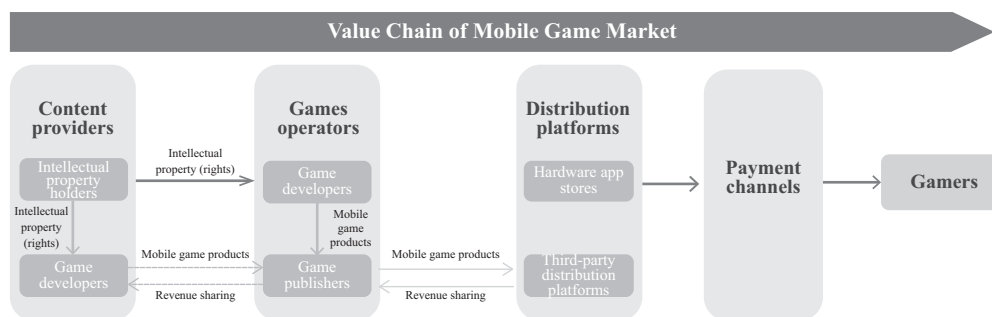


Source: the Frost & Sullivan Report

Life Cycle of Mobile Games and Industry Value Chain

Generally, a mobile game will experience three stages during its life cycle, namely growth stage, maturity stage and recession stage. During the growth stage that takes up approximately the initial 20% to 30% of a game's life span, the number of users and revenue generated by the game experience rapid growth. The revenue tends to be continuously generated by the game and the user base tends to be stable during the maturity stage. As for the recession stage that takes up approximately the last 20% of the game's life span, the game faces a loss of active users and a decrease in revenue as some users might lose their interest in the game.

The following diagram illustrates the value chain of the mobile game market:



Source: the Frost & Sullivan Report

In addition to gamers, there are generally four different types of participants engaged in the whole value chain of the mobile game market:

- **Content providers.** Content providers include content creators or intellectual property holders who own the intellectual property of a mobile game, and game developers which usually consist of professional teams responsible for the development and design of the game content, prelaunch testing, ongoing post-launch calibration of the mobile game, and the provision of technical support for gamers in relation to the game, among other matters;
- **Game Operators.** Game operators are mainly responsible for the marketing and promotion of the game;

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- ***Distribution platforms.*** Distribution platforms include hardware app stores and third-party distribution platforms, which are in charge of sales and distributions of the mobile game to end users; and
- ***Payment Channels.*** Payment channels are mainly online third-party payment services providers such as Alipay, WeChat Pay and Apple Pay in China, and Apple Pay and Google Pay overseas.

Market Drivers

The following factors are expected to contribute to the growth potential of the PRC mobile game market:

- ***Expanding internet coverage and lower communication cost.*** According to information from the Department of Information and Communication Development, 4G internet coverage is expected to be further expanded to remote villages and border areas in order to bring convenience to local people. The three telecommunication operators in China responded to such plan by lowering broadband and communication prices. The expanding internet coverage, as well as lower broadband costs, allows people to access mobile apps quickly at a more affordable price, driving the PRC mobile game market as a result.
- ***Increasing paying willingness.*** The PRC government's push for upgrading the culture and entertainment industries has laid a solid basis for people to pursue related activities. In light of growing disposable income in recent years, consumers in China have been demonstrating a high willingness to pay for entertainment activities, especially mobile entertainment activities. Such activities include mobile games, which can be played during fragmented leisure time. According to Frost & Sullivan, the paying ratio of mobile game users in China exceeded 60% in 2017.
- ***Demand from gamers for diversified and quality games.*** Demand from gamers of different age groups may also stimulate the mobile game market. The post 1990 generation shows high consumption capability, compared with previous generations, and are considered major users of mobile games. They are fond of trying out various types of games for diversified and fun experience in gameplay and demand mobile games with high-quality and innovative elements. In addition, middle-age and older people are also showing growing interest in games, which can enrich their daily life and retirement. Games featuring simple gameplay, or allowing multiplayer, tend to attract them.

Future Trends

The following trends are expected to continually impact the PRC mobile game market:

- ***Overseas market exploration.*** An increasing number of PRC mobile game operators are entering overseas markets to explore potential opportunities. For example, overseas regions close to the PRC, such as Southeast Asian countries including Thailand, Vietnam, Malaysia and the Philippines, where the respective mobile game market is still in an early stage of development, are appealing to PRC mobile game operators. In addition, game markets in developed countries such as South Korea and Japan are also becoming a lucrative area for mobile game operators in the PRC.
- ***Close attention paid to game content.*** The quality of game content is considered one of the major factors that tend to influence user stickiness and their willingness to keep

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playing and paying for the game. As the PRC mobile game market is expected to become increasingly competitive, mobile game operators are currently paying more attention to improving game quality rather than focusing on game quantity alone.

- ***Technology energizing the market.*** Artificial intelligence, augmented reality, virtual reality, holography and other technologies are currently innovating people's work and lives and have gradually been applied to mobile games, as they are able to create immersive environments to enable better and more appealing interactive gameplay experience. Mobile games equipped with high-tech devices are expected to set a new growth point for the PRC mobile game market.
- ***Focus on gamer interaction.*** Playing games is perceived as not only for entertainment but also for socializing and connecting. Young gamers who like playing multiplayer games enjoy sharing and communicating their game experiences with each other. In order to meet gamers' increasing demand for interaction, game operators are expected to pay growing attention to establishing gamer communities or platforms where gamers can post messages, invite game partners and recommend quality games, with the purpose of enhancing gamers' engagement and stickiness to games.
- ***Diversity of game genres.*** After experiencing a period of explosive development, the PRC mobile game market is expected to become relatively stable in the foreseeable future. Under such circumstance, game operators are expected to focus on diversifying game genres and fusing latest market trends, such as nijigen or PRC ancient elements, into games in order to further exploit gamer preferences and meet various demands from consumers of different ages.

Entry Barriers

New market entrants to the mobile game industry are confronted with a number of barriers.

- For game developers, technology know-how and sharp market acumen are two key entry barriers for new entrants. Advanced technology engines which help simplify game development, testing and transplantation, together with a team of professional talents, enable game developers to develop games more effectively. However, it may take a while for new entrants to establish such a professional team or acquire technology know-how for effective game development. Meanwhile, mobile games based on popular intellectual properties tend to attract a large number of loyal gamers in a short time easily, and it may take longer for newly developed mobile games with no fan base to acquire gamers through brand promotion. Therefore, sharp market acumen to properly accumulate popular intellectual properties is crucial for game development, and new entrants are not as competitive as established game developers in obtaining popular intellectual properties.
- For game publishers, it is essential for them to have a deep understanding of evolving gamer preferences and market trends, to enable them to effectively upgrade their game versions, launch new game functions or adjust distribution strategies. New entrants with little knowledge of gamers and the market may find it hard to keep pace with market dynamics and thus adversely affect their ability to succeed.
- For distribution platforms, the capability to gain a large user base is considered an entry barrier. Existing distribution platforms such as mobile hardware applications have already taken advantage of user traffic, and large third-party distribution platforms have

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established market reputations. Therefore, it is difficult for a new entrant to quickly gain a user base, without which they tend not to be able to cooperate with well-known game developers and publishers.

Competitive Landscape

According to Frost & Sullivan, the PRC mobile game market is concentrated, with the top five companies contributing RMB121.7 billion, or 77.0%, to total market revenue in 2018. The top two companies have demonstrated overwhelming advantages over the others due to diversified business portfolios, established brand reputations and large user bases, with a total market share of over 65% in terms of revenue of the PRC mobile game market. We ranked eighteenth in the PRC mobile game market, in terms of revenue from operating mobile games in 2018, with a market share of 0.9%.

The following table sets forth the top five mobile game companies in the PRC mobile game market in terms of revenue from mobile game in 2018:

Ranking	Company name	Brief introduction	Revenue from game operating in the PRC in 2018, RMB billion	Market share of PRC mobile game market, 2018
1	Company E	The company develops and operates games including PC games and mobile games in both domestic and overseas market, and provides other internet services.	77.8	49.2%
2	Company F	The company develops and operates games including PC games and mobile games in both domestic and overseas market, and provides other internet services.	28.0	17.7%
3	Company L	Established in 2011, the company develops and operates mobile games in both domestic and overseas market.	5.6	3.5%
4	Company A	Established in 2005, the company has been focusing on operating and developing games including PC games and mobile games.	5.4	3.4%
5	Company B	Established in 2006, the company develops and operates games and has expanded into overseas mobile game market.	5.0	3.1%
		Total	121.8	76.9%

Source: the Frost & Sullivan Report

The PRC mobile game market is highly competitive as there are a large number of games with different genres developed to cater users' diversified demands. However, product homogeneity is an issue for game companies as a large number of games which are of similar features may flow into the market quickly after a new game product has been first developed and introduced to users, which may lead to users' low brand recognition and is not beneficial for product profitability in the long run. Hence, how to remain innovative to develop products that are different from others may become the major issue that game operators have to deal with in order to stay competitive in the market.

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The following table sets forth the top five mobile game companies whose game operating revenue generated from overseas markets accounted for more than 50% of their game operating revenue in terms of revenue from mobile games in 2018:

Ranking	Company name	Brief introduction	Revenue from mobile game operating in 2018, RMB billion	Market share of PRC mobile game market 2018
1	Company A	Established in 2005, the company has been focusing on operation and developing games including PC games and mobile games.	5.4	3.4%
2	Company B	Established in 2006, the company develops and operates games and has expanded into overseas mobile game market.	5.0	3.1%
3	Company C	Established in 2008, the company has been focusing on exploring overseas mobile game market and has business presence in Southeast Asia and so forth.	3.1	2.0%
4	Company D	Established in 2009, the company develops and operates mobile games in both domestic and overseas market.	2.6	1.6%
5	Our Group		1.4	0.9%
		Total	17.5	11.0%

Source: the Frost & Sullivan Report

The following table sets forth the top five mobile game companies who have a presence in the mobile game business globally, meaning their games are published and operated both in China and overseas, and have developed their own mobile game distribution platforms, by revenue from mobile games in 2018:

Ranking	Company name	Brief introduction	Revenue from mobile game operating in 2018, RMB billion	Market share of PRC mobile game market 2018
1	Company E	The company develops and operates games including PC games and mobile games in both domestic and overseas market, and provides other internet services.	77.8	49.2%
2	Company F	The company develops and operates games including PC games and mobile games in both domestic and overseas market, and provides other internet services.	28.0	17.7%
3	Company G	Established in 2008, the company develops and operates mobile games in both domestic and overseas market.	1.5	1.0%
4	Company H	Established in 2008, the company focuses on the development, distribution and operation of mobile games and web games as well as establishment of social platforms.	1.5	0.9%
5	Our Group		1.4	0.9%
		Total	110.2	69.8%

Source: the Frost & Sullivan Report

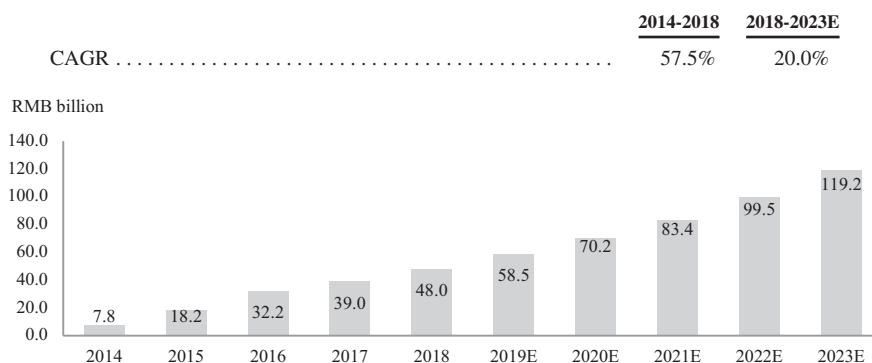
THE MARKET FOR PRC MOBILE GAMES OVERSEAS

PRC mobile games overseas refers to mobile games that are published by PRC game operators in overseas markets such as South Korea, Hong Kong and Taiwan. The rapid development of the PRC

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mobile game market has incentivized game developers to focus on improving game content and quality, which set a foundation for their publishing local mobile games to overseas markets. Our Group is one of the first few PRC game operators that entered into the overseas market. For instance, our Group, Company B and another competitor started their overseas game business in 2013 and then followed by fellow competitors such as Company F in 2015.

The market size of PRC mobile games overseas has recorded notable growth at an outstanding CAGR of 57.5% from 2014 to 2018, according to Frost & Sullivan, and is expected to expand at a CAGR of 20.0% from 2018 to 2023. The following diagram sets forth the historical and forecast market size of PRC mobile games overseas by revenue from 2014 to 2023:



Source: the Frost & Sullivan Report

Major drivers for overseas mobile game market

South Korea

Benefiting from a series of factors including mature internet network and government support (for instance, a sum of KRW2.5 billion was announced to be allocated by the South Korean government for the establishment of game institution for cultivating game related talents in 2018), the mobile game market in South Korea recorded stable growth during the past few years with a CAGR of 16.5% from 2014 to 2018. In recent years, PRC mobile game operators have shown increasing interest in the mobile game market in South Korea and achieved notable success by product differentiation that caters to diversified user demands. For instance, hard- and mid-core game genres such as SLG or RPG used to occupy a large portion of the mobile game market in South Korea. In order to attract users in such developed market, PRC mobile game operators launched games with nijigen elements or SLG games with ancient Chinese elements, which have gained great popularity. Besides, in order to promote their mobile games in the South Korea market, PRC game operators promote their mobile games by way of celebrity endorsement, which helps the games to reach out to a large audience within a short period of time.

Hong Kong and Taiwan

The influx of overseas games into both Hong Kong and Taiwan game markets is the major factor that stimulates the local game market. Local game distributors or agents have been cooperating with game developers from China and other regions such as Singapore to enrich the local game market. During the past few years, the mobile game markets in Hong Kong and Taiwan have recorded stable growth, as a result of sound economic conditions and increasing penetration of online payment technology, as well as the introduction of new payment methods such as Alipay and WeChat Pay, which

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offers additional choices for users, especially those from mainland China, to settle game payments. In particular, PRC game operators and developers have shown growing interest in the game markets of Hong Kong and Taiwan, as these two regions share similar culture and language with mainland China. Besides, the current game markets in these two regions do not have many leading local game developers that are capable of developing high quality games, which provides opportunities for PRC mobile game operators that possess capabilities in developing games with well-designed content and interfaces to further expand their game operating business to Hong Kong and Taiwan game markets.

Competitive Landscape in Selected Regions

South Korea

The mobile game market in South Korea was intensely competitive with top five leading positions being occupied by South Korean game companies as of 2018. Their mobile games are popular among a large number of gamers, which is in part attributable to their abundant experience in operating PC games accumulated in the past. The following table sets forth the top five mobile game companies in the South Korea mobile game market in terms of revenue from mobile game in 2018:

Ranking	Company name	Brief introduction	Revenue from game operating in South Korea in 2018, USD million
1	Company M	Established in 1997 and headquartered in Seoul, South Korea. The company is one of the leading game publishers in South Korea.	413.4
2	Company N	Established in 2000 and headquartered in South Korea. The company has been contributed to developing and publishing games in South Korea and other regions.	251.2
3	Company O	Established in 1995 and headquartered in South Korea. The company has been focusing on developing games of different genre.	246.4
4	Company P	Established in 2010 and headquartered in South Korea. The company focuses on developing MMO games.	230.8
5	Company Q	The company provides games across a wide range of platforms, including PC, mobile and VR.	220.0

Source: the Frost & Sullivan Report

With growing penetration of mobile games into people's life in South Korea, game players are desiring for high quality mobile games that are designed with exquisite pictures and characteristics and fascinating storyline. Developing high quality games is considered to be a big challenge for game developers who would like to take a leading position in the South Korea mobile game market. Besides, domestic market players still have great market presence in the mobile game market of South Korea and some mobile games are developed or adapted based on famous intellectual property rights by those market leaders that have already received great popularity among domestic gamers. For PRC game operators to expand their operation in South Korea, they have to spend huge efforts in understanding gamers' preference in order to attract domestic gamers.

The market size of PRC mobile games in South Korea experienced a continuous uptrend, growing at a CAGR of 64.6% from RMB0.3 billion in 2014 to RMB2.2 billion in 2018. It is expected that such market will continue to grow in the foreseeable future. In terms of revenue generated from mobile games operated in South Korea, our Group ranked tenth in 2018 with a market share of approximately 1.1%.

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Hong Kong and Taiwan

The mobile game market in both Hong Kong and Taiwan as a whole is competitive, shared with a large number of game products developed by mobile game companies from various regions such as the PRC and South Korea while local game companies have limited market share. Local game companies in general do not have sufficient game development capability and tend to cooperate with other game developers. The mobile game market in Hong Kong and Taiwan is shared by market players from various overseas regions including the PRC and South Korea. The following table sets forth the top five mobile game companies in Hong Kong and Taiwan mobile game markets in terms of revenue from mobile game in 2018:

Ranking	Company name	Brief introduction	Revenue from game operating in Hong Kong and Taiwan in 2018, USD million
1	Company R	Established in 1995 and headquartered in Taiwan, the company develops and operates games, and provides other internet services in Taiwan and other regions including Hong Kong, Japan and so forth.	142.5
2	Company S	With its headquarters located in Singapore, the company operates the Garena platform which allows them to publish games to a wide spectrum of regions including major cities in Asia.	87.3
3	Company N	Established in 2001 and headquartered in South Korea. The company has been developing and publishing games in South Korea and other regions.	70.5
4	Company T	With its headquarters in Hong Kong, the company mainly provides casual games.	65.0
5	Company U	With its headquarters located in South Korea, the company has been developing and operating mobile games and other digital services such as UX/UI to customers.	55.0

Source: the Frost & Sullivan Report

For the PRC game developers and operators which intend to expand their market into these two regions, they have to compete with overseas players in different aspects such as game quality, effective marketing strategies and so forth, which are major factors that may lead to their winning over other competitors. Our Group ranked thirteenth in the mobile game market in Hong Kong and Taiwan as a whole in terms of revenue in 2018 with a market share of approximately 1.8%.

THE MOBILE GAME DISTRIBUTION PLATFORM MARKET

Overview of the Mobile Game Distribution Platform Market

Mobile game distribution platforms refer to online platforms that provide mobile game downloading and related services, which play an important role in the value chain of the mobile game industry. With the development of mobile internet technology and upgrading of smartphones, distributing mobile games via such online platforms is the dominant method of delivering games on smartphones, and the convenience provided by it has also allowed more game developers to create and distribute games on these mobile game distribution platforms, and, as a result, the mobile game industry has grown considerably.

Types of Mobile Game Distribution Platforms and Monetization Model

Mobile game distribution platforms can be divided into two categories: hardware app stores and third-party distribution platforms. Hardware app stores refer to the apps stores that are operated by mobile phone or mobile device brands, and normally, links to these stores are pre-installed in mobile devices before customers purchase certain mobile devices. Third-party distribution platforms refer to the app stores operated by non-mobile device brands, and comprise the following three types: (i) third-party comprehensive app stores, normally operated by giant internet companies which have already accumulated significant internet traffic; (ii) game community platforms that provide game-related information, game review and rating systems, and channels for mobile game downloading and gamer interaction, which have been gaining increasing popularity among mobile game users as the content provided by these platforms has become more professional and of higher quality; and (iii) others, which include non-traditional game distribution platforms such as video apps and social network apps whose main function is not game or game-related.

There are two basic models for mobile game distribution platforms to monetize: (i) the joint cooperation mode, where game developers and game publishers can jointly cooperate with mobile game distribution platforms and share the revenue with the mobile game distribution platforms; and (ii) the advertising mode, or free-to-distribute mode, where game developers and game publishers can buy advertising space on mobile game distribution platforms to advertise their games.

Market Drivers

The following factors are expected to contribute to the growth potential of the PRC mobile game distribution platforms:

- ***Increasing openness of the game market.*** In light of the recent PRC government initiative to promote the digital culture industry and the boom in local smartphones, the openness of the PRC game market is increasing, which has contributed to the development of the PRC mobile game distribution platform industry. More mobile games are expected to be distributed via mobile game distribution platforms, and PRC mobile game distribution platforms are also expected to be encouraged to enter overseas markets by the PRC government.
- ***Development of mobile hardware and broadband cellular network technology.*** Smartphone manufacturers are enhancing the computing ability and other features of their products, such as screen resolution and size, through hardware upgrading to compete effectively. Such hardware upgrading can also contribute to the improvement of user experience of playing mobile games on smartphones, and accordingly contribute to the development of the mobile game distribution platform industry. In addition, 5th generation broadband cellular network technology (5G) is expected to be launched on the PRC market in the next few years, which can improve the maximum achievable data acquisition and exchange rate of mobile devices and therefore enhance users' willingness to download mobile games via mobile game distribution platforms.

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Future Trends

The following trends are expected to continually impact the PRC mobile game distribution platforms:

- ***Transformation through technological development.*** Technological development such as big data and cloud technologies has been influencing the PRC mobile game distribution platform industry. These technologies have not only changed the game experience for users by empowering them to actively participate in mobile games, but also exert a huge impact on mobile game downloading. The mobile game distribution platforms, through such technologies, are able to collect and analyze user data and recommend mobile games that match the interests of their users, achieving more effective monetization.
- ***Popularity of social network functions.*** Consumers continue to gravitate towards social media platforms to obtain news and personal updates, as well as mobile game-related information. Accordingly, mobile game distribution platforms are expected to introduce functions of social networks to cater for the social preferences of users, which are expected to help users make more informed decisions when choosing new mobile games.

Competitive Landscape

According to Frost & Sullivan, TapTap ranked first among the PRC game community platforms by average MAUs in 2018. Other players include traditional game news websites and followers of TapTap. The following table sets forth the top five game community platforms in China by average MAUs in 2018:

Ranking	Game community platform	Functions	Average MAUs in 2018 (in millions)
1	TapTap	<i>Social function, game rating and ranking, game recommendation, game forum</i>	<i>15.0</i>
2	Platform A	Social function, game rating and ranking, game recommendation, game news and live	13.2
3	Platform B	Social function, game rating, game forum, game news and game video	12.1
4	Platform C	Social function, game rating and ranking, game recommendation, game news and game forum	10.3
5	Platform D	Social function, game rating and ranking, game recommendation and game forum	4.1

Source: the Frost & Sullivan Report

PRC LAWS AND REGULATIONS

Regulations Relating to Value-added Telecommunication Services

Licenses for Value-added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “Telecommunications Regulations”), promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, provides a regulatory framework for telecommunications services providers in China. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry of the PRC (the “MII”, which is the predecessor of the MIIT on February 21, 2003 and last amended by the MIIT on June 6, 2019, information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services. According to the Telecommunications Regulations, a commercial telecommunications service provider in China shall obtain an operating license from the MIIT or its provincial-level counterparts.

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

On September 25, 2000, the State Council promulgated the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “Internet Information Measures”), which was amended on January 8, 2011. Under the Internet Information Measures, commercial internet information services operators shall obtain a VATS License with the business scope of internet information service, namely Internet Content Provider License (an “ICP License”), from the relevant government authorities before engaging in any commercial internet information services operations within China. The provision of information services through mobile apps is subject to the PRC laws and regulations governing internet information services. Besides, the Internet Information Measures and other relevant measures also ban Internet activities that constitute publication of any content that, among others, propagates obscenity, pornography, gambling and violence, incites the commission of crimes or infringes upon the lawful rights and interests of third parties. If an internet information service provider detects information transmitted on their system that falls within the specifically prohibited scope, such provider must terminate such transmission, delete such information immediately, keep records and report to the governmental authorities in charge. Any internet information service provider’s violation of these requirements will lead to the revocation of its ICP License and, in serious cases, the shutting down of its website.

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On June 28, 2016, the State Internet Information Office 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 took effect on August 1, 2016, to strengthen the regulation of the mobile application information services. Pursuant to the Mobile Application Administrative Provisions, an internet application program provider must verify a user’s mobile phone number and other identity information under the principle of mandatory real name registration at the back-office end and voluntary real name display at the front-office end. An internet application program provider must not enable functions that can collect a user’s geographical location information, access user’s contact list, activate the camera or recorder of the user’s mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant application programs, unless it has clearly indicated to the user and obtained the user’s consent on such functions and application programs. The Mobile Application Administrative Provisions also provided that the APP Store service providers shall file a report with the related local offices of cyberspace administration within 30 days after such services have been rolled out online for operation, and they are responsible for the management over the application providers as follows: (1) shall verify the authenticity, security and legality of application providers, establish the credit management system and file the record according to the category with relevant authorities; (2) shall urge the application providers to protect users’ information, provide a full description on the way APPs use to obtain and to use users’ information and present the same to the users; (3) shall urge the application providers to release legal information contents, establish and perfect the security review mechanism, and designate certain number of professional staff in line with the service scale; and (4) shall urge the application providers to release legal applications and respect and protect the intellectual property rights of such application providers. For any application provider who violates any regulatory requirements, the APP Store service providers shall take such measures as warning, suspending the release or withdrawing the applications as the case may be, keep records and report such violation to the relevant competent authorities. In addition, the APP Store service providers shall enter into service agreements with the APP information service providers, formulating the rights and obligations of both parties.

On December 16, 2016, the MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals (《移動智能終端應用軟件預置和分發管理暫行規定》) (the “Mobile Application Interim Measures”), which took effect on July 1, 2017. The Mobile Application Interim Measures requires, among others, that internet information service providers must ensure that a mobile application, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of hardware and operating system of a mobile smart device.

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

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Restrictions on Foreign Investment

Foreign direct investment in telecommunications companies in China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定》(2016年修訂)), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business, provided such investor is a major one among the foreign investors investing in a value-added telecommunications enterprise in China.

On July 13, 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《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 “MII Notice”), pursuant to which, domestic telecommunications enterprises were prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

On June 30, 2019, the NDRC and the MOFCOM jointly promulgated the Negative List, which became effective on July 30, 2019. According to the Negative List, the internet information services, internet culture businesses (except for music) and “Internet Publication Service,” are under the “restricted” categories, “prohibited” categories and “prohibited” categories, respectively.

Regulations on Online Games Publishing and Operation

Regulatory Authorities and Restriction on Foreign Investment

The Notice 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 Ministry of Culture (the “MOC”), the State Administration of Radio Film and Television (the “SARFT”) and the General Administration of Press and Publication (the “GAPP”) (《關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋〉的通知》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that the State Administration of Press, Publications, Radio, Film and Television (the “SAPPRFT”, the successor of the SARFT and the GAPP) will be responsible 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.

In May 2019, the General Office of the Ministry of Culture and Tourism released the Notice on Adjusting the Scope of Examination and Approval regarding the <Internet Culture Operation License> to Further Regulate the Approval Work (《關於調整〈網絡文化經營許可證〉審批範圍 進一步規範審批工作的通知》, the “Notice of Adjusting Examination Scope”), which quotes the Regulations on the

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Function Configuration, Internal Institutions and Staffing of the Ministry of Culture and Tourism (《文化和旅遊部職能配置、內設機構和人員編制規定》) and further specifies that the MCT no longer assumes the responsibility for administering the industry of online games. In July 2019, the MCT issued the Decision on the Abolition of the Interim Measures on Administration of Online Games and the Administrative Measures for Tourism Development Plan (《關於廢止〈網絡遊戲管理暫行辦法〉和〈旅遊發展規劃管理辦法〉的決定》) (the “Abolition Decision”). The Abolition Decision also cites the Regulations on the Function Configuration, Internal Institutions and Staffing of the Ministry of Culture and Tourism and further abolishes the Interim Measures on Administration of Online Games, which means that the MCT will no longer regulate the industry of the online games. As of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated regarding whether the responsibility of MCT for regulating online games will be undertaken by another governmental department.

Both the internet publishing services (including the online game publishing) and internet culture operation (including the online game operation) fall within the prohibited categories in the Negative List. The Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》) (the “GAPP Notice”), promulgated by the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, on September 28, 2009, provides, among other things, 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 agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

Online Game Examination and Publishing

The Administrative Measures for Internet Publishing Services (《網絡出版服務管理規定》) (the “Internet Publishing Measures”) were jointly promulgated by the SAPPRFT and the MIIT on February 4, 2016 and became effective on March 10, 2016. The Internet Publishing Measures imposed a license requirement for “internet publishing services”, which refers to providing internet publications to the public through information networks, and “internet publications” refers to edited, produced or processed digital works that are provided to the public through information network, including, inter alia, games. The license requirement is that an entity shall, for the purpose of engaging in internet publishing services, be approved by publishing authorities and obtain the Internet Publishing Service License (網絡出版服務許可證). As of the Latest Practicable Date, X.D. Network Inc. holds an Internet Publishing Service License with the business scope covering online games publishing.

According to the GAPP Notice (effective as of September 28, 2009), no online game without obtaining the prior approval of the GAPP may be published. The GAPP Notice, however, does not explicitly provide for monetary penalties for failure to obtain such prior approval.

According to the Internet Publishing Measures (effective as of March 10, 2016), before publishing an online game, an online publishing service provider shall file an application with the

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competent provincial counterpart of the SAPPRFT in the place where it is located and the application, if approved, shall be submitted to the SAPPRFT for approval. An online game shall not be launched without the prior approval of the SAPPRFT, otherwise the competent authority may confiscate all illegal income arising therefrom and impose a fine ranging from 5 times to 10 times of such illegal income, if the illegal income is more than RMB10,000, or up to RMB50,000, if the illegal income is not more than RMB10,000.

On May 24, 2016, the SAPPRFT promulgated the Notice on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》), which became effective as of July 1, 2016. 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 entities and enterprises in coordination with the provincial publication administrative departments before October 1, 2016 as required by this Notice. Otherwise, these mobile games shall cease to be published or operated online. Given the considerable amount of games that fail to obtain the preapproval before launching in the industry as a whole, the Notice on Extending the Time Limit under the Notice on the Administration over Mobile Game Publishing Services (《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》) promulgated by the SAPPRFT on September 19, 2016 further extended the above time limit for application of preapproval to December 31, 2016.

The Central Committee of the Communist Party of China issued the Plan for Deepening the Institutional Reform of the Party and State (深化黨和國家機構改革方案) and the National People's Congress adopted the Institutional Reform Plan of the State Council (國務院機構改革方案) in March 2018 (collectively, the "Institutional Reform Plans"). According to the Institutional Reform Plans, the SAPPRFT was reformed and now known as the NRTA (國家廣播電視總局) which is a division of the State Council and the NAPP (NCA) (國家新聞出版署(國家版權局)) which is now a division of the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部). Concurrently with the implementation of this reformation, the assessment and preapproval on domestic and foreign developed online games by GAPP had been suspended during April to December 2018 and had resumed since December 2018.

However, as of the Latest Practicable Date, no government authorities/sources, including the NAPP, had issued or promulgated any official policy, regulation or statement in respect of the suspension of preapproval from the NAPP for the publishing mobile games, or any proposed, revised or new administrative/regulatory approval procedure involving preapproval requirements for the publishing mobile games. Based on the information released on the website of the SAPPRFT, 164 domestic online games and no foreign online games have obtained preapproval in December 2018, and another 1,066 domestic online games and 156 foreign online games have obtained preapproval in the nine months ended September 30, 2019, respectively, indicating that the suspension of the preapproval of domestic and foreign online games has been lifted.

Online Game Operation

On February 17, 2011, the MOC issued the revised Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the "Internet Culture Interim Provisions"), which became effective on April 1, 2011 and was further revised on December 15, 2017 by the MOC. Pursuant to the Internet Culture Interim Provisions, "internet cultural products" are defined as

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including the online games specially produced for internet and games disseminated or distributed through internet. Provision of internet cultural products and related services for commercial purpose is subject to the approval of the provincial counterparts of the MOC.

On June 3, 2010, the MOC promulgated the Interim Measures on Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “Online Game Measures”), which came into effect on August 1, 2010 and was further amended on December 15, 2017. The Online Game Measures governs the research, development and operation of online games and the issuance and trading services of virtual currency. Under the Online Game Measure, all operators of online games, issuers of virtual currency and providers of virtual currency trading services are required to obtain Internet Culture Operation Licenses. An Internet Culture Operation License is valid for three years and in case of renewal, the renewal application should be submitted 30 days prior to the expiry date of such license. Each of our PRC Consolidated Affiliated Entities whose main business includes operation of online games holds an Internet Culture Operation License with the relevant service scope.

The Online Game Measures also requires a domestic online game must be filed within 30 days of its launch with the MOC. The competent supervision authority may require the company who fails to comply with this requirement to rectify the non-compliance and impose penalties up to RMB20,000. In addition, the filing numbers of the games must be displayed at the designated places of the websites on which the games are operated or at a prominent place in the games. Online game operators are also required to establish self-censorship systems and have dedicated personnel for the purpose to ensure the lawfulness of the content of online games.

Pursuant to the Notice of Adjusting Examination Scope released in May 2019, the provincial counterparts of MCT, from the date of receipt of the Notice of Adjusting Examination Scope, would no longer grant Internet Culture Operation License regarding to the business scope of using the information network to operate online games. The issued Internet Culture Operation License within the term of validity which only includes the aforementioned business scope of online games would still be valid. If the original business scope under Internet Culture Operation License merely contains the aforementioned business of online games, the License will not be renewed after its expiration date.

Pursuant to the Abolition Decision released in July 2019, the Online Game Measures was abolished and therefore the game operators are not required to apply to MCT for examination of imported online games or go through filing procedures for domestic online games.

However, it is not clear whether new permits or license as the preapproval for entry of online game operation will be launched, or whether another government department would undertake the responsibility originally undertaken by MCT for supervising the online game industry.

Regulations on Virtual Currency and Virtual items

On January 25, 2007, the Ministry of Public Security (the “MPS”), the MOC, the MIIT and the GAPP jointly issued Notice on Regulating Operation Order of Online Games and Inspection of Gambling via Online Games (《關於規範網絡遊戲經營秩序查禁利用網絡遊戲賭博的通知》) (the “Anti-gambling Notice”). To curtail online games that involve online gambling and address concerns that virtual currency might be used for money laundering or illicit trade, the Anti-gambling Notice (a) prohibits online game operators from charging commissions in connection with winning or losing of games in the form of virtual currency; (b) requires online game operators to impose limits on use of

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virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players.

On February 15, 2007, the MOC, the People's Bank of China and 12 other PRC regulatory authorities jointly issued the Notice on Further Strengthening Administration of internet Cafés 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 Cafés Notice") 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 Cafés Notice places 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 Cafés Notice further provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

On June 4, 2009, the MOC and the MOFCOM jointly issued the Notice on Strengthening Administration of Virtual Currency of Online Games (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the "Virtual Currency Notice"). Pursuant to the Virtual Currency Notice, the "in-game virtual currency" shall refer to a virtual exchange tool that is issued by game operators and purchased directly or indirectly by game users with legal currency in a certain exchange rate and that is electronically stored in servers and represented in a specific digital unit outside the game programs. The Virtual Currency Notice prohibits online game operators issuing online game virtual currency from providing services that would enable the trading of such virtual currency.

According to the Notice of the MOC on Regulating Online Game Operation 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) (the "Interim and Ex Post Supervision Notice"), promulgated on December 1, 2016 and became effective on May 1, 2017, the virtual items, purchased by users directly with legal tender, by using the virtual currencies of online games or by exchanging the virtual currencies of online games according to a certain percentage and enable users to directly exchange for other virtual items or value-added service functions in online games, shall be regulated pursuant to the provisions on virtual currencies of online games. Online game operators shall not provide users with services to exchange virtual currencies into legal currency. Where it provides users with the option to exchange virtual currencies into physical items of minor value, the contents and value of such physical items shall be in compliance with relevant laws and regulations of the State. However, the Interim and Ex Post Supervision Notice has been abolished by the MCT as of the Latest Practicable Date.

Regulations on Real-Name Registration and Anti-Addiction System

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. This requirement applies to both mobile games and other online games. Where an online game operator violates the aforementioned requirement, the culture authorities or the comprehensive law enforcement agency for cultural market at county level or above may order it to make correction, and impose a fine up to RMB20,000 depending on the seriousness of the circumstances. However, in July 2019, the MCT announced the abolishment of the Online Games Measures. The Interim and Ex Post Supervision Notice also 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

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not provide recharge or consumer services in-game for online game users who login in as visitors. However, the Interim and Ex Post Supervision Notice has been abolished by the MCT as of the Latest Practicable Date.

On April 15, 2007, eight PRC government authorities, including the GAPP, the MOE, the MPS and the MIIT, jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》) (the “Anti-addiction Notice”), which requires the implementation of an anti-addiction compliance system by all PRC online game operators in an effort to curb addiction to online games by minors. Under the anti-addiction compliance system, three hours or less of continuous playing by minors, defined as game 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”. Game operators are required to reduce the value of in-game benefits to a game player by half if it discovers that the amount of time a game player spends online has reached the “fatiguing” level, and to zero in the case of the “unhealthy” level.

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

On July 25, 2014, the SAPPRFT issued the Notice Regarding Deepening Implementation of Authentication of Real Names for Anti-addiction System 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》) (the “Implementation of Real-name Authentication Notice”) and effected on October 1, 2014, which specify that subject to the hardware, technology and other factors, the anti-addiction compliance system applies to all online games excluding mobile games temporarily. According to the guidance for the Approval of Publishing Works of Domestic Online Games (出版國產網絡遊戲作品審批) issued by the NAPP in 2019, the adoption of anti-addiction compliance system is not required for applying for publishing online mobile games. On April 2, 2019, consultation was conducted with the SMPPB, a competent government authority in the view of our PRC Legal Adviser, which confirmed that mobile games is not subject to the compulsory requirement of anti-addiction compliance system as of the date of the consultation.

On October 25, 2019, NAPP issued the New Anti-addiction Notice which took effect from November 1, 2019, which mainly stipulates that: (1) the real-name registration system shall be implemented. All online game users shall register their game accounts with valid identity information. From the date of the implementation of the New Anti-addiction Notice, online game companies shall establish and implement the real-name registration system, and shall not provide game services of any kind to new users who are not registered with their real names. Within two months from the date of implementation of the New Anti-addiction Notice, that is by December 31, 2019, online game

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companies shall require existing users to complete real-name registration, and shall not provide any game services for those users who have not completed real-name registration. Online game companies may set a visitor experience mode providing unregistered users with up to one-hour game services. Under such visitor experience mode, users are not required to register with their real names, but cannot top up or purchase in-game virtual items. Online game companies shall not repeatedly provide visitor experience mode service to users using the same device within 15 days; (2) the time slot and duration for playing online games by minors shall be subject to strict control. The New Anti-addiction Notice stipulates that game services shall not be provided to minors during the period from 10 p.m. every day to 8:00 a.m. the next day, and such game services shall not exceed 3 hours per day during statutory holidays and 1.5 hours per day during other times; (3) the provision of paid services to minors shall be regulated. The New Anti-addiction Notice stipulates that online game companies shall not provide paid game services to minor users under 8 years old; for minor users between 8 and 16 years old, the top-up amount shall not exceed RMB50 per time and the accumulative top-up amount shall not exceed RMB200 per month; for minor users of over 16 years old but below 18 years old, the top-up amount shall not exceed RMB100 per time and the accumulative top-up amount shall not exceed RMB400 per month; (4) the regulation of the industry shall be enhanced. The New Anti-addiction Notice stipulates that for online game companies which fail to fulfill the requirements of the New Anti-addiction Notice, local publishing administrative departments shall order them to take rectification measures within a limited period of time; in serious cases, it shall be dealt with according to laws and regulations or even the relevant licenses of such online game companies shall be revoked; and (5) the development and implementation of appropriate-age reminding system shall be explored. The New Anti-addiction Notice stipulates that game companies shall explore ways to remind their users of specific online games designed for users of different ages and display such reminders at prominent places on pages for download, registration and login. Online game companies shall analyze the cause of minor addiction, and alter the content and features of games or game rules resulting in such addiction.

According to an interview conducted on November 12, 2019 by our PRC Legal Adviser, the Sole Sponsor and its legal advisers with the SMPPB, a competent authority in the view of our PRC Legal Adviser, the SMPPB confirmed that (i) the New Anti-addiction Notice has been implemented from November 1, 2019; and (ii) a grace period has been given to online game companies for them to make rectifying measures to comply with the requirements under the New Anti-addiction Notice. However, the duration of the grace period remains to be confirmed by relevant government authorities. The SMPPB further confirmed that online game companies will not be punished by the SMPPB during the grace period if they have started active measures to gradually comply with the requirements of the New Anti-addiction Notice and the SMPPB will give further notice or instructions to online game companies if implementation measures are promulgated.

The New Anti-addiction Notice is different from the previous rules and practice in the following aspects:

- (a) The New Anti-addiction Notice has promulgated higher standards for real-name registration, which primarily include (i) limiting the maximum play time for each user under the visitor experience mode to one hour within each 15 days, and (ii) the use of the account of third-party websites or applications, such as WeChat account and mobile number, to gain access to mobile games, is not adequate for the purpose of fulfilling the requirements of real-name registration if the game operators could not obtain the valid identity information;

- (b) The New Anti-addiction Notice also extended the applicability of anti-addiction measures to cover mobile games in addition to web games and PC games which have already been covered in the previous rules; and
- (c) The New Anti-addiction Notice included a set of anti-addiction measures with more stringent and detailed requirements. In the previous rules and practice, game operators are required to reduce the in-game benefits obtained by the minor users by half if their play time is between 3 to 5 hours, and to zero if their play time exceeds 5 hours. Under the New Anti-addiction Notice, there are explicit rules for minor users of different age groups on (i) the maximum play time and the permitted time slot to play online games, and (ii) the maximum top-up amount each time and monthly total top-up amount.

Regulations Relating to Advertisement

The Advertisement Law of the PRC (《中華人民共和國廣告法》), which was last amended on October 26, 2018, requires advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations and the content of the advertisement shall not contain the prohibited information including but not limited to i) information harm the dignity or interests of the State or divulge the secrets of the State, ii) information contain wordings such as “national level”, “highest level” and “best”, iii) information contain ethnic, racial, religious, sexual discrimination. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been duly performed and that the relevant approval has been obtained. Without prior consent or request, the advertisers, advertising operators and advertising distributors shall not deliver advertisement to any person’s accommodation or transportation. If the advertisers, advertising operators and advertising distributors display any pop-up advertisement, they shall show the close button clearly to make sure that the viewers can close the advertisement upon one-click. Violations of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. For serious violations, the SAIC or its local branches may order the violator to terminate its advertising operations or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liabilities if they infringe on the legal rights and interests of third parties.

On July 4, 2016, the SAIC promulgated the Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) (the “Internet Advertisement Measures”) and the Internet Advertisement Measures became effective on September 1, 2016. The Internet Advertisement Measures regulates any advertisement published on the internet, including but not limited to, through websites, webpage and APPs, in the form of word, picture, audio and video and provides more detailed guidelines to the advertisers, advertising operators and advertising distributors. According to the Internet Advertisement Measures, internet information service providers must stop any person from using their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the internet information service provider merely provides information services and is not involved in the internet advertisement businesses.

Games communities and platforms

The operators of games communities and platforms shall (i) observe the relevant laws and regulations relating to value-added telecommunication services. See “Regulatory Overview—PRC Laws and Regulations—Regulations Relating to Value-added Telecommunication Services” for details; (ii) assume the responsibility for management over the games on platforms and especially require game developers and publishers to provide prior approvals from NAPP before the commercial launch of games through platforms. See “Regulatory Overview—PRC Laws and Regulations—Regulations on Online Games Publishing and Operation” for details of prior approvals from NAPP; (iii) observe the relevant provisions on the advertisement. See “Regulatory Overview—PRC Laws and Regulations—Regulations Relating to Advertisement” for details; and (iv) observe the Administrative Provisions on Internet Forum and Community Services (《互聯網論壇社區服務管理規定》) released by Cyberspace Administration of China on August 25, 2017 and effective from October 1, 2017.

According to the Administrative Provisions on Internet Forum and Community Services, providers of the internet forum community services are responsible for the management of platforms, including (i) enter into agreements with users, specifying that users shall not make use of the internet forum community services to publish or disseminate the illegal information and that the service providers shall ban the use of or close the relevant accounts or sections if the users commit serious violation thereof; specifying that the initiators and managers of the forum community sections shall perform the obligations corresponding to their rights and the service providers shall restrict or revoke their management privileges in accordance with the law or agreement and even ban the use of or close the relevant accounts or sections if the initiators or managers violate the laws or agreements or fail to perform responsibilities and obligations properly; (ii) strengthen the management of information disseminated by their users, cease the transmission of the illegal information forthwith, adopt the measures to remove or otherwise dispose of the illegal information, keep relevant records and timely report to the Cyberspace Administration of China or its local counterparts; and (iii) require users to register accounts by passing the authentication of real identity information pursuant to the principle of “real name at background and discretion at foreground” and record and conduct regular verification of real identity information to section initiators and managers.

Regulations Relating to Information Security and Censorship

Internet content in China is regulated and restricted from a state security standpoint. The Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “NPC Standing Committee”) enacted the Decisions on the Maintenance of Internet Security (《維護互聯網安全的決定》) on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe upon intellectual property rights. In 1997, the MPS issued the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which were amended by the State Council on January 8, 2011 and prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The MPS has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP License holder violates these measures, the PRC government may revoke its ICP License and shut down its websites.

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On November 7, 2016, the NPC Standing Committee promulgated the Cyber Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the territory of the PRC. Their purchase of network products and services that may affect national security shall be subject to national cybersecurity review. On May 2, 2017, the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) (the “CAC”) issued a trial version of the Measures for the Security Review of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法(試行)》), which took effect on June 1, 2017, to provide for more detailed rules regarding cybersecurity review requirements.

Regulations Relating to Privacy Protection

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

On December 28, 2012, the NPC Standing Committee promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the internet. On July 16, 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection and use of users' personal information in the provision of telecommunications services and internet information services in China and the personal information includes a user's name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. Telecommunications service providers and internet service providers are required to constitute their own rules for the collecting and use of users' information and they cannot collect or use of user's information without users' consent. Telecommunications service providers and internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunications service providers and internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information.

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Telecommunication business operators and internet service providers are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

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

On May 8, 2017, the Supreme People’s Court and the Supreme People’s Procuratorate released the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens’ Personal Information (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》) (the “Personal Information Interpretations”), effective from June 1, 2017. The Personal Information Interpretations clarify several concepts regarding the crime of “infringement of citizens’ personal information” stipulated by Article 253A of the Criminal Law of the People’s Republic of China (《中華人民共和國刑法》), including “citizen’s personal information”, “provision”, and “unlawful acquisition”. Also, the Interpretations specify the standards for determining “serious circumstances” and “particularly serious circumstances” of this crime.

Regulation Relating to Foreign Exchange

Regulations on Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in China include the Company Law of the PRC (《中華人民共和國公司法》) last amended in 2018, the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法》) promulgated in 1986 and last amended in 2016 and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, the Equity Joint Ventures Law of the PRC (《中華人民共和國中外合資經營企業法》) promulgated in 1979 and last amended in 2016 and its implementation regulations promulgated in 1983 and last amended in 2019, and the Contractual Joint Ventures Law of the PRC (《中華人民共和國中外合作經營企業法》) promulgated in 1988 and last amended in 2017 and its implementation regulations promulgated in 1995 and amended in 2017. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC company shall

not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year. Wholly foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

On October 21, 2005, the SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which became effective on November 1, 2005 (the “SAFE Circular No. 75”). The notice requires PRC domestic resident natural persons to register or file with the local SAFE branch in the following circumstances: (i) before establishing or controlling any company outside the PRC for the purpose of capital financing, (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions, and (iii) after any major change in the share capital of the special purpose vehicle without any round-trip investment being made. On July 4, 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular No. 37”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. The SAFE Circular No. 37 supersedes the SAFE Circular No. 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the SAFE Circular No. 37, in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, according the procedural guideline as attached to the SAFE Circular No. 37, the principle of review has been changed to “the domestic individual resident is only register the SPV directly established or controlled (first level)”. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under the SAFE Circular No. 37, which became effective on July 4, 2014 as an attachment to SAFE Circular No. 37.

On February 13, 2015, SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular No. 13”) effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment. However, remedial registration applications made by PRC residents that previously failed to comply with the SAFE Circular No. 37 continue to fall under the jurisdiction of the relevant local branch of the SAFE. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC

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subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Regulations on Stock Incentive Plans

On February 15, 2012, the SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies (《國家外匯管理局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》) (the “Stock Option Rules”), replacing the previous rules issued by the SAFE in March 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to the SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share. Under the Circular of the State Administration of Taxation on Issues Concerning Individual Income Tax in Relation to Equity Incentives (《國家稅務總局關於股權激勵有關個人所得稅問題的通知》) promulgated by the SAT and effective from August 24, 2009, listed companies and their domestic organizations shall, according to the individual income tax calculation methods for “wage and salary income” and stock option income, lawfully withhold and pay individual income tax on such income.

Regulations Related to Tax

Enterprise Income Tax

On March 16, 2007, the National People’s Congress promulgated the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) which was amended on February 24, 2017 and on December 29, 2018. On December 6, 2007, the State Council enacted the Regulations for the Implementation of the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the “EIT Law”). The EIT Law came into effect on January 1, 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is 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

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premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the SAT on April 22, 2009 and last amended on December 29, 2017 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

The EIT Law and the implementation rules provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises,” and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions. Pursuant to the 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 “Double Tax Avoidance Arrangement”) and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. On February 3, 2018, the SAT issued the Announcement on Certain Issues Concerning the Beneficial Owners in a Tax Agreement (《關於稅收協定中“受益所有人”有關問題的公告》) (“Circular 9”), effective as of April 1, 2018, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner of an item of income under China’s tax treaties and similar arrangements. According to Circular 9, a beneficial owner generally must be engaged in substantive business activities and an agent will not be regarded as a beneficial owner and, therefore, will not qualify for these benefits.

Pursuant to the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) which was promulgated by the SAT on October 17, 2017 and became effective on December 1, 2017, with regard to dividends, bonuses and other equity investment proceeds and interest therefrom, rentals, royalties, property transfer income and other kinds of income earned by non-resident enterprises from inside China, on which enterprise income tax shall be levied, withholding tax at source shall be applicable thereto. Entities or individuals that have direct obligations to make relevant payments to non-resident enterprises in accordance with relevant legal provisions or contracts shall be the withholding agents. The withholding agent shall, within seven days from occurrence of the withholding obligation, declare and turn over the withholding tax to the tax authorities in charge at the withholding agent’s location.

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According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), promulgated on April 14, 2008 and amended on January 29, 2016, the certificate of a high and new technology enterprise is valid for three years and may renewed after the inspection of SAT and other relevant authority.

Value-added Tax and Business Tax

According to the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) (the “VAT Regulations”), which was promulgated by the State Council on December 13, 1993 and was amended in November 2008, February 2016 and November 2017, and the Implementing Rules of the Provisional Regulations on Value-added Tax (《增值稅暫行條例實施細則》), which was promulgated by the MOF on December 18, 2008 and subsequently amended by the MOF and the SAT on October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax.

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》) (the “Business Tax Regulations”), which became effective on January 1, 1994 and were subsequently amended on November 10, 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (《營業稅稅目稅率表》) attached to the regulation. On January 1, 2012, the MOF and the SAT have implemented the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》) (the “VAT Pilot Plan”), which imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expanded to nation-wide application in 2013. According to the implementation circulars released by the MOF and the SAT on the VAT Pilot Program, the “modern service industries” include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. According to the Notice of the MOF and the SAT on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《財政部 國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) which became effective on May 1, 2016, entities and individuals engaging in the sale of services, intangible assets or fixed assets within the territory of the PRC are required to pay value-added tax instead of business tax. The State Council amended the VAT Regulations and abolished the Business Tax Regulations concurrently on November 19, 2017.

Regulations Relating to Intellectual Property

The Copyright Law

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

The Copyright Law of the PRC (Revised in 2010) (《中華人民共和國著作權法》(2010年修訂)) (the “Copyright Law”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of

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literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

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

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

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

Provisions of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》), which was promulgated on December 17, 2012, provide that web users or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

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The Trademark Law

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

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

Domain Names

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

The Patent Law

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法》(2008 年修訂)) promulgated by the NPC Standing Committee, and its Implementation Rules (Revised in

2010) (《中華人民共和國專利法實施細則》(2010 年修訂)) promulgated by the State Council, the State Intellectual Property Office of the PRC 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 one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Regulations Relating to Employment and Social Warfare

The Labor Contract Law

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

According to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on July 5, 1994 and effective on January 1, 1995 and last amended on December 29, 2018, enterprises and

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institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate employees in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide employees with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

On December 28, 2012 the Labor Contract Law (《勞動合同法》) was amended to impose more stringent requirements on labor dispatch which became effective on July 1, 2013. Pursuant to the amended Labor Contract Law, (i) it is strongly emphasized that dispatched contract workers shall be entitled to equal pay for equal work as an employee of an employer; (ii) dispatched contract workers may only be engaged to perform temporary, auxiliary or substitute works; and (iii) an employer shall strictly control the number of dispatched contract workers so that they do not exceed certain percentage of total number of employees and the specific percentage shall be prescribed by the Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部).

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, The Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

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

Regulations Relating to M&A and Overseas Listing

M&A Rules

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the Rules on Merger & Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "M&A Rules"), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and was revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested

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enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

1997 Red-chip Guidance

On June 20, 1997, the State Council issued the Circular of the State Council Concerning Further Strengthening of the Administration of Share Issuance and Overseas Listing (《國務院關於進一步加強在境外發行股票和上市管理的通知》) (“1997 Red-chip Guidance”), which governs, among other things, the overseas listing of PRC-funded offshore companies. According to 1997 Red-chip Guidance, laws and regulations of the relevant overseas listing venue will be applicable when a non-public PRC-funded offshore company or an offshore listed company controlled by PRC entities applies for the listing and issue of new shares with its overseas assets or domestic assets owned for more than three years through the investment of its overseas assets in the PRC. The PRC entity which controls the PRC-funded offshore company shall obtain the prior consent of the People's Government of the PRC at the provincial level or the competent authority of the State Council of the PRC for such application of listing and issue of new shares. A non-public PRC-funded offshore company or an offshore listed company controlled by PRC entities with domestic assets owned for less than three years through the investment of overseas asset in the PRC may not apply for overseas listing and issue of new shares except under special circumstances. To apply for overseas listing and issue of new shares under special circumstances, the relevant PRC entity which controls the PRC-funded offshore company shall submit the matter to the CSRC for examination and the State Council Securities Commission for further examination and approval. Upon completion of the listing and issue of new shares, a PRC entity which controls a PRC-funded offshore company shall report to the CSRC for recordation.

Foreign Investment Law

On March 15, 2019, the National People's Congress passed the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) which will come into force on January 1, 2020. It will replace the Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), the Law of the PRC on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) and the Law of the PRC on Sino-Foreign Contractual Joint Ventures (《中華人民共和國中外合作經營企業法》). The Foreign Investment Law was drafted with the main focus on foreign investment promotion, foreign investment protection and foreign investment management.

The Foreign Investment Law defines foreign investment as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organizations (“Foreign Investor(s)”), and specifically stipulates four forms of investment activities as foreign investments, namely, (i) establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor; (ii) obtaining shares, equities, property shares or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor; (iii) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor; and (iv) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

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The Foreign Investment Law further provides that the organizational form, organizational structure and their activities of foreign-invested enterprises shall be governed by the provisions of the PRC Company Law, the PRC Partnership Enterprise Law and other relevant laws. Foreign-invested enterprises established before the Foreign Investment Law coming into effect may retain their original form of organizations within five years after the Foreign Investment Law comes into effect. Specific implementing measures will be prescribed by the State Council.

SOUTH KOREAN LAWS AND REGULATIONS

Under the Game Industry Promotion Act of Korea (the “Game Act”), the “Game Products” are defined as certain video products produced for the purposes of gaming, leisure, or enhancing learning or physical exercise by using a data processing technology such as a computer program or mechanical machines, or other types of devices mainly manufactured to present such video products. Online game is one of the Game Products, and thus subject to the legal requirements under the Game Act. The major legal requirements under the Game Act are as follows:

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

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

However, in case that a company distributes its online games to the customers in South Korea through entering into distribution agreements with third party distributors such as Google Play and App Store, and is not directly involved in the distribution process, such Registration of Game Publishing Business with local government will not be required so long as such games are proper for playing by the minors (i.e., not for adult only). Furthermore, in such case, Google Play and App Store are responsible for rating classification of such games and displaying and reporting of such rating classification of games.

Meanwhile, the Act on Protection of Consumers in Electronic Commerce (the “Electronic Commerce Act”) requires the providers of the “Telecommunication Sales Business” (which is defined as a business to sell a product or service by way of mails, telecommunications, advertisement, broadcasting, newspapers or other types of non-face to face contact marketing) to file the Report of the Telecommunication Sales Business with the competent local governmental authority. It is unclear that such reporting requirement is applicable to the foreign game producing companies who provide their Game Products only to the publishing platform operators (such as Google Play or App Store), but are not directly involved in any sales activities to the end users.

TAIWAN LAWS AND REGULATIONS

Foreign and the Mainland Chinese Investments

Laws and regulations governing overseas investments in Taiwan companies will differ according to the funding source—foreign investors (including overseas Chinese) and the mainland Chinese investors.

Investment Commission (投資審議委員會) (“IC”) under the Ministry of the Economic Affairs (經濟部) (“MOEA”) is the government agency responsible for reviewing and approving all overseas and mainland China investment applications. IC will timely update a list of business activities open for foreign investors (including overseas Chinese) or mainland Chinese investors. Certain business sectors are strictly forbidden from being invested by foreign investors (including overseas Chinese) and mainland Chinese, such as businesses with national security implications or telecommunication sector. Certain business activities are open for foreign investments, but not to mainland Chinese investors.

Mainland Chinese Investments

All legal affairs, including investments and business activities, among Taiwanese and mainland Chinese are governed by Act of Governing Relations between the People of Taiwan Area and Mainland Area (台灣地區與大陸地區人民關係條例). The Act is also the basis for each government authority to further promulgate rules or guidelines governing activities within its responsibilities. As stated earlier, IC, MOEA is the government authority responsible for reviewing and approving mainland Chinese investments.

Notwithstanding the above, investments from the individuals or companies in Hong Kong and Macau are governed by laws applied to foreign investors.

Once being defined as a mainland Chinese investor, his/her/its investments in business activities of a Taiwan company can only be restricted to those expressly stated in the business list; furthermore, the aggregate invested amounts or shareholding percentage in certain business sector may be restricted a certain percentage. Any violation of investment regulations will lead to the revocation of such investments by IC and may be subject to a penalty from responsible authorities such as Financial Supervisory Commission (金融監督管理委員會) if the Taiwan company is a listed company.

Investments in Game Software

Game industry, in terms of online game, video games or apps, covers a wide range of business activities, including data processing, website management, computer software programming, graphic designing, among other things. If overseas investments belong to foreign (including overseas Chinese) investments, investors are free to invest Taiwan companies with all above business activities.

If an investor is defined a mainland Chinese investor, he/she/it can only invest in Taiwan companies with data processing, website management and related services (Code 6312) or computer software programming (Code 6201). There is no game software related business open for investments from the mainland Chinese.

Rating of Game Software

Taiwan does not have laws censoring the contents of game software since freedom of speech or freedom of press is a constitutional right protected by Taiwan Constitution. As a statutory requirement

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under The Protection of Children and Youths Welfare and Rights Act (兒童及少年福利與權益保障法), however, the government authority MOEA, has promulgated games rating guidelines, which aim to ensure all press release, video programs and game software are rated properly to protect minors accessing such materials.

Anyone who publishes, distribute, rent, release, display, offer for downloading video games and apps has duties to rate, classify and register with Industrial Development Bureau (工業局) (“IDB”), MOEA the game properly before its official release. The system in Taiwan has five ratings: Restricted (R), Parental Guidance 15 (PG 15), Parental Guidance 12 (PG 12), Protected (P), General Public (G). IDB has created a database and website (https://www.gamerating.org.tw/company_login.php) which allows the public a free access for the ratings of game software currently registered with IDB. Violation of such duty will be requested for correction or removal of games from the market.

Additional Requirement for Game Software for Mainland Chinese Game Developer or Fund

If game software is developed, produced or published by mainland Chinese enterprises or with mainland Chinese fund, the Taiwan distributor shall additional file with IDB game information and submit distributorship documents to prove that it is duly licensed to operate game software business.

Before completing foregoing registration, Taiwan distributor cannot carry out any marketing or distributing activities; otherwise, it shall remove advertisements or cease any promotional activities.

Consumer Protection

All game companies shall also comply with Provisions of Standard Form Contract for Online Game (網路連線遊戲定型化契約應記載及不得記載事項), which was also promulgated and governed by IDB, MOEA. According to current judicial practices and the rulings of Consumer Protection Committee, Executive Yuan (行政院消費者保護委員會), such standard form is for the reference of companies when drafting contracts to be entered with consumers. However, if any provision provided by the game companies contradicts the referenced clause in the standard form, it will be considered void under Consumer Protection Act (消費者保護法) in order to protect the rights of consumers.

HONG KONG LAWS AND REGULATIONS

Game

Any items in the game published in Hong Kong shall be subject to the Control of Obscene and Indecent Articles Ordinance (Chapter 390 of the Laws of Hong Kong) (the “COIAO”). The Office for Film, Newspaper and Article Administration has been conducting inspections of local retail outlets of electronic games to ensure that the electronic games sold are in compliance with the requirements stipulated in the COIAO, and takes appropriate follow-up actions when necessary, including submitting electronic games that are suspected to be in violation of the COIAO to the Obscene Articles Tribunal for classification and taking prosecution actions against persons who publish electronic games in contravention of the COIAO.

Companies distributing games to gamers in Hong Kong through third-party distributors, are required to comply with the regulations of the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong).

User Data and Privacy

According to Section 4 of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “PDPO”), a data user shall not do an act, or engage in a practice, that contravenes a data protection principle unless the act or practice, as the case may be, is required or permitted under the PDPO. In the event of contravention of a data protection principle, the Office of Privacy Commissioner for Personal Data may issue an enforcement notice directing the data user to remedy and/or institute legal proceedings. Under Section 50A of the PDPO, a data user who contravenes an enforcement notice commits an offence and is liable to a fine of HK\$50,000.00 and to imprisonment for two years. According to Section 2 of the PDPO, a data user means a person who, either alone or jointly or in common with other persons, controls the collection, holding, processing or use of the personal data.

The Office of the Privacy Commissioner for Personal Data has published the guidance note for data users on the collection and use of personal data entitled “Collection and Use of Personal Data through the Internet—Points to Note for Data Users Targeting at Children.” The guidance note seeks to highlight certain essential aspects relevant to data users who interact with children (who are aged under 18) via the internet, and are likely to collect their personal data via online means. It is relevant to those who operate online platforms (including websites, forums, mobile apps and so on) where, for example, the underlying services are targeted at or popular among children. In addition, the Office of Privacy Commissioner for Personal Data has published Guidance Note entitled “Guidance for Data Users on the Collection and Use of Personal Data through the Internet” and “Best Practice Guide for Mobile.” In August 2018, the Office of Privacy Commissioner for Personal Data issued the guidance entitled “The Benefits of Implementing a Privacy Management Programme (the “Best Practice Guide”),” which advocates that organizations should develop their own privacy management program and embrace personal data protection as part of their corporate governance responsibilities.

Marketing and promotion

Game companies carrying out marketing, promoting and advertising activities in Hong Kong should comply with The Trades Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong), which stipulates that false trade description, false, misleading or incomplete information or false statements, in respect of goods provided in the course of trading are prohibited.

Intellectual Property Rights

The Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong) governs the registration of trademarks, use of trademarks and related matters. As Hong Kong provides territorial protection for trademarks, trademarks registered in other countries or regions are not automatically entitled to protection in Hong Kong. In order to enjoy the protection by the laws of Hong Kong, trademarks shall be registered with the Intellectual Property Department under the Trade Marks Ordinance and the Trade Marks Rules (Chapter 559A of the Laws of Hong Kong).

The Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) as reviewed and revised from time to time provides comprehensive protection for recognized categories of literary, dramatic, musical and artistic works (including but not limited to graphic work and photograph), as well as for films, television broadcasts and cable diffusion and works made available to the public on the internet. Copyright is an automatic right, which arises when a work is created. It is not necessary to register a copyright in Hong Kong in order to get protection under Hong Kong law. In fact, there is no official registry in Hong Kong for registration of copyright works.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our history can be traced back to the establishment of X.D. Network under the name of Shanghai Xindong Enterprise Development Co., Ltd. (上海心動企業發展有限公司) by Mr. Huang, Mr. Dai and Mr. Zhao in July 2011. Since then, our business has been principally conducted via X.D. Network and its subsidiaries, and we have become an international game developer and operator. We also operate TapTap, an online game community and platform.

X.D. Network was renamed as X.D. Network Limited (心動網絡有限公司) in March 2015 and was converted into a joint stock limited company as X.D. Network Inc. (心動網絡股份有限公司) in May 2015. In November 2015, the shares of X.D. Network became quoted and listed on the NEEQ under the stock code of 833897. In December 2018, X.D. Network was voluntarily delisted from the NEEQ.

KEY BUSINESS MILESTONES

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

Year	Event
2011	<ul style="list-style-type: none">Establishment of X.D. Network focusing on developing, publishing and operating online games in JulyOur web game, Shen Xian Dao (Web) (神仙道頁遊), was officially launched in China
2015	<ul style="list-style-type: none">The shares of X.D. Network became quoted and listed on the NEEQ in November
2016	<ul style="list-style-type: none">TapTap, a leading mobile game community and platform in China, was launched by Yiwan in AugustYiwan became our non-wholly owned subsidiary following the increase of our shareholding to 55.05% equity interest in December
2017	<ul style="list-style-type: none">Awarded “Top 100 Chinese Internet Companies for the Year 2017” by Internet Society of ChinaOur mobile game, Ragnarok M, was officially launched in China in JanuaryLongcheng became our non-wholly owned subsidiary following the increase of our shareholding to 51% equity interest in July 2017 to further develop our overseas online game operation and publishing business
2018	<ul style="list-style-type: none">Our mobile game, Sausage Man (香腸派對), was officially launched in China in AprilX.D. Network was voluntarily delisted from the NEEQ in December

See “Business—Awards and Recognitions.”

OUR MAJOR SUBSIDIARIES AND PRC CONSOLIDATED AFFILIATED ENTITIES

We conduct our business principally through the following subsidiaries which made a material contribution to our results of operations during the Track Record Period:

Name	Principal business activities	Date of establishment	Place of establishment
X.D. Network	game development and operation	July 29, 2011	PRC
Longcheng	overseas online game operating and publishing	September 14, 2015	PRC
Yiwan	operation of TapTap	March 28, 2016	PRC

X.D. Network

X.D. Network is principally engaged in game development and operation and was jointly founded by Mr. Huang, Mr. Dai and Mr. Zhao in the PRC in July 2011.

Prior quotation and listing on the NEEQ and the delisting

X. D. Network was converted into a joint stock limited company as X.D. Network Inc. (心動網絡股份有限公司) in May 2015. On November 4, 2015, the shares of X.D. Network became quoted and listed on the NEEQ under the stock code of 833897.

With a view to achieving our overall strategic objective to develop an international financing platform and maximize our shareholders' value, we sought to voluntarily delist X.D. Network's shares from the NEEQ in October 2018. In December 2018, X.D. Network's application for delisting was approved by the NEEQ, and the shares of X.D. Network ceased to be quoted on the NEEQ on December 25, 2018. We subsequently decided to apply for the Listing of our Shares on the Stock Exchange as we believe the Stock Exchange would enable us to diversify our shareholder base with Hong Kong and international investors.

The market capitalization of X.D. Network upon delisting was RMB3,106.3 million based on the closing price of the shares of X.D. Network on the NEEQ of the last trading day before delisting, being September 27, 2018 (the "Last Trading Day"). Assuming an Offer Price of HK\$13.45 per Share (being the mid-point of the Offer Price Range of between HK\$11.10 and HK\$15.80 per Share), the expected market capitalization of our Company immediately upon the Listing is approximately HK\$5,702.2 million (equivalent to approximately RMB5,107.8 million) (assuming that the Over-allotment Option is not exercised). The market capitalization under the Global Offering is primarily determined by making reference to the current valuation of our peers listed on the Stock Exchange and other overseas stock exchanges, the performance and growth of our Company for the three years ended December 31, 2018 and the five months ended May 31, 2019 and the business prospect of our Company. Our market capitalization increased since the Last Trading Day, primarily because our business has grown rapidly since then. In particular, (i) we launched a number of new local versions of existing games and new games since the Last Trading Day, which demonstrated strong performance since launch and contributed to a substantial portion of our revenue, including Ragnarok M for Southeast Asia in October 2018, Ragnarok M for North America, South America and Australia in January 2019, and Ulala for Hong Kong, Macau and Taiwan in May 2019. For the five months ended May 31, 2019, the revenue from the abovementioned new local versions and new games accounted for approximately 36.6% of our total revenue. Moreover, our revenue increased by 36.2% to RMB1,033.0 million in the five months ended May 31, 2019 from RMB758.6 million in the same period of 2018 and our net profit increased by 69.9% to RMB267.5 million in the five months ended May 31, 2019 from RMB157.4 million in the same period of 2018; and (ii) our revenue generated from the information service business provided by TapTap, which became the largest game community and platform in China in terms of average MAUs in 2018 according to Frost & Sullivan, grew rapidly from RMB81.0 million for the year ended December 31, 2017 to RMB294.8 million for the year ended December 31, 2018 and contributed to the increase of our revenue; and (iii) the total number of our full-time employees continued to grow from 911 as of December 31, 2018 to 1,119 as of September 30, 2019, which enables us to maintain a strong pipeline and lays a solid foundation of future growth. Furthermore, we believe that the valuation of our Group was not properly reflected on the NEEQ primarily due to lack of liquidity, which was one of the reasons we decided to delist from the NEEQ.

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Our Directors confirm that, to the best of their knowledge and in respect of our business:

- (a) during the period the shares of X.D. Network were quoted on the NEEQ, X.D. Network:
 - (i) did not have any non-compliance in all material respects under the applicable PRC laws and regulations and the NEEQ rules and regulations; and
 - (ii) had not been subject to any material disciplinary action by the relevant regulators in connection with the quotation on the NEEQ, during the period when its shares were quoted on the NEEQ; and
- (b) there were no other matters in relation to the prior quotation on the NEEQ and the delisting that needs to be brought to the attention of the potential investors of our Company.

Based on the due diligence work conducted by the Sole Sponsor, the Sole Sponsor is satisfied that during the period of quotation and listing on the NEEQ, X.D. Network (i) did not have any material non-compliance under the NEEQ rules and regulations; (ii) had not been subject to any material disciplinary action by the relevant regulators in connection with the quotation on the NEEQ; and (iii) there were no other matters in relation to the prior quotation on the NEEQ or the delisting that needs to be brought to the attention of the potential investors of our Company.

Key shareholding changes of X.D. Network

Since its establishment, X.D. Network was held by Mr. Huang, Mr. Dai and Mr. Zhao as to 66.50%, 28.50% and 5.00%, respectively.

Prior to and concurrent with its application for quotation on the NEEQ, X.D. Network underwent several rounds of key shareholding change as follows:

- 1) In August 2014, Xindong Holding Co., Ltd. (心動控股有限公司) (“Xindong Holding”), an investment holding company established under the laws of the PRC in August 2014 and controlled and held by Mr. Huang, Mr. Dai and Mr. Zhao as to 66.50%, 28.50% and 5.00%, subscribed in cash for 70.00% of the equity interest in X.D. Network at the consideration of RMB23.33 million based on the registered capital of X.D. Network. Immediately after the capital injection, the registered capital of X.D. Network was increased from RMB10.00 million to RMB33.33 million, and X.D. Network was held by Mr. Huang, Mr. Dai, Mr. Zhao and Xindong Holding as to 20.00%, 8.50%, 1.50% and 70.00% respectively. In September 2014, the registered capital of X.D. Network was further increased to RMB40.00 million as a result of capital injection made by its then shareholders on a pro rata basis.
- 2) In December 2014, Shanghai Muxin Yinxi Investment Management Partnership (Limited Partnership) (上海木辛尹習投資管理合夥企業 (有限合夥)) (“Muxin Yinxi”), Shanghai Jiexin Investment Management Partnership (Limited Partnership) (上海界心投資管理合夥企業(有限合夥)) (“Shanghai Jiexin”) and Tianjin Jinwutong Investment Management Partnership (Limited Partnership) (天津金梧桐投資管理合夥企業 (有限合夥)) (“Tianjin Jinwutong”), an Independent Third Party, subscribed in cash for an aggregate of 20.00% of the equity interest in X.D. Network at the total consideration of RMB10.00 million based on the registered capital of X.D. Network. Immediately after the capital injection, the registered capital of X.D. Network was increased from RMB40.00 million to

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RMB50.00 million, and X.D. Network was held by Mr. Huang, Mr. Dai, Mr. Zhao, Xindong Holding, Shanghai Jiexin, Muxin Yinxi and Tianjin Jinwutong as to 16.00%, 6.80%, 1.20%, 56.00%, 15.00%, 4.00% and 1.00% respectively. Muxin Yinxi was a limited partnership established in the PRC, whose general partner is Zhang Qian and limited partner is Huang Xiwei.

- 3) In October 2015, X.D. Network issued additional shares representing 13.68% of the equity interest in X.D. Network (on a diluted basis) at a total consideration of RMB299.12 million to seven new investors, namely (i) China Culture Industrial Investment Fund (Limited Partnership) (中國文化產業投資基金(有限合夥)), a state-owned equity investment fund in the PRC; (ii) Dongfang Xinghui (Shanghai) Investment Centre (Limited Partnership) (東方星輝(上海)投資中心(有限合夥)) (“Xinhui Investment”), a private equity investment fund in the PRC, the general partner of which is Shanghai Orient Securities Capital Investment Co., Ltd. (上海東方證券資本投資有限公司), which was in turn wholly owned by DFZQ (東方證券股份有限公司), a securities company listed on the Main Board of the Stock Exchange under the stock code of 03958 and on the Shanghai Stock Exchange under the stock code of 600958, and the limited partners of Xinghui Investment is Wuhu Gopher Asset Management Co., Ltd. (蕪湖歌斐資產管理有限公司), who held 45.34% of the economic interests of Xinghui Investment (Wuhu Gopher Asset Management Co., Ltd. was indirectly wholly owned by Shanghai Noah Investment Management Co., Ltd. (上海諾亞投資管理有限公司), which was a consolidated variable interest entity of Noah Holdings Limited (諾亞控股有限公司), a wealth and asset management company listed on the New York Stock Exchange under the ticker symbol of NOAH. Save as disclosed, none of the other limited partners of Xinghui Investment held more than one third of the economic interest of Xinghui Investment); (iii) GF Securities Co., Ltd. (廣發證券股份有限公司), a securities company listed on the Main Board of the Stock Exchange under the stock code of 01776 and the Shenzhen Stock Exchange under the stock code of 000776; (iv) Zhuhai Qianheng Investment Management Co., Ltd. (珠海乾亨投資管理有限公司), a wholly-owned subsidiary of GF Securities Co., Ltd.; (v) GF Qianhe Investment Co., Ltd. (廣發乾和投資有限公司), a wholly-owned subsidiary of GF Securities Co., Ltd.; (vi) Kaiyuan Securities Co., Ltd. (開源證券股份有限公司), a securities company established in the PRC; and (vii) Northeast Securities Co., Ltd. (東北證券股份有限公司), a securities company listed on the Shenzhen Stock Exchange under the stock code of 000686. GF Securities Co., Ltd., Kaiyuan Securities Co., Ltd. and Northeast Securities Co., Ltd. held such shares of X.D. Network as its market makers for the purpose of provision of market making quotation services during X.D. Network’s NEEQ listing in 2015. Save as disclosed above and in “—Corporate Reorganization—2. Offshore shareholding restructuring”, all such investors, to the knowledge of our Directors, together with their substantial shareholders, are third parties independent of and not connected with our Company or our connected persons. The consideration was determined and negotiated among parties based on arm’s length negotiations with reference to the then financial performance of X.D. Network and the prospect of its business.

Immediately after the above subscriptions, X.D. Network was directly held by Xindong Holding, Mr. Huang, Mr. Dai, Mr. Zhao and other abovementioned shareholders as to 48.34%, 13.78%, 5.90%, 1.04% and 30.94%, respectively.

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In May 2017, X.D. Network issued additional shares representing 4.76% of the equity interest in X.D. Network (on a diluted basis) at a total consideration of RMB200.10 million to two investors, namely Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司) (“Shanghai Yousu”) and Tibet Taifu Culture Media Co., Ltd. (西藏泰富文化傳媒有限公司) (“Tibet Taifu”), both of which were established under the laws of the PRC and are principally engaged in investments in the entertainment industry. Shanghai Yousu was wholly owned by Youzu Interactive Co., Ltd. (游族網絡股份有限公司), which was an interactive entertainment company listed on the Shenzhen Stock Exchange under the stock code of 002174. Tibet Taifu is indirectly wholly-owned by Wuhu Sanqi Interactive Entertainment Network Technology Group Co., Ltd. (蕪湖三七互娛網絡科技集團股份有限公司), an interactive entertainment company listed on the Shenzhen Stock Exchange under the stock code of 002555. Save as disclosed in “—Corporate Reorganization—2. Offshore shareholding restructuring”, to the knowledge of our Directors, Shanghai Yousu and Tibet Taifu, together with the aforementioned ultimate controlling shareholders and their respective substantial shareholders, are third parties independent of and not connected with our Company or our connected persons. The consideration was determined and negotiated among parties based on arm’s length negotiations with reference to the then market capitalization of X.D. Network and the prospect of its business.

After the voluntary delisting of X.D. Network from the NEEQ, X.D. Network has primarily undergone the following key shareholding changes: (i) Shanghai Jiexin purchased 232,075 shares held by certain then shareholders of X.D. Network (together with the shareholders of repurchases as below, the “Exit Shareholders”) for an aggregate consideration of RMB2.30 million; and (ii) X.D. Network repurchased 8,437,540 shares held by its certain then shareholders for an aggregate consideration of RMB92.30 million. The repurchase prices of shares were determined after arm’s length negotiations among the parties based on the respective initial subscription and/or purchase prices of such shares or the average trading price of such shares for the 60 trading days preceding the delisting, whichever is higher. As advised by our PRC Legal Adviser, the repurchase of such shares by X.D. Network is in compliance with the PRC laws and regulations and the articles of association of X.D. Network.

Following the shareholding changes as set out above and as of the Latest Practicable Date, the shareholding structure of X.D. Network was as follows:

<u>Name</u>	<u>Approximate percentage of equity interest in X.D. Network</u>
Xindong Holding	47.14%
Mr. Huang	13.44%
Mr. Dai	5.76%
Mr. Zhao	0.76%
Subtotal	67.10%
Shanghai Jiexin ⁽¹⁾	10.68%
Onshore Shareholders ⁽²⁾	22.22%
Total⁽³⁾	100.00%

(1) Shanghai Jiexin was a limited partnership established under the laws of the PRC in December 2014 and its limited partnership interest was held by Xu Mohan (a former key employee made a great contribution to X.D. Network), Shen Sheng, and other employees of X.D. Network (collectively, the “Onshore Key Employee Shareholders”) as to approximately 62.49%, 27.89% and 9.62%, respectively. Its general partner was Fan Shuyang.

(2) The onshore shareholders (the “Onshore Shareholders”) included 18 investors, namely (i) Muxin Yinxi, (ii) Tianjin Jinwutong, (iii) Xinghui Investment, (iv) Shanghai Yousu, (v) Tibet Taifu, (vi) Fuzhou Tianmeng Digital Company Limited (福州天盟數碼有限公司) (“Fuzhou Tianmeng”), a web and mobile game developer and operator in the PRC, (vii) Xiamen Qunce Chuangying Equity Investment Partnership (Limited Partnership) (廈門群策創贏股權投資合夥企業 (有限合夥)) (“Qunce Investment”), a private equity investment company in the PRC, (viii) Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司) (“Jixiang Investment”), a private

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equity investment company in the PRC, which was wholly owned by G-bits Network Technology (Xiamen) Co., Ltd. (廈門吉比特網絡技術股份有限公司) (an interactive entertainment company listed on the Shanghai Stock Exchange under the stock code of 603444), and individual shareholders, including (ix) Hong Shen, (x) Shen Sheng, (xi) Wang Chenguang, (xii) Huang Xiwei, (xiii) Pan Zuqiang, (xiv) Zhang Aifen, (xv) Huang Yecheng, (xvi) Pan Chenpin, (xvii) Chen Ying and (xviii) Jia Shaochi. None of such Onshore Shareholders held more than 10.00% of the equity interest in X.D. Network. Each of the Onshore Shareholders, to the knowledge of our Directors, was a third party independent of and not connected with our Company or our connected persons, except for (i) Muxin Yinxi, the limited partner of which is Huang Xiwei and general partner is Zhang Qian, (ii) Shen Sheng, our executive Director, and (iii) Huang Xiwei, a substantial shareholder of Yiwan and a director of our subsidiaries.

- (3) X.D. Network previously held 8,437,540 treasury shares, representing approximately 2.34% of the shares of X.D. Network. X.D. Network repurchased such shares from its previous shareholders following its delisting from the NEEQ and has cancelled such shares in accordance with applicable PRC Laws. As advised by our PRC Legal Adviser, the repurchase of such shares by X.D. Network is in compliance with all applicable PRC laws.

Longcheng

Longcheng is principally engaged in overseas online game operating and publishing business. It was established in the PRC in September 2015 by X.D. Network, Shanghai Yilongxin Network Technology Co., Ltd. (上海易龍心網絡科技有限公司) (“YiLongxin”) which is wholly owned by Huang Xiwei, and another two Independent Third Parties, namely Shanghai Shuojia Investment Management Partnership (Limited Partnership) (上海燦嘉投資管理合夥企業 (有限合夥)) (“Shuojia Investment”) and Shanghai Kejun Investment Management Partnership (Limited Partnership) (上海柯駿投資管理合夥企業 (有限合夥)) (“Kejun Investment”), who held 20%, 30%, 30% and 20% equity interest in Longcheng, respectively. Subsequent to additional capital injections from X.D. Network in 2016, Longcheng was held as to 28%, 27%, 27% and 18% by X.D. Network, YiLongxin, Shuojia Investment and Kejun Investment, respectively.

Acquisitions of further equity interest in Longcheng

To further develop our overseas online game operation and publishing business and to expand into overseas online game markets, X.D. Network entered into share purchase agreements with Shuojia Investment and Kejun Investment on July 28, 2017, pursuant to which, X.D. Network agreed to acquire in aggregate 23% equity interest in Longcheng held by Shuojia Investment and Kejun Investment at a total cash consideration of RMB46 million (the “2017 Longcheng Acquisition”). The consideration was determined by the parties after arm’s length negotiations with reference to the business valuation of Longcheng and was settled on July 31, 2017 and August 31, 2017. Upon completion of the 2017 Longcheng Acquisition, Longcheng became our subsidiary and was held by X.D. Network, Yilongxin and Shuojia Investment as to 51%, 27% and 22%, respectively.

On April 30, 2018, X.D. Network, Longcheng and Shuojia Investment entered into a share purchase agreement, pursuant to which, X.D. Network agreed to further acquire 14% equity interest in Longcheng held by Shuojia Investment for a total cash consideration of RMB28 million. The consideration was negotiated and determined by the parties after arm’s length negotiations with reference to the business valuation of Longcheng. Following the completion of the acquisition, the equity interest of Longcheng was held by X.D. Network, Yilongxin and Shuojia Investment as to 65%, 27% and 8%, respectively.

The abovementioned acquisitions would have been classified as a major transaction under Chapter 14 of the Listing Rule at the date of the application for our listing. Accordingly, the relevant pre-acquisition financial information of Longcheng has been disclosed in the form of a note to the Accountant’s Report in this prospectus pursuant to Rule 4.05A of the Listing Rules, see “Financial Information—Financial Information of Longcheng” and “Appendix I—Accountant’s Report—III Additional Financial Information of Longcheng.”

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Our PRC Legal Adviser has confirmed that all relevant approvals in relation to the acquisitions and subscriptions as described above have been obtained and the procedures involved have been carried out in accordance with the PRC laws and regulations. Our PRC Legal Adviser has further confirmed that the acquisitions and subscriptions as described above have been properly and legally completed.

As part of the Corporate Reorganization to transfer the business which are not subject to any foreign investment restrictions or prohibition to ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, X.D. Network transferred its 65% equity interest in Longcheng to Xinxuan Network (as defined below). See “—Corporate Reorganization—4. Restructuring of our non-restricted and/or non-prohibited business.”

Yiwan

Yiwan is principally engaged in operation of TapTap and was founded by X.D. Network, Huang Xiwei and Zhang Qian in the PRC in March 2016. Since its establishment, Yiwan was held by Xin Mengxiang (Shanghai) Information Technology Co., Ltd. (心夢想(上海)信息科技有限公司) (“Xin Mengxiang”) as to 100%, which is in turn owned by X.D. Network, Huang Xiwei and Zhang Qian as to 46%, 38% and 16%, respectively.

As a part of corporate restructuring, Yiwan underwent certain capital injections and shareholding changes in 2016. Immediately following such corporate restructuring, X.D. Network directly held 45.41% equity interest in Yiwan, and the remaining equity interest was held by Muxin Yinxi, Shanghai Dingchuang Zhiyu Investment Partnership (Limited Partnership) (上海鼎創智瑜投資合夥企業(有限合夥)) (“Dingchuang Investment”) and Zhuhai Anran Investment Enterprise (Limited Partnership) (珠海安然投資企業(有限合夥)) (“Anran Investment”) as to 37.59%, 12.75% and 4.25%, respectively. Each of Dingchuang Investment and Anran Investment was an Independent Third Party and was principally engaged in investments.

Acquisitions of further equity interest in Yiwan

To further develop TapTap and to realize synergy with our game publishing business, Yiwan, X.D. Network, Muxin Yinxi, Dingchuang Investment and Anran Investment entered into capital injection agreement on December 7, 2016, pursuant to which, X.D. Network made a capital injection of RMB20 million into Yiwan (the “2016 Yiwan Acquisition”). The consideration was negotiated and determined by the parties after arm’s length negotiations with reference to the business valuation of Yiwan and has been fully settled as at December 9, 2016. Immediately after the capital injection, the equity interest held by X.D. Network increased from 45.41% to 55.05% and X.D. Network obtained control over Yiwan on December 20, 2016. Following the completion of the 2016 Yiwan Acquisition, Yiwan became our subsidiary and was held by X.D. Network, Muxin Yinxi, Dingchuang Investment and Anran Investment as to 55.05%, 30.95%, 10.50% and 3.50%, respectively.

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Since April 2017, Yiwan underwent several rounds of capital injections and shareholding changes, the shareholding structure of Yiwan as of the Latest Practicable Date was as follows:

<u>Name</u>	<u>Approximate percentage of equity interest in Yiwan</u>
X.D. Network	55.77%
Huang Xiwei ⁽¹⁾	10.85%
Zhang Qian ⁽¹⁾	6.20%
Huzhou Yixin Investment Management Partnership (Limited Partnership) (湖州易心投資管理合夥企業 (有限合夥)) (“Huzhou Yixin”) ⁽¹⁾	4.99%
Other shareholders ⁽²⁾	22.19%
Total	100.00%

(1) In April 2017, as a part of corporate restructuring, Muxin Yinxin transferred all of its 30.95% equity interest to Huang Xiwei, Zhang Qian and Huzhou Yixin. Huzhou Yixin was a limited partnership, whose limited partner was Huang Xiwei and general partner was an employee of Yiwan.

(2) Other shareholders included five investors, namely (i) Shanghai Xinhe Business Consulting Partnership (Limited Partnership) (上海芯赫商務諮詢合夥企業 (有限合夥)), a private equity investment fund in the PRC, (ii) Jixiang Investment, a private equity investment company in the PRC and one of our Onshore Shareholders, (iii) Hangzhou Bobo Technology Co., Ltd. (杭州播播科技有限公司), an internet company in the PRC, (iv) Anran Investment and (v) Ding Yingfeng. None of such shareholders held more than 10.00% equity interest in Yiwan. Each of them is an Independent Third Party.

The 2016 Yiwan Acquisition and subsequent subscription by X.D. Network would have been classified as a major transaction under Chapter 14 of the Listing Rule at the date of the application for our listing. Accordingly, the relevant pre-acquisition financial information of Yiwan has been disclosed in the form of a note to the Accountant’s Report in this prospectus pursuant to Rule 4.05A of the Listing Rules, see “Financial Information—Financial Information of Yiwan” and “Appendix I—Accountant’s Report—IV Additional Financial Information of Yiwan.”

Our PRC Legal Adviser has confirmed that all relevant approvals in relation to the acquisitions and subscriptions as described above have been obtained and the procedures involved have been carried out in accordance with the PRC laws and regulations. Our PRC Legal Adviser has further confirmed that the acquisitions and subscriptions as described above have been properly and legally completed.

MAJOR ACQUISITIONS DURING THE TRACK RECORD PERIOD

During the Track Record Period, we have completed acquisitions of further equity interest in Longcheng and Yiwan. See “—Our Major Subsidiaries and PRC Consolidated Affiliated Entities” for further details on the acquisitions.

CORPORATE REORGANIZATION

In January 2019, we commenced the Corporate Reorganization in preparation for the Listing, whereupon our Company became the holding company and the listing vehicle of our Group and our PRC operations were conducted primarily by our Company through the Contractual Arrangements.

1. Establishment of offshore holding structure

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 25, 2019 and is the ultimate holding company of our Group. Upon incorporation, our Company has an authorized share capital of US\$50,000 divided into 500,000,000 shares of a par

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value of US\$0.0001 each. On the same day, one share was allotted and issued for cash at par value to the initial subscriber and was subsequently transferred to Happy Today Holding Limited, the offshore shareholding company wholly owned by Mr. Huang. Our Company further allotted and issued 157,604,999 shares for cash at par value to Happy Today Holding Limited on April 10, 2019.

XD Holdings Limited was established in the British Virgin Islands as an investment holding company on February 11, 2019, which is wholly owned by our Company.

XD (HK) Limited was established in Hong Kong as an investment holding company on February 28, 2019, which is wholly owned by XD Holdings Limited.

2. Offshore shareholding restructuring

To reflect the onshore shareholding structure of X.D. Network, our Company allotted an aggregate of 360,358,500 Shares to the following shareholders at par value US\$0.0001, the consideration of which has been settled in full as at June 21, 2019:

Name	Number of Shares allotted	Consideration for the allotments	Approximate percentage of shareholding in our Company after the allotment
Happy Today Holding Limited ⁽¹⁾	157,605,000	US\$15,760.5000	43.7356%
Aiks Danger Inc. ⁽²⁾	67,545,000	US\$6,754.5000	18.7438%
Dynasty Vision Limited ⁽³⁾	10,961,250	US\$1,096.1250	3.0418%
Subtotal	236,111,250	US\$23,611.1250	65.5212%
Jiexin Management Limited ⁽⁴⁾	37,598,680	US\$3,759.8680	10.4337%
Offshore Shareholders ⁽⁶⁾	78,211,030	US\$7,821.1030	21.7037%
RSU Holding Entity ⁽⁵⁾	8,437,540	US\$843.7540	2.3414%
Total	360,358,500	US\$36,035.8500	100.0000%

As of the Latest Practicable Date,

- (1) Happy Today Holding Limited was a limited liability company incorporated in the British Virgin Islands on January 23, 2019, and was held under the family trust of Mr. Huang, our executive Director and Chief Executive Officer. The sole settlor and appointor of the trust was Mr. Huang and the beneficiaries were Mr. Huang and his family members.
- (2) Aiks Danger Inc. was a limited liability company incorporated in the British Virgin Islands on March 15, 2019, and was held under the family trust of Mr. Dai, our executive Director and President. The sole settlor and appointor of the trust was Mr. Dai and the beneficiaries were Mr. Dai's family members.
- (3) Dynasty Vision Limited was a limited liability company incorporated in the British Virgin Islands on March 13, 2019, and was wholly owned by Pearl Wide Limited, which was a limited liability company incorporated in the British Virgin Islands on March 13, 2019 and was in turn held as to 100% by Mr. Zhao. Mr. Zhao is in the process of setting up family trusts to hold his interest in our Company.
- (4) Jiexin Management Limited was a company incorporated in British Virgin Islands on June 4, 2019 and was held by Trident Trust Company (HK) Limited as the trustee for the Jiexin Trust, which was established by Jiexin Holdings Limited, a company wholly owned by Mr. Huang. The beneficiaries of the Jiexin Trust were Onshore Key Employee Shareholders.
- (5) Heart Assets Limited (心托資產有限公司) (the "RSU Holding Entity") was a limited liability company incorporated in the British Virgin Islands on June 4, 2019, and was established by the Company as the settlor holding our Shares pursuant to the RSU Scheme on trust for and on behalf of the grantees or our Company.

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- (6) The number of Shares allotted to the offshore shareholders, the consideration for such allotments and the approximate percentage of shareholding in our Company after allotments were as follows:

Name	Number of Shares allotted	Consideration for the allotments	Approximate percentage of shareholding in our Company after the allotment
IGG Inc ⁽⁷⁾	24,648,000	US\$2,464.8000	6.8399%
Edragon Technology Limited ⁽⁸⁾	11,805,865	US\$1,180.5865	3.2761%
Orient Ruide TENGHUI Hong Kong Limited ⁽⁹⁾	10,829,715	US\$1,082.9715	3.0053%
Yousu HongKong Limited ⁽¹⁰⁾	8,591,250	US\$859.1250	2.3841%
37 Darkbreak Co., Limited ⁽¹¹⁾	8,591,250	US\$859.1250	2.3841%
CMFHK Alternative Opportunity Investment VI Limited ⁽¹²⁾	4,833,315	US\$483.3315	1.3413%
Hongkong Kunpan Co., Limited ⁽¹³⁾	2,654,400	US\$265.4400	0.7366%
PTCP. Ltd ⁽¹⁴⁾	1,962,500	US\$196.2500	0.5446%
Pensway Limited ⁽¹⁵⁾	1,369,525	US\$136.9525	0.3800%
Xochipilli Ltd ⁽¹⁶⁾	1,188,000	US\$118.8000	0.3297%
Freemind Group Ltd ⁽¹⁷⁾	692,040	US\$69.2040	0.1920%
Comerstone Limited ⁽¹⁸⁾	690,855	US\$69.0855	0.1917%
Prairie Investment Holding Inc. ⁽¹⁹⁾	171,825	US\$17.1825	0.0477%
Shaochi Limited ⁽²⁰⁾	137,460	US\$13.7460	0.0381%
Chris Technology Limited ⁽²¹⁾	45,030	US\$4.5030	0.0125%

As of the Latest Practicable Date,

- (7) IGG Inc, a limited liability company incorporated in the Cayman Islands on August 16, 2007 and a listed company on the Main Board of the Stock Exchange under the stock code of 799, operated its business in PRC through Fuzhou Tianmeng under the contractual arrangements. Fuzhou Tianmeng, a limited liability company established in the PRC and accounted for as a subsidiary of IGG Inc, was one of our Onshore Shareholders and an Independent Third Party.
- (8) Edragon Technology Limited was a limited liability company incorporated in the British Virgin Islands on January 30, 2019, and was held under the family trust of Huang Xiwei, one of the Onshore Shareholders and a director of our subsidiaries. The sole settlor and appointor of the trust was Huang Xiwei and the beneficiaries were Huang Xiwei's family members.
- (9) Orient Ruide TENGHUI Hong Kong Limited (東睿騰暉香港有限公司), a limited liability company incorporated in Hong Kong on March 16, 2016, was wholly owned by Suzhou Dongzheng Beimin Investment Centre (Limited Partnership) (蘇州東證北溟投資中心 (有限合夥)), which was in turn controlled by Xinghui Investment as limited partner who held its 99.00% of the economic interests. Xinghui Investment was one of our Onshore Shareholders.
- (10) Yousu HongKong Limited (游素香港有限公司), a limited liability company incorporated in Hong Kong on October 23, 2015, was wholly owned by Shanghai Yousu, one of our Onshore Shareholders.
- (11) 37 Darkbreak Co., Limited (創世破曉有限公司), a limited liability company incorporated in Hong Kong on March 8, 2019, was wholly owned by Anhui Fun2Play Entertainment Network Technology Co., Limited (安徽尚趣玩網絡科技有限公司), which was in turn wholly owned by 37 Interactive Entertainment (Shanghai) Technology Co., Ltd. (三七互娛 (上海) 科技有限公司) ("37 Interactive Entertainment"). 37 Interactive Entertainment indirectly held 100% equity interest in Tibet Taifu through its wholly-owned subsidiaries, which was one of our Onshore Shareholders and an Independent Third Party. 37 Interactive Entertainment was a wholly-owned subsidiary of 37 Wenyu (Guangzhou) Network Technology Co., Ltd. (三七互娛 (廣州) 網絡科技有限公司), which was in turn wholly owned by Wuhu Sanqi Interactive Entertainment Network Technology Group Co., Ltd. (蕪湖三七互娛網絡科技集團股份有限公司), an interactive entertainment company listed on the Shenzhen Stock Exchange under the stock code of 002555. 37 Interactive Entertainment is one of our business partners during the Track Record Period. Our transactions with 37 Interactive Entertainment were negotiated on an arm's length basis and were conducted in the ordinary course of business and on normal commercial terms.
- (12) CMFHK Alternative Opportunity Investment VI Limited, a limited liability company incorporated in the Cayman Islands on June 12, 2018, was wholly owned by CMFHK Alternative Opportunity Investment VI SP, which was wholly owned by China Merchants Asset Management (Hong Kong) Company Limited (招商資產管理 (香港) 有限公司), which was in turn wholly owned by China Merchants Fund Management Co., Ltd. (招商基金管理有限公司) ("CM Fund"). CM Fund held 100% equity interest in China Merchants Wealth Asset Management Co., Ltd. (招商財富資產管理有限公司), which was the limited partner of Qunce Investment and held 99.00% of the economic interests. Qunce Investment was a limited partnership established in the PRC and one of our Onshore Shareholders and an Independent Third Party. The general partner of Qunce Investment was Shenzhen Zhaocai Gongying Equity Investment Fund Management Centre (Limited Partnership) (深圳招財共贏股權投資基金管理中心 (有限合夥)), which was controlled by Shanghai Zhaoyin Equity Investment Fund Management Co., Ltd. (上海招銀股權投資基金管理有限公司) as its general partner, which was in turn wholly owned by CM Fund through its wholly owned subsidiary. CM Fund was owned by China Merchants Bank (招商銀行股份有限公司), a bank listed on the Shanghai Stock Exchange under the stock code of 600036, and China Merchants Securities Co., Ltd. (招商證券股份有限公司), a securities company listed on the Main Board of the Stock Exchange under the stock code of 06099 and on the Shanghai Stock Exchange under the stock code of 600999, as to 55% and 45%, respectively.
- (13) Hongkong Kunpan Co., Limited (香港坤磐有限公司), a limited liability company incorporated in Hong Kong on December 16, 2016, which was wholly owned by Jixiang Investment, one of our Onshore Shareholders.
- (14) PTCP. Ltd was a limited liability company incorporated in the British Virgin Islands on March 22, 2019, and was wholly owned by Liu Qiankun, Tong Weiliang, Gao Shen, Gao Ruoxian as to 53%, 22%, 20% and 5%. Liu Qiankun, Tong Weiliang, Gao Shen, Gao Ruoxian

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

are limited partners of one of the Onshore Shareholders, Tianjin Jinwutong, Tong Weiliang was our Director and Liu Qiankun, Gao Shen and Gao Ruoxian were Independent Third Parties.

- (15) Pensway Limited was a limited liability company incorporated in the British Virgin Islands on March 20, 2019, and was wholly owned by Hong Shen, one of the Onshore Shareholders and an Independent Third Party.
- (16) Xochipilli Ltd was a limited liability company incorporated in the British Virgin Islands on March 14, 2019 and was held under the family trust of Shen Sheng, one of the Onshore Shareholders and our Director and Chief Technology Officer. The sole settlor and appointor of the trust was Shen Sheng and the beneficiaries were Shen Sheng and his family members.
- (17) Freemind Group Ltd was a limited liability company incorporated in the British Virgin Islands on March 20, 2019, and was wholly owned by Wang Chenguang, Huang Yecheng and Pan Chenping as to 91.44%, 5.48% and 3.08%, respectively, all of them were the Onshore Shareholders and Independent Third Parties.
- (18) Comerstone Limited was a limited liability company incorporated in the British Virgin Islands on March 20, 2019, and was wholly owned by Pan Zuqiang and Zhang Aifen as to 72.38% and 27.62%, respectively, both of them were the Onshore Shareholders and Independent Third Parties.
- (19) Prairie Investment Holding Inc. was a limited liability company incorporated in the British Virgin Islands on March 15, 2019, and was wholly owned by Chen Ying, one of the Onshore Shareholders and an Independent Third Party.
- (20) Shaochi Limited was a limited liability company incorporated in the British Virgin Islands on March 19, 2019, and was wholly owned by Jia Shaochi, one of the Onshore Shareholders and an Independent Third Party.
- (21) Chris Technology Limited was a limited liability company incorporated in the British Virgin Islands on January 30, 2019, and was wholly owned by Zhang Qian, one of the Onshore Shareholders and a director of our subsidiaries.

3. Establishment of onshore and offshore subsidiaries

XD Interactive was established in the PRC as a wholly foreign owned enterprise by XD (HK) Limited on June 6, 2019.

XDG Holding Limited was established in the British Virgin Islands on January 30, 2019, which is wholly owned by our Company.

X.D. Global (HK) Limited was established in Hong Kong on January 31, 2019, which is owned by XDG Holding Limited, Edragon Technology Limited, and LY Development Limited as to 65%, 27% and 8%, respectively. LY Development Limited is an Independent Third Party.

EWAN Holding Limited was established in the British Virgin Islands on January 30, 2019, which is wholly owned by our Company.

EWAN Global (HK) Limited was established in Hong Kong on February 26, 2019, which is owned by EWAN Holding Limited and Edragon Technology Limited and Chris Technology Limited as to 55.78%, 38.02% and 6.20%, respectively.

Xinxuan (Beijing) Network Technology Co., Ltd. (心弦 (北京) 網絡科技有限公司) (“Xinxuan Network”) was established in the PRC by X.D. Network and an Independent Third Party as to 99% and 1% on March 27, 2019.

4. Restructuring of our non-restricted and/or non-prohibited business

As part of the Corporate Reorganization to transfer the business which are not subject to any foreign investment restrictions or prohibition to ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, our following subsidiaries and investments in our associates and financial assets were transferred from our PRC Consolidated Affiliated Entities to our subsidiaries:

Name of company (Place of incorporation)	Percentage of equity interest to be transferred	Principal business activities	Status of the transfer as of the Latest Practicable Date
Longcheng (PRC) ⁽¹⁾	65%	overseas online game publishing and operating	65% equity interest has been transferred to Xinxuan Network from X.D. Network on June 11, 2019.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of company (Place of incorporation)	Percentage of equity interest to be transferred	Principal business activities	Status of the transfer as of the Latest Practicable Date
Xinxuan Network (PRC) ⁽²⁾	100%	Investment	X.D. Network and XD (HK) Limited entered into a share transfer agreement, pursuant to which X.D. Network agreed to transfer to XD (HK) Limited 99% equity interest in Xinxuan Network at the total consideration of RMB49,500. As of October 25, 2019, X.D. Network and XD (HK) Limited have completed relevant transfer and registration procedures. The remaining 1% equity interest has also been transferred by an Independent Third Party to XD (HK) Limited at the total consideration of RMB500.
Xindong (Hong Kong) Company Limited (Hong Kong) ⁽³⁾	100%	Investment	100% equity interest in Xindong (Hong Kong) Company Limited has been transferred to XD Holdings Limited from X.D. Network on May 24, 2019.
Xindong Korea Co., Ltd. (South Korea) ⁽⁴⁾	100%	Investment	100% equity interest in Xindong Korea Co., Ltd. has been transferred to XD Holdings Limited from X.D. Network on June 14, 2019.

As of the Latest Practicable Date,

(1) The consideration of RMB134,550,000 for the transfer was based on the net asset value of Longcheng as at December 31, 2018.

(2) The consideration of RMB49,500 and RMB500 were based on the then registered capital of Xinxuan Network.

(3) The consideration of USD4,451,000 for the transfer was determined based on the initial investment costs in Xindong (Hongkong) Company Limited.

(4) The consideration of USD1,000,000 for the transfer was determined based on the initial investment costs in Xindong Korea Co., Ltd.

5. Entering into the Contractual Arrangements to control our PRC Consolidated Affiliated Entities

On June 16, 2019, WFOE entered into various agreements that constitute the Contractual Arrangements with, among others, X.D. Network, under which all economic benefits arising from the business of our PRC Consolidated Affiliated Entities are transferred to WFOE to the extent permitted by the PRC laws and regulations. For further details on the Contractual Arrangements, see “Contractual Arrangements.”

6. Allotment of Shares pursuant to the RSU Scheme

On June 17, 2019, the Company issued and allotted an aggregate of 8,437,540 Shares to the RSU Holding Entity, which hold our Shares pursuant to the RSU Scheme on trust for and on behalf of the grantees or our Company (as the case may be). See “Statutory and General Information—D. RSU Scheme” in Appendix IV to this prospectus for further details.

COMPLIANCE WITH PRC LAWS AND REGULATION

Our PRC Legal Adviser confirmed that (i) the establishment of our subsidiaries in the PRC and their subsequent shareholding changes have complied with the relevant laws and regulations in all

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

material respects; and (ii) the Corporate Reorganization has complied with relevant applicable PRC laws and regulations in material respects.

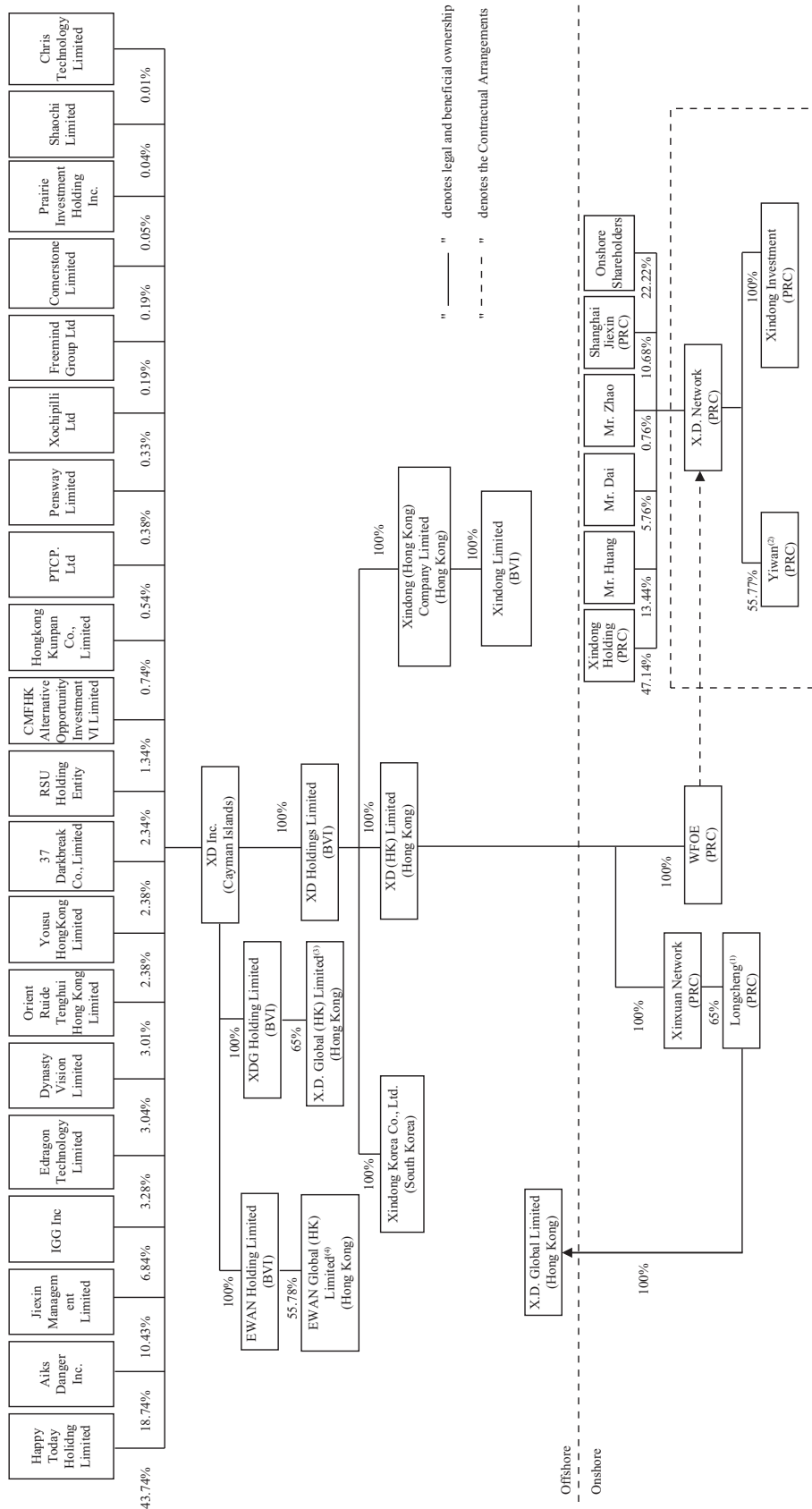
PUBLIC FLOAT AND LOCK UP

Upon the Listing, the Shares held by Happy Today Holding Limited, Aiks Danger Inc., Dynasty Vision Limited, Jiexin Management Limited, Edragon Technology Limited, Chris Technology Limited, Xochipilli Ltd and the RSU Holding Entity will not be counted towards the public float of the Company. Save for our Shares held by such Shareholders, our Shares held by other existing Shareholders will be counted towards the public float. Taking into account our Shares held by the existing Shareholders of the Company and our Shares to be issued to other public shareholders pursuant to the Global Offering, our Directors are of the view that our Company will be able to satisfy the public float requirement under Rule 8.08 of the Listing Rules.

Aiks Danger Inc., Dynasty Vision Limited, Jiexin Management Limited, Heart Assets Limited, IGG Inc, Edragon Technology Limited, Yousu HongKong Limited, 37 Darkbreak Co., Limited, Hongkong Kunpan Co., Limited, PTCP. Ltd, Xochipilli Ltd, Chris Technology Limited and Orient Ruide TENGHUI Hong Kong Limited, all being our existing Shareholders who hold in aggregate 194,858,480 Shares immediately prior to the completion of the Global Offering have undertaken that, without the prior written consent of the Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters), they will not, at any time during the period commencing on the date of this prospectus and ending on (i) the date falling six months after the Listing Date (both inclusive) (in respect of 184,028,765 Shares) or (ii) the date falling three months after the Listing Date (both inclusive) (in respect of 10,829,715 Shares), dispose of (i) any and all Shares held by such Shareholder as of the date of the undertaking and any such other additional Shares acquired by such Shareholder from the date of the undertaking up to (and including) the Listing Date and any Shares returned to such Shareholder pursuant to the Stock Borrowing Agreement, or (ii) any interest whether directly or indirectly in the any Relevant Shares. See “Underwriting—Undertakings to the Stock Exchange pursuant to the Listing Rules—Undertakings by our Controlling Shareholders” for details of the lock-up undertakings given by our Controlling Shareholders pursuant to Rule 10.07 of the Listing Rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SIMPLIFIED GROUP STRUCTURE OF OUR GROUP IMMEDIATELY UPON COMPLETION OF THE CORPORATE REORGANIZATION



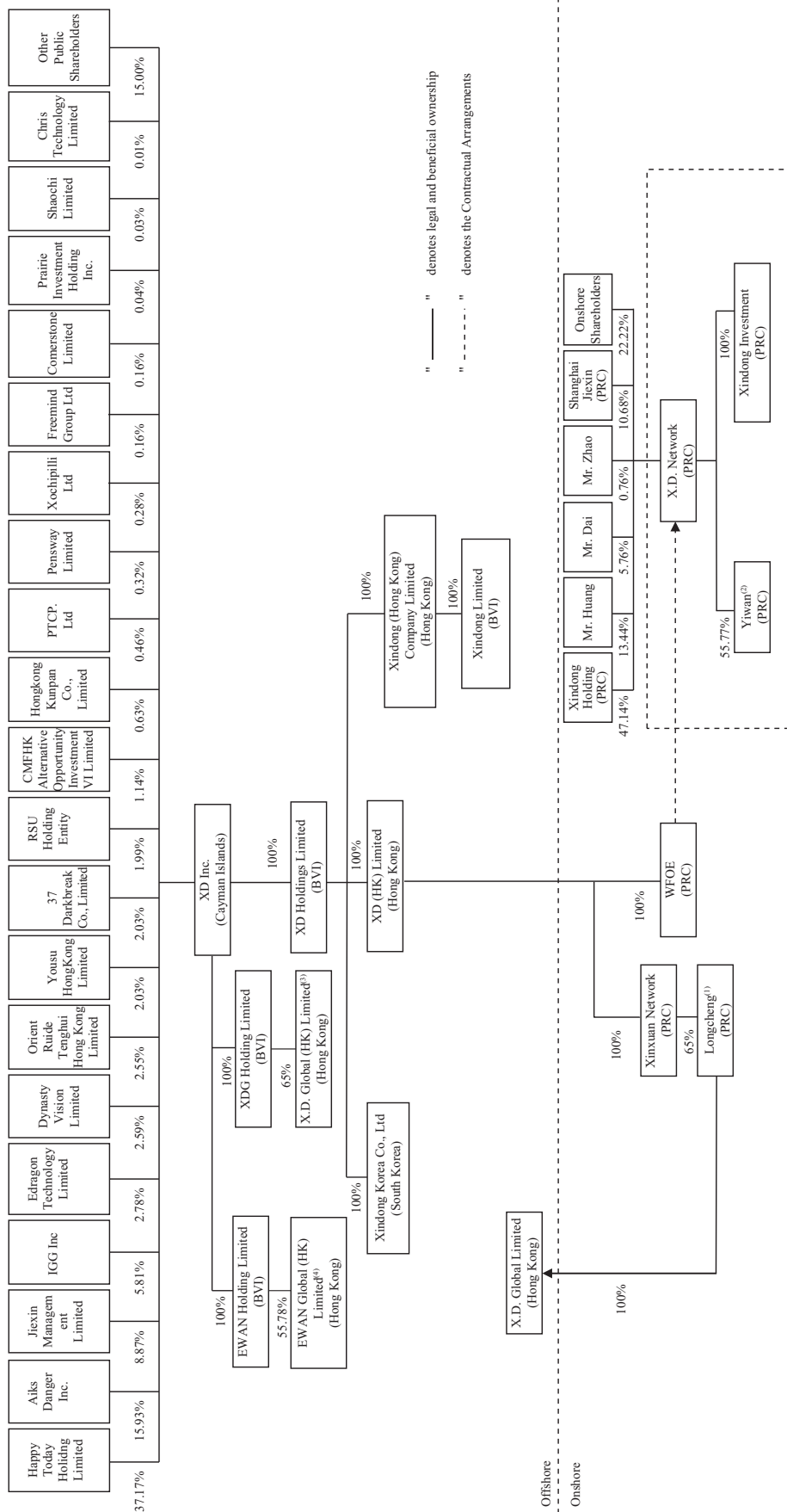
Note: See the corresponding notes immediately above “—Corporate Reorganization—2. Offshore shareholding restructuring”.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (1) The remaining 35% of the equity interest in Longcheng was owned as to 27% by Yilongxin and 8% by Shuojia Investment. See “—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Longcheng.”
- (2) The remaining 44.23% of the equity interest in Yiwan was owned as to 10.85% by Huang Xiwei, 6.20% by Zhang Qian, 4.99% by Huzhou Yixin and 22.18% by other five shareholders which are all Independent Third Parties. See “—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Yiwan.”
- (3) The remaining 35% of the equity interest in X.D. Global (HK) Limited was owned as to 27% by Edragon Technology Limited and 8% by LY Development Limited. See “—Corporate Reorganization—3. Establishment of onshore and offshore subsidiaries.”
- (4) The remaining 44.22% of the equity interest in EWAN Global (HK) Limited was owned as to 38.02% by Edragon Technology Limited and 6.20% by Chris Technology Limited. See “—Corporate Reorganization—3. Establishment of onshore and offshore subsidiaries.”

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

**SIMPLIFIED GROUP STRUCTURE OF OUR GROUP IMMEDIATELY UPON COMPLETION OF THE GLOBAL OFFERING
(ASSUMING THE OVER-ALLOTMENT OPTION IS NOT EXERCISED)**



- (1) The remaining 35% of the equity interest in Longcheng was owned as to 27% by Yilongxin and 8% by Shuojia Investment. See “—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Longcheng.”
- (2) The remaining 44.23% of the equity interest in Yiwan was owned as to 10.85% by Huang Xiwei, 6.20% by Zhang Qian, 4.99% by Huzhou Yixin and 22.18% by other five shareholders which are all Independent Third Parties. See “—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Yiwan.”
- (3) The remaining 35% of the equity interest in X.D. Global (HK) Limited was owned as to 27% by Edragon Technology Limited and 8% by LY Development Limited. See “—Corporate Reorganization—3. Establishment of onshore and offshore subsidiaries.”
- (4) The remaining 44.22% of the equity interest in EWAN Global (HK) Limited was owned as to 38.02% by Edragon Technology Limited and 6.20% by Chris Technology Limited. See “—Corporate Reorganization—3. Establishment of onshore and offshore subsidiaries.”

SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular No. 37”), promulgated by SAFE and which became effective on July 14, 2014: (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (b) 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 of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “SAFE Circular No. 13”), promulgated by the SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Adviser, our Relevant Individual Shareholders who are PRC citizens, namely Huang Yimeng, Dai Yunjie, Huang Xiwei, Zhang Qian, Zhao Yuyao, Liu Qiankun, Tong Weiliang, Gao Shen, Gao Ruoxian, Hong Shen, Shen Sheng, Wang Chenguang, Pan Chenpin, Huang Yecheng, Pan Zuqiang, Zhang Aifen, Chen Ying and Jia Shaochi, have conducted their registration under the SAFE Circular No. 13 and the SAFE Circular No. 37 in May 2019.

M&A RULES

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the CSRC and the SAFE, jointly issued the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (the “M&A Rules”), which became effective on September 8, 2006, and was amended on June 22, 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise (the “Regulated Activities”).

Given that (i) XD Interactive was established as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition by our Company under the M&A Rules; and (ii) no Regulated Activities were involved in the Corporate Reorganization under the M&A Rules, as advised by our PRC Legal Adviser, the establishment of XD Interactive and the Corporate Reorganization are not subject to the M&A Rules, and the Listing of our Company does not require approvals from the CSRC and the MOFCOM under the M&A Rules.

OVERVIEW

We develop and operate quality games in China and overseas. We also operate TapTap, a leading game community and platform in China. According to Frost & Sullivan, among PRC game operators who earned a majority of game operating revenue overseas in 2018, we ranked fifth in terms of revenue from mobile games in 2018. According to the same source, TapTap was the largest game community and platform in China by average MAUs in 2018.

We have a diverse portfolio of games across different genres. As of September 30, 2019, our game portfolio consisted of 42 online games and 12 premium games. As of the same date, our game pipeline included 11 online games and seven premium games which we expected to release by 2020. Being a pioneer among PRC game operators that entered and operated in the overseas markets, we commit ourselves to introducing excellent games to more people overseas. We also have strong in-house game development capabilities and develop games in-house.

To help gamers discover attractive games and share gameplay experiences, we co-founded TapTap in 2016 through our investment in Yiwan. TapTap has not only created a vibrant game community that attracts and retains gamers, but also served as a powerful distribution, testing and evaluation platform for game developers, which further enables us to monetize our user base.

We grew rapidly during the Track Record Period. In 2016, 2017, 2018 and the five months ended May 31, 2019, our revenue was RMB765.5 million, RMB1,344.4 million, RMB1,887.1 million and RMB1,033.0 million, respectively. Our revenue from game business contributed 100.0%, 94.0%, 84.4% and 82.9%, respectively, and revenue from information service business, comprising primarily online marketing services provided by TapTap, contributed nil, 6.0%, 15.6% and 17.1%, respectively, to total revenue during the same periods. In addition, in 2016, 2017, 2018 and the five months ended May 31, 2019, our profit for the year/period was RMB23.4 million, RMB120.5 million, RMB352.7 million and RMB267.5 million, respectively.

OUR STRENGTHS

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

Proven track record of developing and operating popular games

Leveraging our deep understanding of gamers' needs for high-quality games and our insights in latest market trends, we have been able to consistently develop and operate popular games during our operating history. We also take pride in the quality of our popular games, featured with well-known intellectual property rights, exquisite graphic designs, interesting and attractive storylines and characters, and user-friendly interface which gamers tend to be attracted to or actively participated in or paid for, such as Ragnarok M, Shen Xian Dao (HD) (神仙道高清重製版) and Sausage Man (香腸派對). As of September 30, 2019, we had 42 online games in operation, comprising many popular games in the major game genres of RPG (Ragnarok M and Shen Xian Dao (HD) (神仙道高清重製版)), CCG (Girls' Frontline (少女前線)), SLG (Heng Sao Qian Jun (橫掃千軍)) and battle arena game (Sausage Man (香腸派對)). These five popular games attracted an aggregate of over 120 million gamers since launch.

We enjoy a good reputation and received acclamation from industry peers and gamers for our operating capability. We started our game operating business by operating web games, and since 2012, we have strategically shifted our focus to mobile games. For example, through adapting the web version of Shen Xian Dao (神仙道) to a mobile version and enhancing our marketing efforts to attract new gamers, we extended the life cycle of this game to over eight years, which is substantially longer than comparable online games. Sausage Man (香腸派對) is another example of our strong operating capability. Since its launch in April 2018, Sausage Man (香腸派對) has become widely popular among gamers in China, and ranked first on the free game chart of App Store in China for five consecutive days in October 2018. This game's average MAUs exceeded 11 million in the nine months ended September 30, 2019, and the cartoon adaptation of this game attracted over 3.5 billion views as of September 30, 2019.

We have strategically invested substantial resources in our game development capability in recent years to enhance our game portfolio. Ragnarok M, a MMORPG game jointly developed by us and our partners in 2017, has gained wide popularity among 30 million gamers from over 50 countries and regions. This game has topped the top grossing chart of the App Store in over ten countries and regions. In addition, we developed and launched Heng Sao Qian Jun (橫掃千軍) in 2015, a popular SLG game which was one of our top five online games in terms of revenue during each year or period of the Track Record Period.

In addition to online games, we also operate 12 premium games. We believe premium games further enrich our game portfolio and enhance our brand recognition among core gamers. Our premium games, such as ICEY (艾希), support various types of devices, including but not limited to PlayStation 4, PC and Switch, and enjoy international recognition and awards. As of September 30, 2019, we had sold over 2.8 million copies of ICEY (艾希) across all platforms globally.

Vibrant and engaging game community and platform

Since its inception in 2016, TapTap has been dedicated to introducing high quality games to our gamers and connecting gamers and developers. As of September 30, 2019, we made available over 6,500 mobile games for gamers to download, and news and information on over 41,000 games on TapTap. We encourage gamers to review, discuss and rate games on TapTap which attracted a large amount of social networking interactions. By September 30, 2019, we recorded 693.8 million game downloads, 574.9 million game follows and 10.6 million game reviews on TapTap. TapTap established an independent rating system, and game rating on TapTap is the most authoritative reference for mobile games in China, according to Frost and Sullivan. As of September 30, 2019, we had 52.1 million registered users on TapTap, increasing from 2.1 million as of December 31, 2016. TapTap mobile app's average MAUs quickly rose from 0.9 million in 2016 to 17.0 million in the nine months ended September 30, 2019. According to Frost and Sullivan, TapTap was the largest game community and platform in China by average MAUs in 2018.

TapTap is also a game platform pioneering a free-to-distribute model in China. Under such model, developers can conveniently upload their games for gamers to download without embedding any required Software Development Kit or SDK, which has attracted a considerable number of game developers. As of September 30, 2019, TapTap attracted over 10,000 game developers. In addition to game distribution, we also provide developers with a range of value-added services, such as game testing and user data analysis, to enable them collect and analyze gamers' feedback to optimize their games. Our powerful data analytics tool helps developers collect a variety of real-time indicators, such as the number

of gamers, playtime, retention rate and in-game purchases. In addition, developers can place game advertisements on TapTap to achieve more targeted marketing.

TapTap has not only created a vibrant and engaging mobile game community that attracts and retains gamers, but also serves as a powerful distribution, testing and evaluation platform for game developers, which further enables us to monetize our user base.

Established overseas game publishing and operating capabilities

As one of the pioneers of China-based game developers and operators that entered the overseas markets, we commit ourselves to introducing high quality games to more people across different countries. As of September 30, 2019, we operated 30 of our 42 online games and seven of our 12 premium games in overseas markets. We have a large user base in the overseas markets which exceeded 37.3 million as of September 30, 2019. During the Track Record Period, our game operating revenue from overseas markets was RMB15.7 million, RMB397.6 million, RMB976.7 million and RMB578.7 million, respectively. According to Frost & Sullivan, we ranked first among all PRC game operators in the mobile game market of South Korea as measured by gross billings in 2018. Our games have been highly recognized in the global markets due to their innovation and high quality, including: “Best of 2018—Most Innovative Award” by Google Play for The Soul of Hunter (獵魂覺醒), “App Store Best Indie Games of 2017” by App Store for ICEY (艾希) and “Game Star—Annual Popular ACT Game of the year in 2018” by Taipei Computer Association for Girls’ Frontline (少女前線).

We believe we are a preferred distributor of PRC mobile games in the overseas markets. We have an experienced overseas publishing team, consisting of 145 employees as of September 30, 2019. Apart from our in-house publishing expertise, we also engage a number of overseas consultants to support our overseas operations, such as implementing marketing activities, quality control and organizing industry events. Leveraging our in-depth understanding of the fast-changing global game industry, dynamic user preferences and complex distribution and payment networks in different geographical markets, we help PRC game developers effectively enter the international markets with one-stop services, such as game redesign and localization, optimization, marketing, distribution and payment support. Our stable relationship with global partners is also critical to our overseas business. We partner with leading distribution platforms, such as App Store and Google Play, to take advantage of their global user base and mature payment system.

Excellent game development and data analytics capabilities

We believe strong independent research and development capability is critical to our long-term growth. In recent years, we enhanced our game development capabilities by building a strong research and development team consisting of eight game development studios and 552 employees as of September 30, 2019. As of September 30, 2019, we launched ten self-developed games including complex online games, such as Ragnarok M, a joint-developed game by Gravity, Dream Network and us, and Heng Sao Qian Jun (橫掃千軍). In 2016, 2017, 2018 and the five months ended May 31, 2019, we generated RMB575.6 million, RMB835.2 million, RMB925.7 million and RMB605.5 million of game operating revenue, respectively, from our self-developed games, including a joint-developed game, Ragnarok M, contributing RMB468.1 million, RMB627.2 million and RMB504.2 million in 2017, 2018 and the five months ended May 31, 2019. More importantly, as of September 30, 2019, we were developing five online games in our game pipeline, which we expected to release by 2020. In 2016, 2017 and 2018, our research and development expenses were RMB79.4 million, RMB117.4

million and RMB197.8 million, respectively, representing a CAGR of 57.8%. In the five months ended May 31, 2019, our research and development expenses were RMB92.5 million. As of the Latest Practicable Date, we had 11 registered patents, 103 registered software copyrights and 123 registered work copyrights in China.

Our multi-dimensional data analytics engine enables us to collect and synthesize a variety of game operation metrics. In addition, our game community and platform, TapTap, provided us with a large volume of multi-dimensional gamer data. The combination of our data analytical capabilities and rich data resource helps us to better understand user preference, identify key trends and further improve our games and user experience.

Experienced management team dedicated to innovation

Our experienced senior management team is led by our founder and chief executive officer, Mr. HUANG Yimeng and our co-founder and president, Mr. DAI Yunjie, both of whom are successful serial entrepreneurs. As gamers themselves, our founders have a shared passion for great games and have gained a deep understanding of the game industry. As of the Latest Practicable Date, Mr. Huang and Mr. Dai have over 13 years of experience in games, telecommunications, technology and internet industries. As of the same date, our senior management members also have over ten years of average experience in game and internet related industries. Leveraging their rich industry experience, in-depth insight in game trends and solid dedication to the game industry, our management team has successfully established a proven track record of successful game development, publishing and operation in both China and overseas.

OUR STRATEGIES

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

Further enhance our game portfolio

We aim to offer and operate world-class mobile games serving the global markets. To enrich our game portfolio and attract more gamers, we intend to continue to develop, discover and offer high-quality, seasoned games through the following measures:

- improving our in-house development capabilities through increasing investment in information technology infrastructure, recruiting experienced game development personnel, and enhancing our expertise in visual designs and sound effects;
- licensing popular games from both leading and emerging game developers, especially in China, Japan and South Korea, which we believe reflect our gamer's preference and latest industry trends; and
- collaborating with PRC and overseas game developers and content providers to adapt popular games and cultural contents into mobile games.

Increase active user base and engagement of TapTap

We will continually attract both gamers and developers to join the community of TapTap and further improve its engagement through the following measures:

- improving and upgrading the content recommendation algorithm of TapTap to more effectively capture and serve gamers' needs;

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- enhancing the search function of TapTap to help gamers locate useful resources efficiently;
- strengthening its community function, such as adding more sub-forums, and implementing both online and offline marketing strategies to increase gamer engagement;
- providing more advanced developer tools on TapTap that facilitate game developers to better interact with gamers to improve their game experience; and
- releasing overseas versions of TapTap with localized features to serve gamers and game developers globally.

Deepen overseas operations

We expect to expand our game publishing and operating business in both existing and new overseas markets, mainly through the following measures:

- cooperating with reputable game developers for publishing their games in the PRC and overseas markets; and
- establishing regional headquarters in overseas markets for better managing our overseas game operating business.

In respect of our current major overseas markets such as South Korea, Taiwan, Hong Kong and Southeast Asia, we plan to maintain and further increase our presence by offering quality games and focusing on better game localization, engaging qualified foreign consultants for advice and reaching out to more local partners for collaboration. Meanwhile, we closely monitor the market trends of the countries and regions with great potential such as Europe and North America for opportunities. We plan to continue to participate in international game events or exhibitions to promote our brand recognition globally.

Upgrade information infrastructure and technology

We believe that investing substantial resources in information technology can effectively empower our business in the fast-growing and evolving game industry. We intend to upgrade our information infrastructure and technology for our game operations through the following measures:

- recruiting and retaining skilled personnel, especially visual art designers, and adding new servers and adopting upgraded cloud services; and
- improving our data analysis system to enhance our understanding of gamers' needs through analysis of user behavior, and improving our anti-cheating system to achieve better gameplay experience and gamer information security.

Meanwhile, we plan to strengthen our game recommendation algorithms and user data analysis capabilities on TapTap, to allow us to effectively implement distribution and marketing strategies and improve user retention rate and monetization of our games.

Seek strategic investments and acquisitions

We plan to make selective and strategic investments in, and acquisitions of, businesses in China and overseas that can be synergistic to our existing operations, including game studios with strong game development capabilities, companies with advanced technologies or valuable intellectual

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property contents, and local companies with operating expertise and connections in local markets. We are also interested in acquiring or investing in suitable game service providers specialized in visual and sound effects, which we believe can improve the quality of our self-developed games. In addition, we plan to invest in local game distribution platforms and game communities to enhance the synergies between our game operating business and TapTap.

We expect each investment to be of the size from RMB3 million to RMB50 million. Our goal is creating synergies with our existing business and integrating resources in upstream and downstream industries, rather than purely seeking financial returns from our investments. We would normally consider disposing of our investments if such investments do not generate the aforementioned expected value within three years. As of the Latest Practicable Date, we had not identified any specific target for acquisition or investment.

AWARDS AND RECOGNITIONS

During the Track Record Period and up to the Latest Practicable Date, we have received various awards and recognitions in China, including principally:

<u>Award/Recognition</u>	<u>Year</u>	<u>Awarding Institution</u>	<u>Entity/Product</u>
Xiang Yang Award—Advertiser of Spirit of Craftsmanship (向陽獎-最具匠心精神廣告主)	2018	Tencent Social Ads (騰訊廣告)	X.D. Network and Yiwan
Top 10 most popular games overseas in 2018 (2018年度十大最受海外歡迎遊戲)	2018	China Audiovisual and Digital Publishing Association (中國音像與數字出版協會)	Ragnarok M
Top 100 Chinese Internet Companies for the Year 2017 (2017年中國互聯網百強企業)	2017	Internet Society of China (中國互聯網協會)	X.D. Network
2017 Top Ten Indie Games (2017年度十佳獨立遊戲)	2017	Sina Games (新浪遊戲)	ICEY (艾希)
2016 China Original Game Boutique Publishing Project (2016年度中國原創遊戲精品出版工程)	2016	General Office of National Press, Publication, Radio, Film and Television Administration (國家新聞出版廣電總局辦公廳)	Heng Sao Qian Jun (橫掃千軍)
2016 China Game Billboard—Top Ten Most Expected Mobile Games (2016中國遊戲風雲榜—十大最受期待手遊)	2016	www.QQ.com (騰訊網)	Ragnarok M

OUR REVENUE MODEL

We have diversified revenue streams and experienced rapidly growing revenue from games and TapTap. We develop, publish and operate games and generate game operating revenue. During the Track Record Period, our game operating business, especially our online games, contributed most of our revenue. We also publish and operate premium games. During the Track Record Period, we operated 64 games, of which 53 are online games and 11 are premium games. As of September 30, 2019, we operated 54 games, of which 42 are online games and 12 are premium games.

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Since 2017, we have also generated information service revenue from TapTap mainly through providing online marketing services. TapTap was developed by Yiwan which was co-founded by us in March 2016. After several rounds of equity interest acquisition and capital injection, Yiwan became our subsidiary in December 2016. See “History, Reorganization and Corporate Structure—Yiwan.” Revenue generated from our information service business grew rapidly, from RMB81.0 million in 2017 to RMB294.8 million in 2018 accounting for 6.0% and 15.6% of our total revenue in 2017 and 2018, respectively, and increased by 57.9% to RMB176.7 million in the five months ended May 31, 2019 from RMB111.9 million in the same period of 2018.

The following table sets forth a breakdown of our revenue for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(Unaudited)										
(RMB in thousands except for percentages)										
Games	765,521	100.0	1,263,408	94.0	1,592,347	84.4	646,729	85.3	856,339	82.9
Game operating . . .	754,454	98.5	1,253,617	93.3	1,588,115	84.1	643,988	84.9	853,848	82.7
Online										
games	748,931	97.8	1,216,094	90.5	1,544,485	81.8	635,701	83.8	840,177	81.3
Premium										
games	5,523	0.7	37,523	2.8	43,630	2.3	8,287	1.1	13,671	1.4
Others ⁽¹⁾	11,067	1.5	9,791	0.7	4,232	0.3	2,741	0.4	2,491	0.2
Information services . . .	—	—	80,991	6.0	294,761	15.6	111,875	14.7	176,693	17.1
Total revenue	765,521	100.0	1,344,399	100.0	1,887,108	100.0	758,604	100.0	1,033,032	100.0

(1) Others in game operating are primarily derived from licensing copyrights of our games or game contents to other game publishing companies for agreed periods, and other game publishers pay license fees for the right to operate our games in specified geographic areas. The license fees normally comprise of a fixed lump sum and variable fees calculated based on a predetermined rate on the cash paid by gamers collected by the publishers related to the licensed games.

OUR ONLINE GAMES

We focus on developing, publishing and operating online games. As of September 30, 2019, we operated 42 online games including well-known games such as Ragnarok M. All our online games are offered on a free-to-play basis. We generate revenue from the sales of in-game virtual items. In 2016, 2017, 2018 and the five months ended May 31, 2019, revenue from our online games accounted for 97.8%, 90.5%, 81.8% and 81.3% of our total revenue, respectively, and 99.3%, 97.0%, 97.3% and 98.4% of our game operating revenue, respectively.

Our online games consist of mobile games and web games. We commenced our online game business by publishing and operating web games developed by third-party game developers in China. Since 2012, capitalizing on our experience accumulated from operating web games, we began to shift our business focus to developing, publishing and operating mobile games.

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The table below sets out a breakdown of our game operating revenue from online games by type for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(RMB in thousands except for percentages)										
Mobile games . .	580,405	77.5	1,120,526	92.1	1,446,365	93.6	585,754	92.1	797,418	94.9
Web games	168,526	22.5	95,568	7.9	98,120	6.4	49,947	7.9	42,759	5.1
Total	748,931	100.0	1,216,094	100.0	1,544,485	100.0	635,701	100.0	840,177	100.0

Game Portfolio

We offer a large portfolio of online games for gamers with diversified preferences across various countries and regions. Our games typically have three stages in their life cycles, for each game including (i) the growth stage, during which the number of gamers and the revenue generated by the game experience rapid growth, (ii) the maturity stage, during which the revenue tends to be continuously generated by the game and the number of gamers tends to be stable during this stage, and (iii) the recession stage, during which the number of gamers and the revenue generated by the game decrease significantly.

The following table sets out certain key information of our major popular online games as of September 30, 2019:

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Title	Source	Launch date	Genre	Major operating markets	Life cycle stage as of September 30, 2019	Expected remaining lifespan as of the Latest Practicable Date ⁽⁴⁾	Expiration date of licensing agreement	Our role	Revenue recognition method applied
Ragnarok M	Self-developed ⁽²⁾	January 2017	MMORPG	China, Hong Kong, Macau, Taiwan, South Korea, Japan, Southeast Asia, North America, South America and Australia	Maturity ⁽³⁾	3-5 years	— ⁽⁵⁾	As principal in China and as agent of the game publishers in overseas markets	Gross basis for China and net basis for overseas markets
Sausage Man (香腸派對)	Licensed	April 2018	Battle arena game	China	Growth	3-5 years	April 2021	Principal	Gross
Ulala (不休的烏拉拉)	Licensed	May 2019	Placement game	Hong Kong, Macau and Taiwan, South Korea, Japan, America and Southeast Asia	Growth	3-5 years	May 2022	Principal	Gross
Girls' Frontline (少女前線)	Licensed	January 2017	CCG	Hong Kong, Macau, Taiwan and South Korea	Maturity	2-4 years	January 2020	Principal	Gross
Heng Sao Qian Jun (橫掃千軍)	Self-developed	October 2015	SLG	China	Maturity	2-4 years	—	Principal	Gross
Shen Xian Dao HD (神仙道高清重製版)	Self-developed	March 2016	RPG	China	Maturity	3-5 years	—	Principal	Gross
Identity V (第五人格)	Licensed	September 2018	Asymmetrical battle arena	South Korea	Maturity	2-4 years	September 2021	Agent of the game developer	Net
LifeAfter (明日之後)	Licensed	April 2019	MMORPG	South Korea	Maturity	2-4 years	April 2022	Agent of the game developer	Net
Azur Lane (碧藍航線)	Licensed	March 2018	CCG	South Korea	Maturity	2-4 years	March 2021	Principal	Gross
Tales of Erin (蒼藍境界)	Licensed	August 2018	RPG	Japan	Maturity	2-4 years	December 2021	Principal	Gross
Shen Xian Dao (Web) (神仙道頁遊) ⁽¹⁾	Licensed	May 2011	RPG	China	Maturity	2-3 years	May 2022	Principal	Gross

(1) Other than Shen Xian Dao (Web) (神仙道頁遊), all other games listed in this table are mobile games.

(2) Ragnarok M was jointly developed by Gravity, Dream Network and us. See "Business—Our Online Games—Ragnarok M."

(3) See "—Ragnarok M" for more information on the life cycle stage of Ragnarok M in different geographical markets as of September 30, 2019.

(4) The expected remaining lifespans are estimated based on the industry average lifespans by different genres of games, our past experience of operating similar games and the current performance of the relevant game. However, the actual lifespans of these games may differ from the time presented in the table.

(5) See "Business—Our Online Games—Game Portfolio—Ragnarok M" for more information on the expiration dates of licensing agreements of Ragnarok M in different geographical markets as of September 30, 2019. Our agreement with Dream Network in relation to the operation of Ragnarok M in China will expire on December 8, 2020.

Ragnarok M

Ragnarok M is an MMORPG game based on the Norse Mythology creating a fantasy world of swords and magic. This game allows gamers to customize the creation of a virtual character and have the options for a variety of character careers and career path transitions. Gamers are able to improve the level and strength through fighting and completing storyline missions. This game offers an attractive 2D design and personalized look for each character, and also has a 3D game world. Gamers can interact with each other through team formation and battle between gamers or groups.

Due to the popularity of Ragnarok Online among gamers across East Asia in the 2000s, there were over one million pre-registrations on our domain www.ro.com before we launched Ragnarok M: in China in January 2017. In October 2017, Ragnarok M was launched in Hong Kong, Macau and Taiwan and ranked first on the top grossing chart of App Store in Taiwan for over a week following its release. Ragnarok M was launched in South Korea in March 2018, following which it ranked first on the top grossing chart of App Store in South Korea for six consecutive days. In October 2018, Ragnarok M was launched in various other countries and regions in Southeast Asia and topped the top grossing chart and free app chart of App Store in multiple countries and regions on that day. Ragnarok M has gained wide popularity among 30 million gamers from over 50 countries and regions as of September 30, 2019.

In 2017 and 2018 and the nine months ended September 30, 2019, Ragnarok M had average MAUs of 1.7 million, 2.7 million and 5.3 million, respectively.



Ragnarok M was jointly developed by Gravity, Dream Network and us. It is the mobile version of Ragnarok Online, which was developed by Gravity and launched in South Korea in 2002. Based on the various agreements among Gravity, Dream Network and us, Dream Network, which was granted by Gravity the license to develop and publish certain games based on Ragnarok Online in China, supplied us with the materials associated with Ragnarok Online such as characters, music and storylines and we are responsible for designing, developing and testing Ragnarok M. Dream Network was mainly involved in the works such as the supply of contents of Ragnarok Online in accordance with its agreements with Gravity and discussion of development plan. All local versions of Ragnarok M in overseas were made based on the PRC version after performing localization works. Gravity holds the material intellectual property rights of Ragnarok M, and we own the design patents over certain in-game subjects designed by us and the patents over some self-developed information technologies used in Ragnarok M, none of which is of significance to our operation of Ragnarok M or provision of technical and operation support to Gravity or its associates. We wrote and currently hold the source code of the game, which allows us to better control the game and more effectively update game content, make local versions and fix technical issues. For countries and districts other than Hong Kong, Taiwan, Macau, South Korea and Japan, we also have been carrying out a substantial amount of operating works. As such, we believe that the possibility of us being replaced by Gravity and Dream Network in publishing and operating of Ragnarok M in the future is minimal.

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As the sole publisher and operator of Ragnarok M in China, our revenue represents the whole gross billing. Along with the increase of the cumulative gross billings of Ragnarok M in China, Dream Network degressively shares 22%, 13.667% or 12% of the monthly gross billings of Ragnarok M in China with us, which includes the payment from Dream Network to Gravity as the owner of intellectual property rights of Ragnarok M. Since November 2017, Dream Network has been sharing 13.667% of monthly gross billings as the cumulative gross billings of Ragnarok M in China exceeded RMB400.0 million. For countries and districts outside China, Gravity or its associates are the publisher collecting payment from gamers through distribution platforms and payment channels and our roles vary. In South Korea, Japan, Hong Kong, Macau and Taiwan, we provide technical support to Gravity or its associates, such as installation support, maintenance assistance, version updating and bug fixing; in all other overseas geographical markets, in addition to technical support to Gravity or its associates, we also provide operation support in connection with game localization, establishment and operation of local servers, promotion and marketing activities and customer services. Depending on the overseas geographical market in which Ragnarok M is operated, our revenue represents a certain percentage of gross billings of Ragnarok M, which was paid by Gravity or its associates to us. According to the relevant agreements, Dream Network has no contractual obligation to undertake any substantive work in either publishing or operating Ragnarok M in the overseas markets.

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Our agreement with respect to the operation of Ragnarok M in China expires on December 8, 2020. For overseas markets, the agreements relating to our provision of technical support and/or operation support to Gravity or its associates typically have an initial term of two years from the launch date of the game in each geographical market. Such agreements for the overseas markets can be automatically renewed for another year unless Gravity gives notice expressing its intention not to renew the relevant agreement at least three months before the expiration date of the initial term. As of the Latest Practicable Date, we have not received any such notice from Gravity. The table below summarizes certain key arrangements of Ragnarok M in different geographical markets as of September 30, 2019:

<u>Geographical market</u>	<u>Launch date</u>	<u>Expiry date</u>	<u>Our role and responsibilities</u>	<u>Revenue sharing arrangement effective as of the Latest Practicable Date</u>	<u>Revenue (RMB in thousands)</u>	<u>Life cycle as of September 30, 2019</u>
China	January 2017	December 2020	Sole publisher and operator	We recognize gross billings as our revenue and pay 13.667% of the gross billings to Dream Network	2017 419,179 2018 229,913 2019 ⁽²⁾ 112,284	Maturity
Hong Kong, Macau and Taiwan	October 2017	October 2020	Provision of technical support	Gravity or its associates pay us 25% of the gross billings as our service fees	2017 48,883 2018 96,889 2019 ⁽²⁾ 15,624	Maturity
South Korea	March 2018	March 2020	Provision of technical support	Gravity or its associates pay us 25% of the gross billings as our service fees	2017 — 2018 68,377 2019 ⁽²⁾ 9,470	Maturity
Southeast Asia	October 2018	October 2020	Provision of technical support and operation support	Gravity or its associates pay us 45% of the gross billings from App Store and Google Play ⁽¹⁾ as our service fees	2017 — 2018 232,008 2019 ⁽²⁾ 297,635	Maturity
North America, South America and Australia	January 2019	January 2021	Provision of technical support and operation support	Gravity or its associates pay us 43% of the gross billings from App Store and Google Play ⁽¹⁾ as our service fees	2017 — 2018 — 2019 ⁽²⁾ 69,213	Maturity
Japan	June 2019	June 2021	Provision of technical support	Gravity or its associates pay us 22.5% of the gross billings as our service fees	—	Growth

(1) For distribution platforms other than App Store and Google Play, Gravity or its associates pay us the gross billings after deducting commissions charged by such distribution platforms and payment channels and revenue shared with other parties, instead of a fixed percentage of gross billings.

(2) For the five months ended May 31, 2019.

We have maintained good business relationship with Gravity and Dream Network and did not have any disputes with Gravity or Dream Network during the Track Record Period and up to the Latest Practicable Date, and our Directors are not aware of any circumstances that would adversely affect our

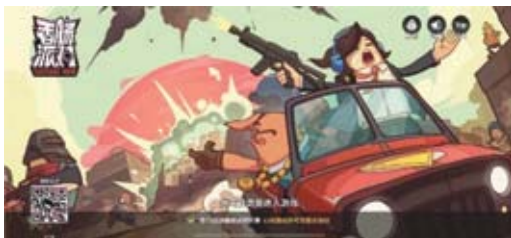
cooperation with Gravity and Dream Network after the Listing. For the agreements relating to the operation of Ragnarok M in China, Dream Network can unilaterally terminate the relevant agreements if our certain conducts (such as suspension of the operation of Ragnarok M in China for 30 days or infringement of the intellectual property rights of Gravity or Dream Network) lead to the termination of the licensing agreements between Gravity and Dream Network; for the agreements relating to the operation of Ragnarok M in overseas markets, Gravity can unilaterally terminate the relevant agreements only if we materially breach our obligations thereunder or we infringe the intellectual property rights of Gravity. We are not aware that any of our conducts will trigger such aforementioned unilateral termination clauses. Moreover, we believe that our stable business relationships with Gravity and Dream Network are on the basis of mutual benefits. For more information on potential impact of the termination of the business relationship with Gravity and Dream Network, see “Risk Factors—We derived a substantial amount of revenue from a small number of popular games and a small group of high-spending gamers during the Track Record Period” and “Risk Factors—The performance of our popular game, Ragnarok M, may be affected by other games of the same genre with similar contents.”

Sausage Man (香腸派對)

Sausage Man (香腸派對) is a battle arena game. All the characters in this game have sausage shapes. Gamers can opt to land on multiple terrains in the game and are required to seek and use gear to defeat other gamers and obtain their gear. Gamers can select different game modes in this game and the last person or team that survives will win the game. This game offers diversified maps and various carriers, allowing up to 100 gamers to play on the same map.

Since the launch of Sausage Man (香腸派對) in China in April 2018, it quickly became popular among PRC gamers and topped the free game chart of App Store in China for five consecutive days in October 2018. Sausage Man (香腸派對) had average MAUs of approximately 4.3 million in 2018 and average MAUs of approximately 11.1 million for the nine months ended September 30, 2019.

We started to monetize Sausage Man (香腸派對) in February 2019. To enhance the intellectual property value of Sausage Man (香腸派對), we collaborated with other parties to produce its cartoons which are available for viewing online. As of September 30, 2019, Sausage Man cartoons had achieved over 3.5 billion views.



Ulala (不休的烏拉拉)

Ulala (不休的烏拉拉) is a placement game with a background of the Stone Age. This game has 3D-modeled game characters and pets, combined with full-screen battle scenes and original adventure maps. This game adopts a four-player team model, with each team as the unit for placement, and the right combination of careers and skills is the optimum way to rapid level-up. Meanwhile, teammates are encouraged to communicate frequently and discuss the most appropriate strategies in the game. This game also brings players a new experience through a well-designed peripheral system and a new gameplay that combines augmented reality functions with game pets.



Girls' Frontline (少女前線)

Girls' Frontline (少女前線) is a 2D cultivation CCG game. This game adopts a checkerboard layout, in which the gamer plays the role of a commander and moves the humanoid “dolls” by allocating resources reasonably according to the number of steps per turn. In the end, the one who destroys the enemy or captures their stronghold will win the battle. This game offers various humanoid “dolls” characters for gamers to collect, and gamers usually need to use different humanoid “dolls” to complete the battle. It was awarded “Game Star—Annual Popular ACT Game of the year in 2018” by Taipei Computer Association.



Heng Sao Qian Jun (橫掃千軍)

Heng Sao Qian Jun (橫掃千軍) is a SLG game based on the theme of Three Kingdoms. This game incorporates the concepts of “nation” and “internal affairs” into the traditional three kingdoms strategic gameplay and adopts the military battle mode of real-time rendering. Gamers may cultivate a military officer, build cities involving political, military, economic, demographic and other elements, and fight with other gamers by matching tactics with military commanders to attack and occupy other cities.



Identity V (第五人格)

Identity V (第五人格) is an asymmetrical battle arena mobile game. A gamer will act as a detective to investigate and review a case. During the case review, gamers can select to play either “regulator” or “survivor” modes in different scenarios. In order to win the game, gamers playing the “survivor” role are required to cooperate with each other to decipher the cipher machine, and then open the gate to escape, while gamers playing the “regulator” role need to eliminate at least three “survivors”. Gamers can set different innate skills based on the different characters they select.



LifeAfter (明日之後)

LifeAfter (明日之後) is a human survival MMORPG game with the background of a doomsday virus. The gameplay of this game is wasteland cooperation and survival, which requires gamers to help each other and overcome the harsh environment in the wasteland. This game employs the virtual joystick as the main operational mode, and adopts camp construction, map exploration, resource collection and combat confrontation as the means to help players gradually improve their abilities.



Azur Lane (碧藍航線)

Azur Lane (碧藍航線) is a nijigen CCG game that integrates strategic cultivation, naval battle, barrage and a variety of social gameplay. With the theme of military anthropomorphism, gamers can collect and develop powerful game characters and equipment through abundant gameplay such as mainline levels, daily raids, actual combat exercise and vessel construction, and manually operate their own fleet to conquer the world.



Tales of Erin (蒼藍境界)

Tales of Erin (蒼藍境界) is an animation RPG game that integrates character formation, strategic battle and multiplayer cooperation. When playing the game, gamers need to use their own game characters to fight. This game is characterized by a Japanese nijigen style and features animation-like pictures.



Shen Xian Dao (Web) (神仙道頁遊)/Shen Xian Dao (HD) (神仙道高清重製版)

Shen Xian Dao (Web) (神仙道頁遊) is a turn-based RPG game based on fantasy and mythic storylines. Gamers can choose from three roles, namely Wusheng, a martial artist, Jianling, a fairy wielding a sword, and Feiyu, an archer, to embark on adventures slaying demons and enemies with martial arts and magic. Gamers' equipment and strength can be upgraded by completing various missions and defeating enemies. This game is a multi-player game where gamers can play and interact with each other online. Shen Xian Dao (HD) (神仙道高清重製版) is the mobile version of this game.



Game Performance

As of December 31, 2016, 2017, 2018 and September 30, 2019, the number of cumulative registered players of our online games were 15.1 million, 38.4 million, 91.3 million and 165.1 million. The performance of our online games is affected by three key metrics: (1) MAU; (2) MPU; and (3) ARPPU. The following table sets forth key metrics of our online games for the periods indicated:

	Year ended December 31,			Five months ended May 31,	Nine months ended September 30,
	2016	2017	2018	2019	
Average MAUs ⁽¹⁾ (in thousands)	1,872.1	3,650.7	8,760.8	18,029.7	19,177.2
Average MPUs ⁽²⁾ (in thousands)	169.5	244.2	412.2	637.0	640.3
ARPPU ⁽³⁾ (RMB per month)	368	415	312	264	N/A

(1) Average MAUs are calculated by dividing the aggregate of the total MAUs of each online game for the respective period by the number of months of that period.

(2) Average MPUs are calculated by dividing the aggregate of the total MPUs of each online game for the respective period by the number of months of that period.

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(3) ARPPU is calculated by dividing our total online game revenue for the respective period by the aggregate of the total MPUs of each online game for the respective period.

The increases in average MAUs of our online games during 2016, 2017 and 2018 are primarily attributable to: (i) the launch of Ragnarok M in China in 2017 and in some overseas markets in 2018; and (ii) the popularity of Sausage Man (香腸派對) launched in 2018. The average MAUs of our online games further increased to 18.0 million in the five months ended May 31, 2019 compared to 8.8 million in 2018, primarily attributable to (i) the average MAUs of Sausage Man (香腸派對) continued to grow in the five months ended May 31, 2019; and (ii) the successive launch of Ragnarok M in several overseas markets and the growth of its average MAUs in China in the five months ended May 31, 2019. See “Business—Our Online Games—Game Performance.” The average MPUs of our online games increased during the Track Record Period, primarily due to the launch of Ragnarok M in China in 2017 and in various overseas markets in 2018 and the five months ended May 31, 2019 and the monetization of Sausage Man (香腸派對) since February 2019. The ARPPU of our online games increased in 2017 compared to 2016, primarily due to the launch of several games with higher ARPPUs in 2017. The ARPPU of our online games decreased in 2018 compared to 2017, primarily due to the increase of the proportion of game operating revenue from Ragnarok M in overseas market in 2018, for which our revenue represents a certain percentage of gross billings. The ARPPU of our online games further decreased in the five months ended May 31, 2019 because the ARPPU of Sausage Man (香腸派對) is relative low at the start of its monetization. See “Financial Information—Principal Components of Combined Statement of Comprehensive Income—Revenue—Games.”

The following table sets forth the revenue and key operating data of our top five online games in terms of game operating revenue for the periods indicated:

	Year ended December 31,						Five months ended	
	2016		2017		2018		May 31, 2019	
	Amount	%	Amount	%	Amount	%	Amount	%
(RMB in thousands)								
Game operating revenue								
Ragnarok M	—	—	468,062	37.3	627,187	39.5	504,226	59.1
- PRC	—	—	419,179	33.4	229,913	14.5	112,284	13.2
- Overseas	—	—	48,883	3.9	397,274	25.0	391,942	45.9
Girls' Frontline (少女前線)	—	—	256,442	20.5	299,862	18.9	74,967	8.8
- Hong Kong, Macau and Taiwan	—	—	35,871	2.9	62,162	3.9	23,467	2.8
- South Korea	—	—	220,571	17.6	237,700	15.0	51,500	6.0
Heng Sao Qian Jun (橫掃千軍)	342,251	45.4	175,431	14.0	129,621	8.2	44,942	5.3
Shen Xian Dao (Web) (神仙道真遊) ⁽²⁾	110,766	14.7	70,518	5.6	76,394	4.8	34,157	4.0
Shen Xian Dao (HD) (神仙道高清重製版)	102,851	13.6	70,952	5.7	68,270	4.2	37,641	4.4
RO: Idle Poring (天天打波利) ⁽¹⁾	107,293	14.2	—	—	—	—	—	—
Da Hua Shen Xian (大話神仙) ⁽¹⁾⁽²⁾	22,715	3.0	—	—	—	—	—	—
Total	685,876	90.9	1,041,405	83.1	1,201,344	75.6	695,934	81.6

Average MAUs⁽³⁾

Ragnarok M				
- PRC	—	1,364.7	531.7	1,562.3
- Overseas	—	1,362.5	2,197.1	4,026.2

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	Year ended December 31,			Five months ended May 31, 2019
	2016	2017	2018	
	(In thousands)			
Girls' Frontline (少女前線)				
- Hong Kong, Macau and Taiwan	—	53.1	44.5	31.1
- South Korea	—	213.4	95.6	58.6
Heng Sao Qian Jun (橫掃千軍)	897.0	273.0	148.7	111.1
Shen Xian Dao (Web) (神仙道真遊) ⁽²⁾	—	—	—	—
Shen Xian Dao (HD) (神仙道高清重製版)	112.5	108.5	77.1	79.3
RO: Idle Poring (天天打波利) ⁽¹⁾	975.3	—	—	—
Da Hua Shen Xian (大話神仙) ⁽¹⁾⁽²⁾	—	—	—	—

	Year ended December 31,			Five months ended May 31, 2019
	2016	2017	2018	
	(In thousands)			

Average MPUs⁽⁴⁾

Ragnarok M				
- PRC	—	57.2	33.3	32.8
- Overseas	—	137.8	192.3	341.0
Girls' Frontline (少女前線)				
- Hong Kong, Macau and Taiwan	—	17.4	13.4	10.6
- South Korea	—	83.8	36.5	23.9
Heng Sao Qian Jun (橫掃千軍)	70.5	25.9	18.0	15.1
Shen Xian Dao (Web) (神仙道真遊) ⁽²⁾	—	—	—	—
Shen Xian Dao (HD) (神仙道高清重製版)	18.5	10.4	9.2	10.3
RO: Idle Poring (天天打波利) ⁽¹⁾	92.9	—	—	—
Da Hua Shen Xian (大話神仙) ⁽¹⁾⁽²⁾	—	—	—	—

	Year ended December 31,			Five months ended May 31, 2019
	2016	2017	2018	
	(RMB per month)			

ARPPU

Ragnarok M	—			
- PRC	—	611	576	686
- Overseas	—	118	172	230
Girls' Frontline (少女前線)				
- Hong Kong, Macau and Taiwan	—	413	388	444
- South Korea	—	527	543	431
Heng Sao Qian Jun (橫掃千軍)	405	564	599	596
Shen Xian Dao (Web) (神仙道真遊) ⁽²⁾	—	—	—	—
Shen Xian Dao (HD) (神仙道高清重製版)	462	567	621	730
RO: Idle Poring (天天打波利) ⁽¹⁾	128	—	—	—
Da Hua Shen Xian (大話神仙) ⁽¹⁾⁽²⁾	—	—	—	—

(1) RO: Idle Poring (天天打波利) is a self-developed mobile game by us and Da Hua Shen Xian (大話神仙) is a licensed web game, both of which were not among the top five games in terms of the game operating revenue in 2017, 2018 and the five months ended May 31, 2019.

(2) We distribute our web games through our proprietary distribution platforms and some third-party websites, which have their own user account systems and maintain operating data recorded thereon for a limited period of time. We do not trace and maintain the operating data recorded on the account systems of third-party websites.

(3) Average MAUs of a game are calculated by dividing the aggregate of the total MAUs of such game for the respective period by the number of months during which the game was operated in that period.

(4) Average MPUs of a game are calculated by dividing the aggregate of the total MPUs of such game for the respective period by the number of months during which the game was operated in that period.

Ragnarok M:

- Ragnarok M was launched in China in January 2017. The revenue, average MAUs, average MPUs and ARPPU of Ragnarok M in China decreased from 2017 to 2018 as it gradually entered into the maturity stage during the second half of 2017. Through starting a new server and carrying out a series of promoting and marketing activities relating to the celebration of the second anniversary of Ragnarok M in China such as engaging Yanzi Sun as the spokesperson for Ragnarok M in the first quarter of 2019, new gamers were attracted to Ragnarok M and existing paying users were willing to spend more in the game. As a result, the average MAUs and ARPPU of Ragnarok M in China increased from 0.53 million and RMB576 in 2018 to 1.56 million and RMB686 in the five months ended May 31, 2019; while the average MPUs remained relatively stable during the five months ended May 31, 2019 at 32.8 thousand compared to 33.3 thousand in 2018.
- For overseas markets, the revenue, average MAUs and average MPUs of Ragnarok M increased during the Track Record Period given that new local versions were successively launched in various countries and districts. See “—Our Online Games—Ragnarok M.” The ARPPU in overseas markets gradually increased during the Track Record Period primarily because we generated higher ARPPU in new geographical markets including Southeast Asia, North America, South America and Australia, where we are entitled to a higher percentage of gross billings compared to Hong Kong, Macau and Taiwan and South Korea. See “—Our Online Games—Ragnarok M.”
- During the Track Record Period, the ARPPU of Ragnarok M in overseas markets range from RMB118 to RMB230, which are lower than those in China of RMB576 to RMB686, as in overseas market, our revenue represents a certain percentage of gross billings of Ragnarok M, while in China our revenue represents the whole gross billings.

As Ragnarok M has entered into the maturity stage in all of its existing geographical markets except for Japan, we plan to extend the lifecycle of Ragnarok M through carrying out various marketing and promoting activities, updating game content and providing new version. We expect that Ragnarok M will remain our top one game in 2019 and one of our top five games in 2020 in terms of game operating revenue in the respective years.

Girls’ Frontline (少女前線): Girls’ Frontline (少女前線) was launched in Hong Kong, Macau and Taiwan in January 2017 and in South Korea in June 2017. During the Track Record Period, its revenue, average MAUs and average MPUs decreased in both Hong Kong, Macau and Taiwan and South Korea as it gradually entered into the maturity stage. The ARPPU in Hong Kong, Macau and Taiwan remained relatively stable during the Track Record Period, ranging from RMB388 to RMB444. The ARPPU in South Korea was relatively stable in 2017 and 2018 at RMB527 and RMB543, respectively, and decreased to RMB431 in the five months ended May 31, 2019 due to slower version updates compared to 2018.

Heng Sao Qian Jun (橫掃千軍): Heng Sao Qian Jun (橫掃千軍) was launched in October 2015. Its revenue, average MAUs and average MPUs decreased during the Track Record Period as it started to enter into the maturity stage during 2016. Its ARPPU increased during the Track Record Period from RMB405 in 2016 to RMB596 in the five months ended May 31, 2019, as we regularly released update versions and new virtual in-game virtual items for sale.

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Shen Xian Dao (Web) (神仙道頁遊): Shen Xian Dao (Web) (神仙道頁遊) was launched in May 2011 and has remained at the maturity stage during the Track Record Period. Its revenue decreased from RMB110.8 million in 2016 to RMB70.5 million in 2017 as certain paying users switched to Shen Xian Dao (HD) (神仙道高清重製版) when it was launched in March 2016, and remained at relatively the same level since then.

Shen Xian Dao (HD) (神仙道高清重製版): Shen Xian Dao (HD) (神仙道高清重製版) was launched in March 2016. Its revenue, average MAUs and average MPUs decreased during the Track Record Period as it started to enter into maturity stage. Its ARPPU increased during the Track Record Period from RMB462 in 2016 to RMB730 in the five months ended May 31, 2019, primarily due to our continual release of update versions and new virtual in-game items for sale, and carrying out of more active marketing and promoting activities.

The table below sets forth certain information of our online game pipeline as of September 30, 2019 for 2019 and 2020, in chronological order:

Title	Source	Expected Launch Date	Genre	Expected Launch Markets
The Furious Yama (大王不高興)	Licensed	2 nd half 2019	RPG	South Korea
#COMPASS (戰鬥天賦解析系統)	Licensed	2 nd half 2019	MOBA	China
KarDia tou Abel (牧羊人之心) . . .	Licensed	1 st half 2020	RPG	Japan
Arknights (明日方舟)	Licensed	1 st half 2020	CCG	Hong Kong, Macau and Taiwan
Another Eden: The Cat Beyond Time and Space (另一個伊甸：超 越時空的貓)	Licensed	2 nd half 2020	RPG	China
Caravan Stories (旅行物語)	Licensed	2 nd half 2020	RPG	China and South Korea
Fantasy World (創想世界)	Self-developed	2 nd half 2020	Simulation	China
Vitality Idol II (元氣偶像季2) . . .	Self-developed	2 nd half 2020	Simulation	China
Project A	Self-developed	2 nd half 2020	CCG	China
Project B	Self-developed	2 nd half 2020	MMORPG	China
Project C	Self-developed	2 nd half 2020	Placement game	China

We expect that the lifespan of our online games in pipeline for 2019 and 2020 will not materially deviate from the average lifespans of similar games in the industry. However, we may extend the lifespan of certain games beyond their expected lifespan or terminate some other games before they reach their expected lifespan subject to their performance. During the Track Record Period, through updating game versions, releasing expansion packs and conducting marketing and promoting activities, we have successfully operated two major games, Heng Sao Qian Jun (橫掃千軍) and Shen Xian Dao (Web) (神仙道頁遊), for approximately four and eight years respectively, which have exceeded the average lifespan of similar games in the industry. For games with operation in multiple countries and districts such as Ragnarok M, we also successfully extended their lifespan through expanding their operation to more geographical areas. As a result, the actual lifespan of games in pipeline may differ from the industry average lifespan of similar games.

OUR PREMIUM GAMES

All our premium games adopt pay-to-play mode, which means that gamers need to pay initial fees to purchase access to such games. While gamers can play premium games by themselves offline,

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we also offer some interactive features such as rankings and competition with other gamers when game devices are connected to the internet. For some of our premium games, we offer in-game purchases for unlocking additional game contents. During the Track Record Period, game operating revenue generated from our premium games amounted to RMB5.5 million, RMB37.5 million, RMB43.6 million and RMB13.7 million in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively. As of September 30, 2019, we had 12 premium games in operation. We plan to continue to offer premium games in our game portfolio.

Game Portfolio

The following table sets out certain key information of some of our major popular premium games in operation as of September 30, 2019:

Title	Source	Launch date	Genre	Operating markets	Expiration date of licensing agreement	Our role	Revenue recognition method applied
ICEY (艾希)	Licensed	November 2016	ARPG	China and overseas	2024 to 2027 ⁽¹⁾	Principal	Gross
Muse Dash (喵斯快跑)	Licensed	June 2018	Music Game	China and overseas	June 2021	Principal	Gross
To the Moon (去月球) . .	Self-developed	May 2017	RPG	China and overseas	—	Principal	Gross
Heimdallr (海姆達爾) . . .	Self-developed	July 2018	RPG	China and overseas	—	Principal	Gross
The Swords (說劍)	Licensed	February 2016	Casual Game	China	November 2021	Principal	Gross

(1) Expiration dates vary for different distribution platforms.

ICEY (艾希)

ICEY (艾希) is a horizontal version ARPG game distributed on multiple platforms such as iOS, Android, PlayStation 4, Steam and Switch. The character in this game is aware of the existence of the gamer and will interact with the gamer, and gamers may play as ICEY instead of “You” or play as “You” instead of ICEY. Gamers consider the instructions from a narrator and explore the game through interaction. With multiple endings in this game, gamers may unlock different endings per their different choices, and gradually explore and discover the true ending and hidden plots through replaying variations of this game. ICEY (艾希) was awarded “App Store Best Indie Games of 2017” by App Store.

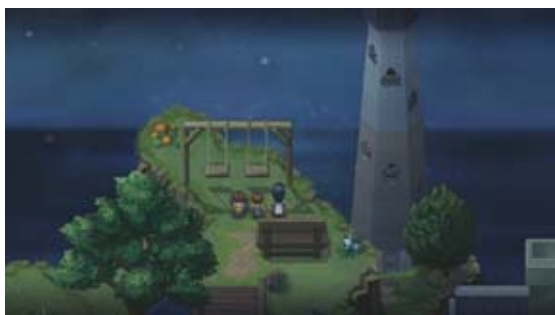


Muse Dash (喵斯快跑)

Muse Dash (喵斯快跑) is a music game combining an endless running game with music, where gamers can control the character by clicking on the screen in rhythm with music to combat monsters. The gameplay is designed with nijigen routes in terms of character cultivation, scene building and monster settings. It features three characters, each with different sets of costumes as well as accompanying “elves” for gamers to choose. Characters, costumes and “elves” can only be unlocked with a collection of in-game items.

***To the Moon (去月球)***

To the Moon (去月球) is a pixelated miniature RPG game. The main storyline of this game is related to two doctors who help dying people realize the last wishes of their lives by changing their memories. Gamers can enjoy the game experience of non-combat stories for several hours. This game combines elements of adventure and a journey of love and memory with ingenious narrative.



Heimdallr (海姆達爾)

Heimdallr (海姆達爾) is a multiple ending RPG game. Gamers will play the hacker, Jason, who investigates a murder case of fifteen years ago. This game conveys certain thoughts on modern society and humanity through two kinds of gameplay, such as puzzle solving and parkour. In this game, “Heimdallr” is a device that connects human brain nerves to a computing network. The virtual world and the reality in the game world are separated. As for the choice of whether the distance between the two worlds should be shortened or separated, and whether “Heimdallr”, as a medium connecting the two worlds, represents a warning or a hope, is brought to gamers to explore and decide.



The Swords (說劍)

The Swords (說劍) is a casual game with a theme of martial arts. Gamers swipe the screen lightly at the space marked with red ink to kill an “enemy”. The gameplay, with game characters combating with knives and swords featuring a Chinese ink painting style, depicts a swordsman deeply indulged in swordsmanship. This game mainly targets gamers fond of martial arts, Kung Fu and action elements.



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Game Pipeline

As of September 30, 2019, our game pipeline included seven premium games in the pipeline which we expect to release by 2020. All seven premium games in the pipeline are licensed games. The table below sets forth certain information of our premium game pipeline as of September 30, 2019 for 2019 and 2020, in chronological order:

Title	Expected Launch Date	Genre	Expected Launch Markets
Pianist (鋼琴師)	1 st half 2020	Music game	China
Monster Safari (萌物 X 魔物)	1 st half 2020	SLG	China
Roguelike Hero (不當英雄)	1 st half 2020	ARPG	China
EastWard (風來之國)	2 nd half 2020	RPG	China
Human: Fall Flat (人類：一敗塗地)	2 nd half 2020	Casual game	China
Professor Layton and the Curious Village (雷頓教授與不可思議小鎮)	2 nd half 2020	Casual game	China
Reverse Collapse: Code Name Bakery (逆向坍塌：麵包房行動)	2 nd half 2020	RPG	China

The table below sets forth the number of games newly launched and terminated during the Track Record Period, respectively, and the number of games at the beginning and end of the period indicated:

	2016	2017	2018	Five months ended May 31, 2019	Nine months ended September 30, 2019
Online games					
Total number of games at the beginning of the year/period	15	18	27	34	34
Newly launched	5	14 ⁽¹⁾	14	5	9
Terminated	2	5	7	0	1
Total number of games at the end of the year/period	18	27	34	39	42
Premium games					
Total number of games at the beginning of the year/period	0	2	6	11	11
Newly launched	2	4	5	0	1
Terminated	0	0	0	0	0
Total number of games at the end of the year/period	2	6	11	11	12

(1) Includes the eight games operated by Longcheng at the time of Longcheng's consolidation into our Group in July 2017.

The revenue contributed from the terminated games stated above was 1.2% of our game operating revenue during the Track Record Period.

OVERSEAS MARKETS

As one of the pioneers of China-based game developers and operators that entered the overseas markets, we commit ourselves to introducing excellent games to more people across different countries. As of September 30, 2019, our games were offered in over 100 countries and regions across the globe. As of the same date, 30 of our 42 online games and seven of our 12 premium games were released in overseas markets mainly concentrated in Asia, including Hong Kong, Macau, Taiwan, Japan, South Korea and Southeast Asia. Our games are also operated in North America, South America and Australia. Among the 11 new online games in pipeline as of September 30, 2019 for 2019 and 2020, four online games are expected to be operated overseas.

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Our deep understanding of the game industry and user preferences in local markets enables us to adapt and operate in various overseas countries and regions. Several of our online games launched overseas, including Ragnarok M, Girls' Frontline (少女前線), Identity V (第五人格) and Ulala (不休的烏拉拉), received wide recognition in mainstream distribution platforms in multiple countries and regions.

In line with the industry practice, by carrying out redesigning and localization works, we make local versions of games for targeted overseas markets and engage local consultants to provide us with promotion and marketing support. See “—Our Business Flow—Game Publishing and Operation—Redesign and Localization.” During the Track Record Period, for each game with overseas operations, we typically offer different local versions for different geographical areas on a case-by-case basis, taking into account different cultural backgrounds and gamers with different spending habits for games. For example, we used to offer separate local versions of certain games, respectively, for (i) South Korea, (ii) Hong Kong, Macau and Taiwan, and (iii) Southeast Asia. The table below sets out a breakdown of game operating revenue from overseas markets by local versions solely offered for each of such geographical areas for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Unaudited)										
(RMB in thousands except for percentages)										
Local version solely offered for South Korea	837	5.3	220,952	55.6	324,793	33.3	181,615	49.5	73,363	12.7
Local version solely offered for Hong Kong, Macau and Taiwan	8,737	55.8	159,348	40.1	374,336	38.3	182,571	49.7	120,686	20.8
Local version solely offered for Southeast Asia ...	777	5.0	222	0.0	232,544	23.8	395	0.1	300,876	52.0
Others ⁽¹⁾	5,299	33.9	17,088	4.3	45,024	4.6	2,727	0.7	83,747	14.5
Total	15,650	100.0	397,610	100.0	976,697	100.0	367,308	100.0	578,672	100.0

(1) Others include revenue from local versions operated in at least two of the three geographical areas listed above and/or in geographical areas other than those listed above.

The table below sets forth a breakdown of our game operating revenue in China and overseas markets for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Unaudited)										
(RMB in thousands except for percentages)										
PRC	738,804	97.9	856,007	68.3	611,418	38.5	276,680	43.0	275,176	32.2
Overseas	15,650	2.1	397,610	31.7	976,697	61.5	367,308	57.0	578,672	67.8
Total	754,454	100.0	1,253,617	100.0	1,588,115	100.0	643,988	100.0	853,848	100.0

Our game operating revenue generated from China decreased from RMB 856.0 million in 2017 to RMB 611.4 million in 2018 primarily due to (i) the suspension of granting preapproval by NAPP to

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either domestic or foreign games during the period from April 2018 to December 2018. See “—Licenses and Permits”; and (ii) the decrease of revenue of some of our existing games operated in China in 2018, especially Ragnarok M whose revenue from China decreased from RMB419.2 million in 2017 to RMB229.9 million in 2018, and Heng Sao Qian Jun (橫掃千軍) whose revenue decreased from RMB175.4 million in 2017 to RMB129.6 million in 2018.

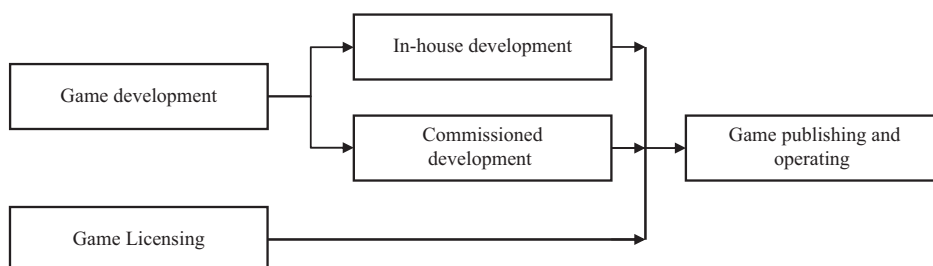
OUR BUSINESS FLOW

We publish and operate both self-developed games and licensed games. Our self-developed games are primarily made in-house, jointly with other developers, or occasionally by third-party game development studios under commissioned development arrangements. The table below sets out a breakdown of our game operating revenue by self-developed games and licensed games:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Unaudited)										
(RMB in thousands except for percentages)										
Self-developed										
games ⁽¹⁾	575,621	76.3	835,205	66.6	925,737	58.3	359,667	55.8	605,509	70.9
PRC	565,085	74.9	725,397	57.9	464,109	29.2	182,880	28.4	203,007	23.8
Overseas	10,536	1.4	109,808	8.7	461,628	29.1	176,787	27.4	402,502	47.1
Licensed games	178,833	23.7	418,412	33.4	662,378	41.7	284,321	44.2	248,339	29.1
PRC	173,719	23.0	130,610	10.4	147,309	9.3	93,800	14.6	72,169	8.5
Overseas	5,114	0.7	287,802	23.0	515,069	32.4	190,521	29.6	176,170	20.6
Total	754,454	100.0	1,253,617	100.0	1,588,115	100.0	643,988	100.0	853,848	100.0

(1) The revenue of our self-developed games include the revenue generated from a joint-developed game, Ragnarok M. See “—Our Online Games—Game Performance” for details on the revenue breakdown of Ragnarok M for the Track Record Period.

The following diagram shows our game operating business flow generally:



Game Development

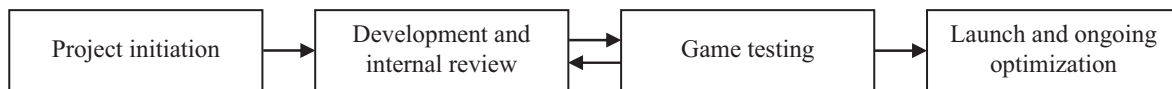
Leveraging our in-depth understanding of the mobile game market, user preferences and market trends gained in game publishing and operating, we continually invest in our game development capability and have been developing our own games since 2012. As of September 30, 2019, we have released ten self-developed games, comprising eight online games, including a joint-developed game, Ragnarok M, and two premium games. As of the same date, our game pipeline included five self-developed online games to be released by 2020.

In-house Development

We have built strong capability and expertise to design and develop various types of games, including large and complex mobile online games. As of September 30, 2019, we had eight game

development studios supported by a game development team of 552 employees, accounting for 49.3% of our total number of employees. Over 75% of our game development employees have a bachelor's degree or higher, and are specialized in areas such as computer sciences, software engineering, network systems administration, multimedia design and production. They have an average of approximately two years with us, with the heads of our game development studios have an average of over eight years of relevant industry experience.

Our experience in both game development and publishing enable our different departments to collaborate efficiently with each other at each stage of game development. The development cycle of a game can generally be divided into four stages and normally takes around two to three years depending on its format as well as the complexity and novelty of the relevant project. Our game development committee is generally responsible for supervising and approving each game development project. This committee consists of our senior management members and the heads of our game development studios and publishing departments. The following diagram illustrates the major steps in our in-house game development process:



Project initiation

A game development project starts with a game development plan, made by a group of three to five members from one of our game development studios. The game development plan covers the core gameplay, theme, artistic style, game development engine, development timeline and budget of a game. Such plans are usually inspired by ideas from our senior management and heads of our game development studios and publishing departments, who continually monitor the latest trends in the game industry. Our game development committee is responsible for reviewing such plans, taking into consideration factors such as existing comparable games, expected market reactions, potential user base, the latest developments of digital entertainment and popular culture, as well as its compatibility with our corporate image and values. Once a game development plan is approved, the project proceeds to the preliminary development stage, which aims to produce a demo incorporating the core gameplay and all other critical features of the game. The game development committee would further review such demo to assess whether the development plan has been substantially realized in the demo. The demo would be further improved, according with feedback from the game development committee, until it has been approved.

While reviewing the demo, the game development committee will also assess the need for licensing intellectual properties from third-party companies and decide the potential target intellectual properties compatible with the theme and general design of such game on a case-by-case basis. During the Track Record Period, we collaborated with third-party content providers to develop games based on existing popular intellectual properties with diversified entertainment elements and wide client base.

Development and internal review

The game development studio that provides the proposal is responsible for the development of the game including gameplay design, art design creation of the storyline and coding. Development progress is reported to the management team on a weekly basis. Our management team reviews the games under development to troubleshoot and adjust accordingly. At this stage, our game development

studios aim to provide a preliminary version of the game, that contains all fundamental elements of the game under development. The game development committee reviews the preliminary version and instructs game development studios to amend and improve the game to its satisfaction.

We sometimes outsource art designing work to third-party studios and companies to improve the efficiency of our game development process and optimize internal resource allocation. We evaluate work quality and track records in choosing the relevant studios and companies. We enter into outsourcing agreements with third-party studios and companies and set out the work scope, required deliverables and the delivery timetable. We review their work-in-progress periodically and the improvements we require in accordance with the terms of the contract.

Game testing

Upon completion of an advanced version of a game, the game development studio and publishing departments jointly assess and decide whether such game is ready for testing. The internal testing involves employees from various departments trying out the game and providing feedback, primarily on game functionalities and their gameplay experiences from different perspectives. After passing the internal testing stage, we will also conduct beta testing of the game. For our self-developed games, we normally distribute the beta versions through TapTap and invite a group of several hundred of external gamers to trial this. This stage tests the performance of the game in a public network environment. We also track and analyze gamer behavior during the beta testing process to better understand the potential market and areas for improvement for this game. The game development studio would further optimize the game based on the test results.

Launch and ongoing optimization

A game is deemed “launched” when its complete version is officially released to the general public for the first time. If a game receives positive market reaction and has not experienced material technical problems during its beta testing process, our management would consider launching such a game. Our game development studios cooperate with the operations team on the ongoing development, optimization and version updates of such game during its entire life cycle.

The development process above could be terminated at any time before launch by our game development committee due to material technical difficulties, significant budget overrun or a change in market conditions.

Commissioned Development

During the Track Record Period, we engaged one third-party game development studio to perform commissioned game development of one online game for us, Vitality Idol (元氣偶像季). The game studio engaged by us prepared the game development plan, which was revised for several rounds before reaching an agreed form. We conducted periodic reviews on the work-in-progress and maintained frequent communications with the game studio during the development process. As of September 30, 2019, we expected to launch Vitality Idol II (元氣偶像季2) in the 2nd half of 2020.

Under the commissioned development agreement, the third-party game developer is responsible for developing the game according to our instructions. We are obliged to pay a game development fee, which is determined based on development cost. We also have revenue sharing arrangements with such third-party game studio. The third-party game development studio is obligated to give us all the source codes of the game. We also hold rights to the intellectual properties associated with the game.

While the game is in operation, the third-party game development studio is also responsible for providing us with ongoing technical support and version updates during the operation period. We believe commissioned game development enables us to take advantage of the expertise of game studios specializing in different areas. This development model also ensures our timely response to certain market opportunities at reasonable cost compared with undertaking the work in-house.

Game Licensing

Apart from our self-developed games, we also cooperate with third-party game developers to enrich our game portfolio.

Game Sourcing

We actively source games of different genres from third-party game developers. Our senior management and department heads continually monitor the market trends of the mobile game industry as well as the development of entertainment culture in both domestic and overseas markets. They review hundreds of mobile games across a variety of genres every year covering popular games as well as newly arising innovative games. While deciding whether or not to license a game, we consider a variety of factors including the innovativeness, the potential for version updates and the in-house development capability of its developer. For games to be released in multiple countries and regions, we assess their current performance in existing markets and estimate their commercial potential in other geographical markets. We will also involve multiple departments to assess the benefits and risks relating to target games before their approval by our management. TapTap also significantly facilitates our game sourcing process by providing us with first-hand knowledge of new games undergoing beta testing or distributed on it, and identifying potential opportunities for us to cooperate with game developers registered with TapTap. By studying gamer data and the performance indicators of games generated by TapTap's big data analysis algorithm, we are able to improve our game sourcing decisions.

Licensing Agreement

We enter into legally-binding game licensing agreements with third-party game developers for licensed games to obtain the permission for publishing and operating. A licensing agreement will set out the geographic markets and operational systems where we are allowed to distribute the game. The majority of our licensing agreements with game developers grant us an exclusive license to publish in specific geographical markets and operating systems. The licensing agreements for our major online games typically have an initial term of two to five years, which are renewable (i) upon mutual consent; (ii) upon satisfaction of certain key performance indicators such as monthly gross billings or MAUs; or (iii) unless one party provides the other party notice to terminate the relevant agreement before it expires. During the Track Record Period and up to the Latest Practicable Date, we were generally able to renew the relevant licensing agreements under the same or similar terms and conditions if the relevant games continued to be commercially profitable and we chose to do so. We plan to renew our existing licensing agreements upon their expiration subject to the performance of relevant licensed games.

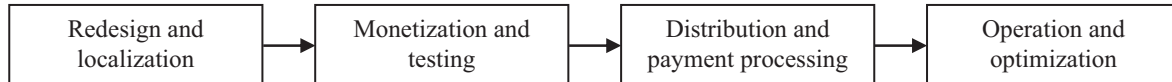
Under the licensing agreements, game developers are also typically entitled to a prescribed percentage of the gross billings of the licensed games before or after deduction of certain expenses, typically including commissions paid to distribution platforms and payment channels, and taxes. We sometimes make prepayment to game developers. The prepayments will be deducted from that part of

the revenue to which game developers are entitled subsequently, or transferred to intangible assets as “game license” after we obtain the licensed games. The fee arrangement is decided based on multiple factors, including our bargaining power, the estimated revenue of the games and our previous business relationships.

Under a typical licensing agreement, we are responsible for the redesign, localization, marketing, distribution, monetization, game operation and customer service. Game developers usually assist us with game installation, resolving difficult technical issues and the release of updated versions. Game developers generally retain the intellectual properties associated with the game. Typically, either party can terminate a license agreement by giving written notice in the event of a material breach by the other party and such breach is not remedied within a prescribed period of time.

Game Publishing and Operation

We publish and operate self-developed and licensed games in various countries and regions. The following diagram illustrates the major steps in our game publishing and operation process:



Redesign and Localization

Our publishing departments typically need to redesign games to make it more user-friendly from a marketing and operation perspective. For a game to be published in multiple geographic markets, our overseas publishing department will conduct game localization work for each overseas geographical market to ensure its smooth entry to the relevant market, which usually includes:

- localizing game content and design, including storylines, characters, language translation and user interface;
- creating and offering in-game virtual items in accordance with the user preferences of target markets and adjusting pricing policies for local price levels;
- optimizing the technical parameters of games to ensure their compatibility with mainstream mobile devices and network infrastructure system in the target markets;
- performing beta testing of the games on various mobile devices, distribution platforms and operation systems; and
- ongoing close monitoring and analysis of game performance in target markets to gain local user insights and customize expansion pack or version updates for different markets.

We are committed to exporting mobile games of the PRC game developers to overseas markets and have accumulated valuable experience and strong expertise in this aspect. We have built a strong overseas publishing department, with 145 employees as of September 30, 2019. Leveraging our understanding of the fast-changing global game industry, dynamic user preferences and spending habits, and complex distribution platforms and payment systems across different countries and regions, apart from our self-developed games, we also helped a number of PRC game developers to release products to targeted overseas markets.

Monetization and Game Testing

Before the launch of a game, we conduct internal and external testing of the game and improve it based on the testing results. Our publishing departments will also formulate and implement a specific monetization plan for each game and adjust it in accordance with analysis of the user data collected from the game testing process.

Distribution and Payment Processing

Our distribution platforms

Our online games are distributed through our proprietary platforms and/or third-party distribution platforms depending on the target geographic markets and operation systems where the game will be offered.

Our proprietary distribution platforms include www.xd.com and TapTap. We also engage third-party distribution platforms to take advantage of their mature networks and payment processing services to reach a wider end user base. During the Track Record Period, for overseas markets, our major mobile games were primarily distributed through App Store for iOS users and Google Play for Android users; for domestic market, in addition to our proprietary distribution platforms and App Store, some of our major mobile games were also distributed through third-party app stores such as YingYongBao, Mi App Store, Huawei AppGallery and Oppo App Market. We have revenue sharing arrangements with third-party distribution channels. For App Store and Google Play, we entered into their respective standard distribution agreements and collect payments from them after deducting 30% of the gross billings as their commissions. For the remaining third-party distribution platforms, the commissions we pay them vary from 30% to 60% of the gross billings. Our major premium games are primarily distributed through our proprietary distribution platforms and App Store, and some third-party distribution platforms, such as Steam, Switch and PlayStation, for PC and console devices. We distribute our web games through our proprietary distribution platforms and some third-party websites with their own user account systems.

Our payment channel partners

Gamers in China can purchase in-game virtual items in our games through making payments via our third-party payment channel partners including internet bank, mobile bank, AliPay and WeChat Pay. We usually grant such third-party payment channels a credit period of ten days or less. For gamers in overseas markets, we primarily cooperate with App Store and Google Play to collect payments. Both channels offer credit card, debit card and other payment options and can be safely linked with gamers' bank accounts. App Store and Google Play usually settle payment with us every 30 to 90 days.

Operation and Optimization

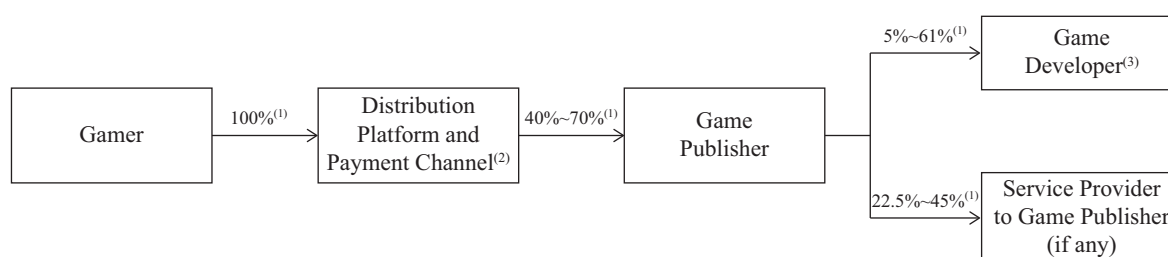
Our operation team is responsible for operating games after launch. We monitor the operations of our games on a real-time basis and analyze the operational data and gamers' feedback to devise update proposals for our game development studios or third-party game developers. Our operation team also identifies potential monetization opportunities and work with our game development studios or third-party game developers to release expansion packs or updated versions. Based on the performance and commercial potential of our games, we may decide to terminate or suspend the operation of certain games at their recession stage.

BUSINESS

REVENUE SHARING ARRANGEMENT

We normally have revenue sharing arrangements with other parties, mainly third-party game developers and distribution platforms, with respect to the proceeds generated from game operation. The revenue generation processes vary depending on our role in the game publishing and operation process. When we act as a game publisher, we collect payments from distribution platforms and payment channel partners after deducting their commissions and we pay licensing fees to third-party game developers. When we act as an agent to game publisher, we receive payments from game publishers. For more information on revenue recognition, see “Financial Information—Significant Accounting Policies and Estimates—Revenue Recognition—Game operating revenue.”

The following diagram illustrates the gross billings sharing arrangements among participants for publishing and operating online games.



(1) All percentages in the diagram are calculated based on the gross billings generated from gamers.

(2) We do not deduct commissions to distribution platforms and channels when publishing through our proprietary distribution platforms.

(3) We do not have revenue sharing with game developers when publishing our self-developed games.

TAPTAP

To help gamers discover quality games and share gameplay experiences, we co-founded TapTap in 2016 through investment in Yiwán. After several rounds of equity interest acquisition and capital injection, Yiwán became our subsidiary in December 2016.

TapTap is a leading game community and platform in China. We currently operate various TapTap products in China. “TapTap” mobile app is available on both iOS and Android system, with the latter being the main gateway of TapTap’s user traffic. Gamers can also visit www.taptap.com on PC. In 2016, 2017, 2018 and the nine months ended September 30, 2019, TapTap mobile app had on average 0.9 million, 10.2 million, 15.0 million and 17.0 million MAUs. During the nine months ended September 30, 2019, over 90% of our average MAUs on TapTap mobile app were attributable to its Android version.

Below are screenshots of TapTap's mobile app interface and PC website interface:



Participants of TapTap

Gamers

TapTap provides gamers with a vast and diverse library of mobile game resources, such as game information, game recommendation and downloadable games. It also offers gamers various social and community functions such as game review and rating and community forum.

TapTap has a large user base, a large population of which consists of active senior game players. As of September 30, 2019, TapTap had a total number of 52.1 million registered users, increased from 2.1 million as of December 31, 2016. According to Frost & Sullivan, as of May 31, 2019, over 84% of TapTap's users were born after 1990, who have grown up with improved living standards and better education and are typically internet savvy and more willing to spend on games.

Developers

We believe that an effective distribution platform is important to developers, especially those small to medium independents lacking strong brands or connections to distribution platforms. We adopt a free-to-distribute model on TapTap and do not charge distribution platform fees for free-to-play games. For pay-to-play games distributed through TapTap, we generally charge up to 5% of the game price as a distribution platform fee. TapTap can provide developers with convenient solutions for game distribution, game testing, game monitoring and online marketing. To use TapTap's services, developers need to register on TapTap and enter into a standard TapTap developer agreement with us. In this agreement, developers undertake that their games to be distributed on TapTap should be free of content violating the law or infringing others' intellectual property rights or commercial secrets. The agreement remains valid until it is terminated in accordance with the terms thereof. We can unilaterally terminate this agreement if the counterparty breaches any terms of the TapTap developer agreement or of any other agreement with us.

We have experienced strong growth in the number of developers registered on TapTap during the Track Record Period. In 2016, 2017 and 2018, 748, 3,991 and 2,923 developers registered on TapTap, respectively. As of September 30, 2019, we had over 10,000 developers registered on TapTap.

Our Contents

The content of TapTap is the foundation of TapTap's popularity among gamers and developers. TapTap is a comprehensive game community and platform that offers a full spectrum of mobile games and related contents. All versions of TapTap offer similar contents and functions except that we only offer game download function on TapTap's Android version.

Game library

Games are the most important resources available on TapTap. We have a vast library of mobile games spanning over all genres. As of September 30, 2019, TapTap had over 6,500 mobile games available for download, including more than 4,100 games at the testing stage. Those downloadable games consist of games made by developers registered with TapTap who distribute or test their games on TapTap and games developed or operated by us. In 2016, 2017, 2018 and the nine months ended September 30, 2019, games on TapTap have been downloaded 11.5 million, 157.8 million, 257.4 million and 267.1 million times, respectively.

We implement stringent screening and monitoring policies to ensure that downloadable games on TapTap comply with PRC laws and regulations. If an existing game is found to contain inappropriate content such as violence, bloodiness, and pornography, or infringes third-party copyright, TapTap will urge the relevant developer to rectify and in the meantime suspend its download or even move it to the blacklist depending on the level of potential adverse impact until the relevant issues are rectified.

Apart from downloadable mobile games, TapTap maintains and manages game information. As of September 30, 2019, TapTap has included information on over 41,000 games, ranging from basic game introduction to latest news.

Editors' recommendation of games

TapTap features the editors' daily recommendation of three to ten games. This function enables gamers to benefit from the expertise and efforts of our editors. As of September 30, 2019, TapTap had 20 editors, and its two chief editors have over five years of experience in game and media industries. Our editors review the information related to and usually personally try a number of mobile games to select good games for gamers. To ensure the quality of this daily recommendation chart, they consistently apply objective assessments of each game by considering a wide range of factors including gameplay, content, creativity, market trend, and public acceptance, as well as the previous performance of similar games. Games usually receive greater attention from gamers when recommended by our editors.

User-generated content

Gamers post reviews and ratings of games on TapTap. User-generated content forms the foundation of TapTap's engaging community culture and enhance gamers' stickiness to it. For example, gamers might achieve satisfaction from receiving other gamers' responses to or recognition of their game reviews or posts; and gamers might find friends with common interests by answering each other's questions posted on TapTap. User-generated content also provides insights to developers through feeding them with valuable feedback on their games and evolving demands from gamers.

User-generated content accumulates rapidly over time as our community grows. The numbers of game reviews and forum posts increased from 3.5 million and 1.2 million, respectively, as of December 31, 2017 to 7.3 million and 3.0 million, respectively, as of December 31, 2018. As of September 30, 2019, the numbers of game reviews and forum posts further increased to 10.6 million and 5.4 million, respectively, were made on TapTap. According to Frost & Sullivan, we have a large number of experienced gamers who are willing to actively share their gameplay experience and TapTap's game ratings have become the most authoritative reference standards in the mobile game industry in China since 2018 due to (i) its impersonal game ratings and comments shared by experienced gamers who have developed their unique views and opinions for games supported by the independent and professional rating mechanism of TapTap, which also in turn attracts more like-minded gamers; and (ii) citation by various well-known news or game media such as NetEase, Sohu, GameLook and 36Kr, game companies such as Bilibili, and research reports when they would like to recommend or comment on a mobile game.

Functions

Game content curation and recommendation

TapTap provides a large data base of mobile game information from which gamers can easily search for a specific game. We also curate and recommend games to gamers using proprietary, automated big data algorithms. Based on the analysis of gamers' data captured on TapTap, such as their past search or browsing history, previously reserved or downloaded games and social interaction activities, TapTap is able to push personally curated content to different gamers.

TapTap also provides editors' recommendation of games based on our editors' judgments as well as rankings by different measures such as number of downloads, date of latest upload, sales amount or average daily play time. These functions enable gamers to locate their needed game content more efficiently.

Game review and rating

Gamers can use game review feature to share their views with other gamers and game companies. Gamers can also rate games on TapTap. Gamers may also interact with others through features such as the Like or Reply button whereby they can respond to reviews left by others. Developers can also directly communicate with gamers by responding to gamers' reviews.

TapTap's automated algorithm, applying artificial intelligence technology, continuously screens high-quality game reviews based on the analysis of a number of indicators related to each game review such as the amount of interactions on this game review, the number of words of this game review and the account level of its author on TapTap. Such reviews will be included in the popular review section appearing on the home page of TapTap to be circulated to a wider group of gamers.

Forum

TapTap serves as a community around gamers and game companies and offers forum function that enables social interaction among gamers and between gamers and developers. These interactions create bonds between gamers, game companies and our community. Gamers can discuss game-related topics under the forum section on TapTap. Forums are categorized by themes, such as newly discovered games, game culture or the lifestyle of gamers, as well as different games.

Game pre-registration

Gamers can use the pre-registration function to follow the games which will be tested or downloadable on TapTap. They receive regular updates through the message function of TapTap encouraging their deep engagement and involvement during the whole process.

Game download

Gamers can download mobile games on TapTap's Android app. See “—TapTap—Our Contents—Game library.” Active gamers may be invited to try games exclusively tested on TapTap.

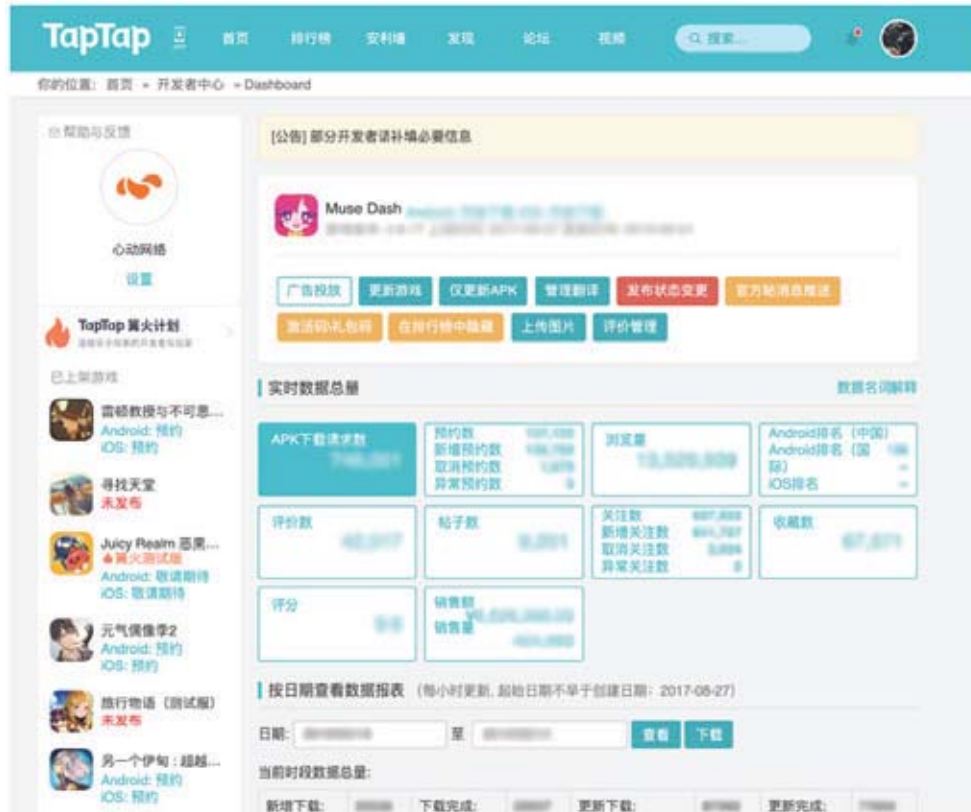
Below are screenshots of TapTap's Android app showing the functions discussed above.



TapTap Developer Center

Each developer registered on TapTap has an account with the TapTap Developer Center, through which they can apply to distribute games. For each game, developers need to upload games,

basic information, intellectual property certificates and required approvals from competent governmental authorities. We carefully review each application to ensure that the mobile game does not contain pornographic, gambling or other illegal content and it has received the necessary preapproval from the NAPP. It normally takes up to 24 hours for an application to be reviewed and approved. Game companies can apply to conduct game testing through the TapTap Developer Center and the procedure is similar to game distribution. TapTap Developer Center enables game companies to track a number of indicators with respect to the performance of their games on TapTap such as number of downloads, followers and pre-registrations. Below is a sample screenshot of the operation interface of the TapTap Developer Center.



Advertising Center

TapTap helps developers promote their games through placing advertisements on the home page of TapTap. TapTap feeds different gamers with personalized advertisements based on big data analysis of gamer data generated on TapTap, such as their download or browsing history. Only games with a TapTap rating of three or above are eligible for the online marketing service. We also focus on the content, style, design and interactive features of the advertisements so that they will appear naturally on the user interface of TapTap.

TapDB

TapDB is a free data analytics tool developed by us, which enables developer registered on TapTap to monitor the performance of their games on a real-time basis. It provides game developers with visualized information of hundreds of operating indicators, such as the number of registered users, user retention rate, DAUs, MAUs and MPUs, which facilitate their identification of operational problems and optimization of games.

MONETIZATION AND PRICING

Our Games

Online games

All of our online games are free to play. We generate our game revenue from the sales of in-game virtual items, which contribute almost all of our game operating revenue. The virtual items we sell in our online games include items, avatars, skills, privileges or other in-game consumables, features or functionality. Gamers purchased those virtual items to enhance their characters' capabilities, obtain new skills or accelerate the level-up process. We release new editions with new characters, new functions and additional tasks to stimulate user spending and extends the life cycle of our games. We also routinely hold events or game competitions and offer rewards to higher ranking gamers, which we believe will motivate gamers to purchase more in-game items to improve their performance.

We typically have the sole discretion to determine the price of virtual items offered in our self-developed games. For games licensed from third parties, we, together with third-party game developers, set the price. We price each virtual item based on a variety of factors, such as the price of similar items offered in other games, the benefits or advantage associated with the virtual item, the level of demand for the virtual item, and the income level of a certain country or region. We continuously monitor the sales of the virtual items in our games and adjust prices accordingly to stimulate more purchases and improve the gamer loyalty.

Premium games

For our premium games, gamers need to pay a fixed price before downloading the games, after which the gamers will have unlimited access to such games. The prices for our premium games are generally in line with the prices of similar games in local markets. Some of our premium games also offer in-game purchases for unlocking additional game content.

TapTap

We generate information service revenue primarily through providing online marketing services to advertisers on TapTap. Advertisers can top up their accounts with TapTap and online marketing fees will be directly deducted from their account based on the pricing model utilized. The value remaining in the advertisers' accounts can be refunded to them within one week upon request. Advertisers bid through a real-time bidding system and advertising inventory is bought and sold via programed instantaneous auctions. We charge customers for our online marketing services based on a CPA or CPS pricing model.

Apart from the online marketing service, for pay-to-play games distributed through TapTap, we generally charge up to 5% of the game price as a distribution platform fee. For free-to-play games, we do not charge a distribution platform fee.

OUR TECHNOLOGY AND NETWORK INFRASTRUCTURE

Multidimensional Data Analysis Engine

We process large volumes of data while operating games. Our proprietary multidimensional data analysis engine collates and synthesizes a variety of game performance indicators in different

combinations for ad hoc analysis, real-time in-line analysis and standardized reports. Such data analysis generates visualized results, which facilitates our identification of key performance drivers, bottleneck analysis or the effectiveness of our promotion activities. As a result, we are able to gain invaluable insights on gamer needs, preferences and behavior, through which we improve our games and user experience and discover hidden opportunities for improving user retention and increasing a gamer's lifetime value.

Automated Personalized Content Recommendation System

We have developed and continually enhance the automated recommendation algorithm of TapTap. Our sophisticated big data analytics capabilities enable us to study the behavior and profiles of individual users. We can utilize such user data to predict content or games that the user may have an interest in and facilitate interactions among users and various elements on our platform. In order to distribute our game content and advertisements in a manner that creates a personalized experience for our users, we invite our users to set and adjust their preferences for games through their registered accounts. Our data analysis system will also capture and analyze the data on that user's download history, reservations, as well as search and browsing history on TapTap. As a user's behavior increases, our recommendations becomes more focused and accurate. Through our automated recommendation algorithm, we can better curate content to attract users. We believe our automated content recommendation algorithm is increasingly crucial to creating a user-friendly environment and the success of our platform.

Network Infrastructure

Our diversified online game portfolio, especially those with numbers of MAUs, and large global user base in various countries and regions, are supported by a stable and powerful network infrastructure. All of our online games featuring real-time interaction, which require our server network to respond promptly with low latency. As of September 30, 2019, we leased a number of physical servers hosted by data server providers in Beijing. In addition, we also entered into agreements with several reputable cloud server service providers for the use of multiple functions including cloud computing, data storage, and bandwidth service. We believe that our current network infrastructure can provide us with sufficient capacity to carry out our current operations and is able to be expanded to meet additional capacity needs relatively fast and with minimal incremental cost.

MARKETING AND PROMOTION

We formulate and implement a variety of marketing and promotion measures for our games and TapTap.

Online marketing

We place advertisements for our games and TapTap on a wide range of online channels, including searching engines, popular websites and social network media in different local markets. We also carry out various promotion activities in our games to attract gamers. We organize gamer tournaments, in-game battles, leaderboard rankings and other gamer activities. We reward gamers with high-ranking game play performance by inviting them to special events organized by us. Discounted virtual items are also offered regularly during holiday seasons.

Offline marketing

We sometimes promote our games through advertisements in metro stations and at trade shows and industry events such as ChinaJoy, Tokyo Game Show and Global Game Exhibition G-STAR. To strengthen our bond with gamers, we also hold special events. For example, we held several concerts for gamers of Ragnarok M and we held the first TapTap Carnival in Shanghai in April 2019. We also engage a well-known artist to represent our popular games to further build awareness of our brand.

OUR CUSTOMER SERVICE

We have a dedicated service team to provide customer support to gamers in multiple languages. During the Track Record Period, we also outsourced to a third-party customer service company part of our customer service related to games operated in China. Gamers can seek customer service through multiple channels, including by mainstream online communication tools, email or via our in-game customer service system on a 24/7 basis. Upon receipt of inquiries or complaints from gamers relating to functions and features of our games, our customer service team will respond promptly and provide detailed explanations and instructions to guide gamers in solving their problems. Inquiries and complaints on technical issues, such as in-game payments, delivery of virtual items or programming errors, are reported to the relevant departments to be dealt with.

For TapTap, both gamers and developers can reach TapTap for help by using the message function on TapTap, or via email or mainstream online communication tools.

We believe that good customer service plays a significant role in retaining users and improving their user experience. In serving our users, our customer service team also collects valuable first-hand user experience and feedback, which helps us both better understand user preferences and demands and further enhances our games. As of the Latest Practicable Date, we had not received any material complaints from our users that resulted in a material adverse effect on our business.

OUR CUSTOMERS

For our game publishing and operating business where we act as a principal, our customers are gamers, who purchase virtual items we offer. For game publishing and operating businesses where we act as an agent, our customers are game developers and game publishers. See “Financial Information—Significant Accounting Policies and Estimates—Revenue Recognition—Game operating revenue.”

For our information service business, our customers are primarily game developers, game publishers or advertising agencies to whom we provide online marketing services on TapTap.

BUSINESS

Our five largest customers accounted for 2.5% and 12.9% of our total revenue in 2016 and 2017, respectively. Our customers typically pay us by bank transfer within 120 days. The following table sets forth certain information of our five largest customers in 2018 and the five months ended May 31, 2019:

Customers	Revenue (RMB in thousands)	% of total revenue	Length of Business Relationship	Principal business ⁽¹⁾	Services provided by us	Date of establishment	Issued Share Capital/Registered Capital as of June 30, 2019
Five months ended May 31, 2019							
Gravity ⁽²⁾	392,712	38.0	Over 3 years	The customer develops and distributes online games in many countries across the world, especially in Japan, Taiwan and Thailand. It also offers mobile games, participates in the production of a televised animation series, and licenses the merchandising of character-related products based on its online games	Game development and publishing	April 4, 2000	US\$3,009,000
Shanghai Renzhi Culture Media Co., Ltd. (上海仁志文化傳媒有限公司)	146,434	14.2	Over 3 years	The customer is headquartered in Shanghai, China and provides customized marketing and promotion solution	Information service	January 11, 2008	RMB1,000,000
Customer C ⁽³⁾	41,142	4.0	2 years	The customer is an internet technology company that develops applications, services and other internet technologies in China. It consists of email service, web portal and online entertainment, including online gaming services. It also offers online advertising, search, mobile applications and e-commerce	Game publishing and operating	November 26, 2007	HK\$1
Company D ⁽⁴⁾	22,557	2.2	Over 3 years	The customer provides internet and mobile value-added services (VAS), online advertising, and e-commerce transactions. It offers services to users worldwide	Information service	November 11, 1998	RMB65,000,000
Customer F	2,705	0.3	3 years	The customer is headquartered in Dalian, China and is focused on software development	Game development and publishing	May 17, 2016	RMB10,000,000
Total	605,550	58.7					
2018							
Gravity ⁽²⁾	413,826	21.9	Over 3 years	Please refer to above	Game development and publishing	Please refer to above	Please refer to above
Shanghai Renzhi Culture Media Co., Ltd. (上海仁志文化傳媒有限公司)	254,520	13.5	Over 3 years	Please refer to above	Information service	Please refer to above	Please refer to above
Customer C ⁽³⁾	49,546	2.6	2 years	Please refer to above	Game publishing and operating	Please refer to above	Please refer to above

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Customers	Revenue (RMB in thousands)	% of total revenue	Length of Business Relationship	Principal business ⁽¹⁾	Services provided by us	Date of establishment	Issued Share Capital/Registered Capital as of June 30, 2019
Company D ⁽⁴⁾	24,710	1.3	Over 3 years	Please refer to above	Information service	Please refer to above	Please refer to above
Customer E	14,942	0.8	3 years	The customer is headquartered in Shanghai, China and is focused on online games development and game technology consulting	Game publishing and operating	August 4, 2015	HK\$10,000
Total	757,544	40.1					

(1) Source: Bloomberg for listed company and public available information for private company.

(2) One of our Directors held less than 1% shareholding interest in it as of the Latest Practicable Date.

(3) Customer C is a private company incorporated in Hong Kong and a subsidiary of a company listed on NASDAQ, whose revenue and net income was over RMB60 billion and over RMB6 billion in 2018, respectively, and in which one of our Directors held less than 1% shareholding interest as of the Latest Practicable Date.

(4) Company D is a subsidiary of a company listed on the Main Board, whose revenue and net profit was over RMB300 billion and over RMB70 billion in 2018, respectively, and in which four of our Directors held less than 1% shareholding interest as of the Latest Practicable Date.

Save as disclosed above, to the knowledge of our Directors, all of our five largest customers in 2018 and the five months ended May 31, 2019 are Independent Third Parties, and none of our Directors, their close associates or any Shareholders (which to the knowledge of our Directors owns more than 5% of our Shares) has any interest in any of them.

OUR SUPPLIERS

Our major suppliers include game developers and distribution platforms with which we have maintained business relationships.

We obtain licenses from third-party game developers to publish games developed by them. We typically adopt revenue sharing arrangements with them and sometimes make prepayment to game developers. See “—Game Licensing—Licensing Agreement.” We collaborate with third-party distribution platforms, including App Store and Google Play, to publish our games. See “—Game Publishing and Operation—Distribution and Payment Processing—Our distribution platforms.”

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As of May 31, 2019, we had maintained business relationship with our five largest suppliers, including game developers, distribution platforms and server service providers, for at least three years. We typically settle payments with our suppliers by bank transfer. Our payment terms are typically of not more than 90 days for game developers, distribution platforms and server service providers. The following table sets forth certain information of our major suppliers during the Track Record Period:

<u>Suppliers</u>	<u>Purchase Amount</u> (RMB in thousands)	<u>% of cost of revenue</u>	<u>Length of Business Relationship</u>	<u>Principal business⁽¹⁾</u>	<u>Services provided to us</u>
<i>Five months ended May 31, 2019</i>					
Apple Inc.	47,480	13.9	Over 3 years	The supplier designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions. It sells its products worldwide through its online stores, its retail stores, its direct sales force, third-party wholesalers, and resellers	Game distribution
Supplier I ⁽²⁾	44,143	12.9	Over 3 years	The supplier offers information technology services. It provides cloud storage, disaster backup, cloud server hosting, and server monitoring services	Server service
Google Payment Corp.	27,656	8.1	Over 3 years	The supplier provides web-based search, advertisements, maps, software applications, mobile operating systems, consumer content, enterprise solutions, commerce, and hardware products	Game distribution
Supplier D ⁽³⁾	17,103	5.0	Over 3 years	The supplier is headquartered in Shanghai, China and offers digital game development services. It mainly develops and sells digital games and also provides communication technology services	Game development
Supplier C	14,898	4.4	Over 3 years	The supplier is headquartered in Shanghai, China and is focused on online games development	Game development
Total	<u>151,280</u>	<u>44.3</u>			
<i>2018</i>					
Apple Inc.	119,974	15.5	Over 3 years	Please refer to above	Game distribution
Google Payment Corp.	102,715	13.2	Over 3 years	Please refer to above	Game distribution

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<u>Suppliers</u>	<u>Purchase Amount</u> (RMB in thousands)	<u>% of cost of revenue</u>	<u>Length of Business Relationship</u>	<u>Principal business⁽¹⁾</u>	<u>Services provided to us</u>
Supplier C	56,405	7.3	Over 3 years	Please refer to above	Game development
Supplier D ⁽³⁾	31,709	4.1	Over 3 years	Please refer to above	Game development
Supplier E ⁽⁴⁾	30,189	3.9	Over 3 years	The supplier provides internet infrastructure, e-commerce, online financial, and internet content services through its subsidiaries. It offers its products and services worldwide	Game distribution and server service
Total	<u>340,992</u>	<u>44.0</u>			
2017					
Apple Inc.	151,992	20.5	Over 3 years	Please refer to above	Game distribution
Supplier D ⁽³⁾	90,412	12.2	Over 3 years	Please refer to above	Game development
Google Payment Corp.	66,474	9.0	Over 3 years	Please refer to above	Game distribution
Supplier C	53,265	7.2	Over 3 years	Please refer to above	Game development
Supplier E ⁽⁴⁾	31,267	4.2	Over 3 years	Please refer to above	Game distribution and server service
Total	<u>393,410</u>	<u>53.1</u>			
2016					
Apple Inc.	101,083	23.8	Over 3 years	Please refer to above	Game distribution
Supplier F ⁽⁵⁾	38,857	9.1	Over 3 years	The supplier is a video-game developer and is headquartered in Xiamen, China. It is primarily focused on the development and operation of mobile games	Game development
Company D	31,090	7.3	Over 3 years	Please refer to above	Game distribution
Supplier E ⁽⁴⁾	21,033	5.0	Over 3 years	Please refer to above	Game distribution and server service
Supplier H	20,244	4.8	Over 3 years	The supplier is headquartered in Shenzhen, China and provides information and telecommunication services	Game distribution
Total	<u>212,307</u>	<u>50.0</u>			

(1) Source: Bloomberg for listed company and public available information for private company.

(2) Supplier I is listed on Taiwan Stock Exchange.

(3) Supplier D is a subsidiary of a company listed on Shenzhen Stock Exchange.

(4) Supplier E is listed on NASDAQ and one of our Directors held less than 1% shareholding interest in it as of the Latest Practicable Date.

(5) Supplier F is a subsidiary of a company listed on the Main Board, in which two of our Directors held less than 1% shareholding interest as of the Latest Practicable Date.

During the Track Record Period, Company D was our supplier and our customer, contributing 7.3%, 2.1%, 1.6% and 1.6% to our cost of revenue in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively and nil, 0.4%, 1.3% and 2.2% of our total revenue in 2016, 2017, 2018 and

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the five months ended May 31, 2019, respectively. As this business partner is a technology company in the China which engages both upstream and downstream businesses in the online game industry, our Directors believe it is industry norm for us to have business partner as both our supplier and customer.

Save as disclosed above, to the knowledge of our Directors, all our five largest suppliers during the Track Record are Independent Third Parties and none of our Directors, their close associates or any Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Shares) had any interest in any of them.

RESEARCH AND DEVELOPMENT

We have invested and will continue to invest substantial resources in our research and development activities, including game development and technology development. Our game development focuses on enhancing the gameplay itself, artwork designing and user experience; and our technology development focuses on the research and development of new technology such as game engine technology, the data integration analysis and data security. See “—Game Development” and “—Our Technology and Network Infrastructure.”

As of September 30, 2019, we had a research and development team of 716 employees, consisting of 552 focusing on game development and 164 focusing on technology development, each of whom had been with us for an average of approximately three years. Our research and development expenses were RMB79.4 million, RMB117.4 million, RMB197.8 million and RMB92.5 million in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively, accounting for 10.4%, 8.7%, 10.5% and 9.0% of our total revenue, respectively.

INTELLECTUAL PROPERTIES

Protection of intellectual properties is of significant importance to our business. Our intellectual properties are in the form of software and work copyrights, domain names, patents and trademarks.

We protect our intellectual properties in China by relying on local laws and contractual restrictions. We engage professional third-party agents in respect of patent, copyright and trademark applications and registration and engage local intellectual property counsel to enforce our intellectual properties. Apart from signing an intellectual property protection agreement with our employees to determine the ownership and restrictions on disposal relating to our proprietary intellectual properties and those developed by them, we enter into confidentiality and non-compete agreements or provisions with our employees. We have a comprehensive patent management system and grant monetary awards as incentives to employees who develop patents for the Company. In addition, we also have confidentiality arrangements with our business partners.

We actively engage in monitoring and enforcement activities with respect to infringements of our intellectual property by third parties. As of the Latest Practicable Date, we had 289 registered trademarks, 11 registered patents, 103 registered software copyrights and 123 registered work copyrights in China. As of the Latest Practicable Date, we had 37 registered trademarks in countries and regions outside China, including the Japan, South Korea, Hong Kong and Taiwan. We have also registered 31 domain names, including www.xd.com, www.ro.com and www.taptap.com. While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of the intellectual properties created by or licensed to us.

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We also take steps to prevent the infringement of intellectual properties held by third parties. We maintain a mature intellectual property application, management and monitoring system. For example, before we launch any game, our project management department will initiate an intellectual property application request for those projects under development or in a pre-development stage to our legal department. The legal department will review relevant development materials, and will examine the intellectual properties associated with these games to spot and report any red flags so as to ensure internal information symmetry or liaise with a professional third-party agent to do so. In addition, when any intellectual property infringement complaints are brought against us, our legal department will verify the authenticity of the complaint and form an emergency working team to investigate the case, collect evidence and analyze the legal risk. Remedial measures will be taken promptly after we identify any substantial potential infringement risk. Despite all these efforts, we cannot be certain that the games that we license, our redesign of these games or our services do not or will not infringe valid patents, copyrights or other intellectual properties held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual properties of others, as discussed in “Risk Factors— Risks Related to Our Business and Industry—Third parties may claim that we infringe their proprietary rights, which could cause us to incur significant legal expenses and prevent us from promoting our products and services.”

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement of our intellectual properties or any material disputes or claims against us in relation to the infringement of intellectual properties of third parties arising from our business.

EMPLOYEES

We had 472, 636 and 911 full-time employees as of December 31, 2016, 2017 and 2018, respectively and 1,119 full-time employees as of September 30, 2019. Their employment agreements with us are typically for a term of three years. As of September 30, 2019, substantially all of our employees were based in Shanghai. The following table sets forth the numbers of our employees by function as of September 30, 2019.

<u>Function</u>	<u>Number of Employees</u>	<u>% of Total Employees</u>
Research and development	716	64.0
Marketing and sales	69	6.2
Operations	203	18.1
General and Administration	131	11.7
Total	<u>1,119</u>	<u>100</u>

Our success depends on our ability to attract, retain and motivate qualified personnel. We believe we offer our employees competitive compensation packages and a collaborative working environment and, as a result, we have generally been able to attract and retain qualified personnel and maintain a stable, core management team. We compensate our employees with basic salaries, subsidies, and performance-based and annual 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 design and implement in-house training programs tailored to each job function and a set of responsibilities to enhance performance. Specific training is provided during orientation for new employees to familiarize them with our working environment and operational procedures. We also provide professional on-the-job

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training to our existing employees on various topics such as channel management, marketing and promotion strategies, product operations and operational support. We believe our training offers employees sustainable, organized and target-oriented quality training, and which can enhance the productivity of our employees.

We have engaged employment agents to provide us with recruitment services. We organize Xindong summer camps which last one month, and independent camps like a 48-hour game design competition to provide participants, mostly college students, with valuable opportunities to design a game with our research and development staff, and offer internships to those outstanding participants, through which we believe that we can attract and retain talent with the potential to work with us in the future. We will continue to adopt such recruitment strategies to attract and retain potential talent in the industry.

We believe we have maintained good relationships with our employees. During the Track Record Period, we did not have any labor union, nor did our employees negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We did not experience strikes or significant labor disputes which have had or are likely to have a material adverse effect on our business operation during the Track Record Period.

We are subject to social insurance contribution and housing reserve fund plans organized by PRC local governments. In accordance with the relevant laws and regulations, we are required to pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund. As advised by our PRC Legal Adviser, we were in compliance with applicable laws and regulations related to labor and employee benefit plans in material aspects during the Track Record Period.

COMPETITION

We compete primarily with other online game publishers and operators in both China and our major overseas markets. We compete on the basis of a number of factors, including user base, game portfolio, quality of user experience, ability to extend the life cycle of mobile games, brand awareness and reputation, access to and relationships with distribution platforms and payment channels. We also compete with other mobile game developers on the basis of the capability to develop excellent online games, sourcing popular intellectual properties, upgrading existing games and recruiting qualified research and development personnel. We believe we compete favorably on these factors. However, the mobile game industry in which we operate is highly competitive, characterized by the frequent introduction of new products and services, limited product life cycles, evolving industry standards, rapid adoption of technological and product advancements, as well as price sensitivity on the part of gamers. Some of our existing and potential mobile game competitors have greater financial, technological and marketing resources, larger user bases, stronger relationships with industry participants and a larger and more diverse portfolio of mobile games and resources than do we. Our mobile game competitors could also publish more popular games to compete with our offerings and adversely affect our ability to attract and retain gamers and their leisure time. See “Risk Factors—Risks Related to our Business and Industry—If we are unable to compete effectively, our business and results of operations may suffer.”

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In addition, as the operator of TapTap, we primarily compete with other mobile game communities and platforms, traditional game websites and mobile app stores. We compete for users base, cooperation with excellent game developers and quality game content.

PROPERTIES

As of the Latest Practicable Date, we operated our businesses mainly through eight leased properties in Shanghai. These properties were principally used as office space with a total gross floor area of 20,086.41 square meters and range from a gross floor area of 95 square meters to 6,797.21 square meters for each property. Our lease agreements have terms ranging from one year to six years.

As of the Latest Practicable Date, the lessors of two of our leased properties for a total gross floor area of 2,269.67 square meters have not provided us with valid title certificates or relevant authorization documents evidencing his rights to lease the properties to us. As a result, the lease may not be valid, and there are risks that we may not be able to continue to use such property. We believe that in the event that the relevant rightful titleholder or other third parties challenge our use of such leased property and we are required to move, we can find suitable alternative properties without any material adverse effect on our business, financial condition and results of operations. See “Risk Factors—Risks Related to our Business and Industry—Our interests in leased property may be defective and our right to lease the properties affected by such defects may be challenged, which could cause disruption to our business.”

Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban Development of the PRC. As of the Latest Practicable Date, the eight properties we leased in China had not completed the registration of lease contracts, primarily due to the difficulty of procuring our lessors’ cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that such leases are registered. Our PRC Legal Adviser has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC law, and have also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease.

DATA PRIVACY

We consider sufficient maintenance, storage and protection of user data and other related information is critical to our business and our platform business department 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.

We have adopted measures to protect our user data and to prevent technical issues in our network infrastructure and information technology system. Such measures cover key areas such as information collection, storage, inquiry, access control, use of personal information, audit of information behavior and emergency treatment.

We have used the security measures in line with the industry standards to protect users’ personal information from unauthorized access, public disclosure, use, modification, damage or loss. We will take all reasonable and feasible measures to protect the users’ personal information. The technical means we adopt include, but are not limited to, firewalls, encryption (such as SSL), de-identification or anonymization and access control measures. In addition, we will continue to enhance

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the security capabilities of the software installed on user's device. For example, we will perform partial information encryption on the user's device to consolidate secure transmission; we will learn about the application information and running process information installed on the user's device to prevent malicious programs such as viruses and trojans. We collect, use and store our user data in our database and regularly back up such data to minimize the risk of data leakage or loss. Our information technology department regularly performs backup data recovery tests to check the status of the data backup system.

To ensure information security, employee access to internal information is restricted and employees are not allowed to access certain internal information without authorization. We have adopted internal policies to ensure that authorization is tailored to employee seniority and department function so that certain information can only be obtained on an as-needed basis. Only authorized persons in our customer service department and the database administrators in the information technology department can access the players' account and obtain personal data. Acquisition of user data requires approval and such approval can be granted by the Chief Technology Officer only to employees who need the data to perform their work. We have established employment security principles, and especially specific security requirements for various processes like recruitment, assessment, relocation and resignation of information system personnel and sensitive information processing personnel. The information technology department regularly organizes information security training for employees to enhance security awareness, improve security skills, clarify security responsibilities, and record the status and results of security education and training and keep them in the filing.

We have implemented firewalls to prevent unauthorized users from gaining access to databases and information systems through external networks. We rely on Alibaba Cloud's network security services, including DDoS defense and Web application layer firewalls to protect against any network attacks. Alibaba Cloud has established and implemented control over physical security, network separation, vulnerability scanning and threat prevention of the data center. Our information system adopts technical measures to monitor and record personal information security incidents, and timely discover and record abnormal behaviors using monitoring, auditing and other technical measures. We have also enacted a series of emergency treatment procedures including event evaluation, handling, verification, summary, prevention and modification to in relation to any security incident of which we become aware from active monitoring or user feedback.

As of the Latest Practicable Date, we did not experience any material information leakage or loss of our user data.

INSURANCE

We do not maintain any property insurance covering equipment, product liability insurance or business interruption insurance, which are not mandatory under PRC law as confirmed by our PRC Legal Adviser. See "Risk Factors—Risks Related to Our Business and Industry—We have limited insurance coverage which could expose us to significant costs and business disruption" for further details of risks relating to our current insurance coverage. During the Track Record Period, we did not submit any material insurance claims, nor did we experience any business interruptions that had a material adverse effect on our business or financial position.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

Compliance with PRC laws and regulations, especially laws and regulations governing the mobile game industry, as well as the protection of our intellectual properties and the prevention of liabilities resulting from potential intellectual property infringements, are major focus areas of our operational risk management. We have a dedicated legal team of seven staff that is responsible for monitoring any changes in PRC laws and regulations and ensuring the ongoing compliance of our operations with PRC laws and regulations.

When we publish or operate games overseas, we typically follow the policies of our third-party game distribution platforms such as App Store, Google Play and Steam, which need to comply with the relevant local laws and regulations related to distribution of games on their platforms in different countries and jurisdictions. We believe our practice is in line with the industry norm for PRC game companies engaged in overseas game publishing and operation business. We also consult with local legal advisers with respect to our operations and business in our major overseas markets, including South Korea, Taiwan and Hong Kong.

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, we had complied with laws and regulations in the PRC that are relevant to our PRC business in all material respects, including obtaining all licenses, approvals and permits from the relevant regulatory authorities which are material to our business and operations. In addition, after consultation with our legal advisers in the relevant jurisdictions, our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant laws and regulations in all material respects in those foreign jurisdictions in which we have significant presence, namely South Korea, Taiwan and Hong Kong.

Legal Proceedings

We are subject to legal proceedings, investigations and claims arising from the ordinary course of our business from time to time. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Regulatory Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material or systematic noncompliance incidents that have led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Nevertheless, during the Track Record Period and up to the Latest Practicable Date, we received administrative penalties for one non-compliance incident. We set out below details of such non-compliance incident and the primary remedial measures adopted:

Non-compliance Incident	Reasons for the Incident and Primary Remedial Measures
On March 9, 2018, the enforcement division of the culture market of Shanghai (上海市文化市場行政執法總隊) issued an administrative penalty decision letter to	This incident was primarily due to: (i) the relevant staff of Yiwan were not familiar with the relevant PRC laws and regulations; (ii) the relevant technical staff

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Non-compliance Incident

Yiwan, our subsidiary, with respect to several issues related to TapTap: (i) Yiwan distributed foreign online games that did not fulfill the requirement of obtaining the content approval from the MOC and/or preapproval from the SAPPRFT; (ii) Yiwan distributed domestic online games that did not fulfill the filing requirements with the Cultural Administration Department under the State Council within 30 days from the launch of such games; and (iii) Yiwan did not require gamers to perform real-name registration. Accordingly, Yiwan was ordered to suspend its game download function for three months and was fined RMB318,630. We suspended TapTap's game download function from March 14, 2018 to June 14, 2018 and paid the fine in full. For the three-month period of suspension of TapTap's game download business, our estimated loss of revenue is approximately RMB 54.0 million which is calculated based on the difference between the average monthly revenue of TapTap during the suspension period and that of 2018.

Reasons for the Incident and Primary Remedial Measures

failed to verify and block PRC IP address of gamers, who identified themselves as users located in countries and regions outside of China to download foreign games without the content approval from the MOC and/or pre-approval from the SAPPRFT.

After the occurrence of this incident, we communicated and cooperated with the relevant competent authorities in a timely manner and made rectification accordingly. We implemented various rectification measures in response:

- establishing an IP address verifying mechanism on TapTap, which blocks gamers with PRC IP addresses to download foreign games without preapproval from the NAPP;
- expanding the content review team of TapTap to a team of 12 members with content review experience, among whom two had over eight years of content review experience
- establishing a more stringent game review processes as follows:
 - (i) We require the relevant game developer or publisher to obtain all valid approvals, licenses and permits from competent PRC regulatory authorities before its distribution on TapTap;
 - (ii) If a game is pay-to-play or is free-to-play with virtual in-game items for sale, without a valid preapproval from the NAPP, such game is prevented from downloading in China.
- requiring PRC users to register and log into their accounts before posting content on TapTap, where the registration would require the verification of a user's mobile phone number registered with his or her real name, or the user's TapTap account should be linked to a verified third-party account (such as with WeChat or QQ account) requiring real-name registration.
- organizing regular compliance training for employees to enhance legal compliance awareness.

During a verbal consultation with the principal staff member of one of the enforcement divisions of the culture market of Shanghai (上海市文化市場行政執法總隊), which is the competent authority, it is confirmed that the foregoing incident did not constitute a material case as defined in the Guidelines on Material Cases in the Culture Market (文化市場重大案件管理辦法) issued by the MOC. Our PRC Legal Adviser is of the view that since the principal staff member works in the law

enforcement department responsible for carrying out law-enforcing operation against non-compliance activities in online game market, the person is the competent officer in providing such confirmation. As of the Latest Practicable Date, all pay-to-play games and free-to-play games with in-game virtual items for sale on TapTap have obtained the preapproval from the NAPP, which, in the view of our PRC Legal Adviser, has satisfied all regulatory requirements for online distribution of such games. Our PRC Legal Adviser confirmed that no laws or regulations explicitly provide any preapproval or permit for online distribution of the remaining free-to-play games without in-game virtual items for sale on TapTap. We also believe that the above incident and the findings have no material and adverse impact on our business, financial condition or results of operations

LICENSES AND PERMITS

We are required to maintain and renew the necessary permits, licenses and approvals for our business operations under applicable laws and regulations in China and overseas. See “Regulatory Overview.” Such licenses, permits and approvals were valid and remained in effect as of the Latest Practicable Date, and there existed no circumstance that may cause the revocation or cancellation of any license, permit or approval. Our PRC Legal Adviser also advised us that there existed no material legal impediment to renew applicable licenses, permits and approvals as of the Latest Practicable Date.

From April 2018 to December 2018, NAPP did not grant any preapprovals to either domestic or foreign games, because of which we were not able to launch new games in China in accordance with our original plan in 2018. As a result, our game operating revenue generated from China decreased from RMB856.0 million in 2017 to RMB611.4 million in 2018. However, according to our PRC Legal Adviser, while no official rules or regulations were released by governmental authorities, NAPP resumed granting preapprovals for games since December 2018. According to the public information on the website of the NAPP, 164 domestic online games and no foreign online games have obtained preapproval in December 2018, and another 1,066 domestic online games and 156 foreign online games have obtained preapproval in the nine months ended September 30, 2019, respectively. In February, March and September 2019, we obtained preapprovals from NAPP for our three games, Mobile Empire (手機帝國), #COMPASS (戰鬥天賦解析系統) and Ulala (不休的烏拉拉), respectively. Our PRC Legal Adviser is of the view that the suspension of the preapproval of domestic and foreign online games by NAPP has been lifted. In addition, due to the strong growth of our business in overseas markets, our game operating revenue increased from RMB1,253.6 million in 2017 to RMB1,588.1 million in 2018 despite the decrease of game operating revenue from China in 2018. As a result, we believe that the temporary suspension of preapproval from NAPP did not have any material adverse impact on the business of our Group.

On October 25, 2019, NAPP issued the New Anti-addiction Notice which took effect from November 1, 2019. The New Anti-addiction Notice mainly stipulates that: (i) the real-name registration system shall be implemented; (ii) the time slot and duration for playing online games by minors shall be subject to strict control; (iii) the provision of paid services to minors shall be regulated; (iv) the regulation of the industry shall be enhanced; and (v) the development and implementation of an appropriate-age reminding system shall be explored. See “Regulatory Overview—PRC Laws and Regulations—Regulations on Real-Name Registration and Anti-Addiction System” and “Risk Factors—Risks Related to Our Business and Industry—The PRC law regulating the playing time and users’ age of online games may adversely affect our business and operations.”

During the Track Record Period, the percentage of our game operating revenue generated from the PRC declined gradually, contributing to 97.9%, 68.3%, 38.5% and 32.2% of the total game

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operating revenue in 2016, 2017 and 2018 and the five months ended May 31, 2019, respectively. Since October 2017, we have implemented real-name registration systems in all of our web games and mobile games operated in China, and implemented anti-addiction compliance systems in all of our web games operated in China pursuant to the requirement of the Notice of MOC on Regulating Online Game Operation 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》) and the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》). We have also voluntarily implemented anti-addiction compliance systems in several of our major mobile games, such as Ragnarok M and Sausage Man (香腸派對) prior to the issuance of the New Anti-addiction Notice.

Although we have implemented real-name registration systems in all of our web games and mobile games since October 2017, not all of our gamers from China have provided their Chinese identification information to us as: (i) some gamers gained access to our games through registration with third-party distribution platforms, such as YingYongBao and Mi App Store, are not required to provide Chinese identification information to us; and (ii) some gamers played games as visitors and are/were not required to register with us using their Chinese identification information. Our PRC legal adviser is of the view that, since (i) all the domestic third-party distribution platforms through which we distribute mobile games have implemented real-name registration measures, and (ii) the New Anti-addiction Notice allows the adoption of visitor experience mode in mobile games, under which the gamers are not required to provide identification information, our provision of online game services to the PRC users who have not completed their real-name registration in our systems does not constitute a material non-compliance with relevant laws and regulations.

Based on our record containing over 46 million user accounts registered with Chinese identification information, in 2018 and the nine months ended September 30, 2019, the total top-up payments made by gamers below 18 years old who registered with us using their Chinese identification information were approximately RMB2.39 million and RMB8.49 million, respectively, representing approximately 0.90% and 2.85% of the aggregate top-up payments made by gamers who registered with us using their Chinese identification information during the relevant period in China. In 2018 and the nine months ended September 30, 2019, the top-up payments made by gamers who registered with us using their Chinese identification information accounted for approximately 52.84% and 68.78% of the aggregate top-up payments recorded in our IT system made by gamers of our games operated in China, respectively. The table below sets out the breakdown of the top-up payments contributed by gamers with registered Chinese identification information in our IT system record by age groups and their respective contribution to the aggregate top-up payments made by gamers who registered with us using their Chinese identification information in China during the same periods.

Age group	For the year ended December 31, 2018		For the nine months ended September 30, 2019	
	RMB in million	%	RMB in million	%
Below 8 years old	0.14	0.05	0.14	0.05
Between 8 and 16 years old	0.56	0.21	6.32	2.12
Between 16 and 18 years old	1.69	0.64	2.03	0.68
Above 18 years old	264.48	99.10	289.50	97.15
Total	266.87	100.00	297.99	100.00

The top-up payments made by gamers between 8 and 16 years old increased from RMB0.56 million for 2018 to RMB6.32 million for the nine months ended September 30, 2019, primarily due to

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the monetization of Sausage Man (香腸派對) from February 2019, which, compared with the average level of the other games of us, has a higher proportion of gamers under 18 years old.

The table below sets out the breakdown of the number of the gamers with registered Chinese identification information in our IT system record by age groups as of September 30, 2019.

<u>Age groups</u>	<u>Number of Gamers</u>	<u>%</u>
Below 8 years old	34,695	0.07
8-16 years old	2,457,288	5.28
16-18 years old	537,530	1.16
Above 18 years old	43,499,726	93.49
Total	46,529,239	100.00

Our IT system record of registered gamers with Chinese identification information does not capture all our Chinese gamers for the reasons set out above. However, our Directors believe that the number of gamers registered in our IT system record is a sizeable and representative sample. According to Frost & Sullivan, our industry consultant, the age profiles of the gamers are primarily affected by the genres of games rather than the means by which gamers access games. The convenience to access games is a key factor to gamers, regardless of their age, when they choose the distribution platforms. Therefore, Frost & Sullivan holds the view that, irrespective of whether the gamers access the games with real-name registrations or not, they would not differ materially in terms of age profiles. As such, our Directors believe that the table above is a reasonable illustration of the age profile of our paying gamers in China.

Based on the relatively small contribution of the top-up payments made by minor gamers among gamers registered with their Chinese identification information for the periods as illustrated above and the gradual decline of the contribution of revenue generated in China to our total revenue during the Track Record Period, our Directors are of the view that the New Anti-addiction Notice is unlikely to result in a material decrease in our revenue. We do not expect the New Anti-addiction Notice to materially affect our future development plan or the development of games currently in our pipeline, neither, which is primarily due to the fact that our games in the pipeline are not oriented specifically towards minors. We also plan to implement mechanisms in such games during the development stage to ensure compliance with the relevant requirements of the New Anti-addiction Notice.

After the release of the New Anti-addiction Notice, to ensure the full compliance of the requirements under the New Anti-addiction Notice, we have completed a detailed design of application upgrade which covers application architecture, function call, data structure and coding rules, and have commenced application coding, which primarily focused on building architecture and function call as of the Latest Practicable Date. In addition, our technical staff are in the process of conducting various system upgrading works, in particular:

1. to upgrade our existing login system so as to (i) require all new users to complete real-name registration before game account registration or they will only be provided with visitor experience mode; (ii) require existing non-registered users to complete real-name registration, otherwise they will not be provided any game services; and (iii) limit the play time under the visitor experience mode of each user to one hour within each 15 days;

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2. to establish a play time record mechanism which will restrict daily play time of each minor user to 3 hours in each game during holidays and 1.5 hours during other times, and block the access of minor users to our games during 10:00 pm to 8:00 am next day; and
3. to create a new function in our existing payment system to prohibit top-up payment or limit the one-time top-up payment amount and the monthly aggregate top-up payment amount by minor users in accordance with the requirements in the New Anti-addiction Notice.

All of the system upgrades will undergo internal testing, and are expected to be implemented in all of our online games in China within the grace period. Our Directors believe that there are no technological and practical impediments to the completion of those system upgrade works in time. As the system upgrading works are conducted by our in-house technical staff, our Directors believe that minimum additional costs will be incurred in this regard. We are committed to ensuring our compliance with the New Anti-addiction Notice by implementing the system upgrades plan as well as continuing our current work in classifying our games and exploring ways to remind gamers that our games are designed for specific age groups such as displaying such reminders at prominent places on pages for download, registration and login. In particular, we will communicate or cooperate with industry associations or industry leaders to explore appropriate-age reminding systems. For example, People's Daily Online (人民網), a large-scale information exchange platform listed on the Shanghai Stock Exchange under the stock code of 603000, launched an appropriate-age reminding platform in July 2019, which has attracted more than 30 game companies in China as of the Latest Practicable Date. Before the completion of the implementation of the system upgrades plan, we will update our Shareholders and investors in this regard by way of disclosure in announcements on a quarterly basis after the Listing. Our Directors believe that the aforementioned measures we have adopted and will adopt in response to the New Anti-addiction Notice are and will be effective and sufficient to ensure our compliance with the relevant requirements under the New Anti-addiction Notice.

According to an interview conducted on November 12, 2019 by our PRC Legal Adviser, the Sole Sponsor and its legal advisers with the SMPPB, a competent authority in the view of our PRC Legal Adviser, the SMPPB confirmed that (i) the New Anti-addiction Notice took effect from November 1, 2019; and (ii) a grace period has been given to online game companies for them to make rectifying measures to comply with the requirements under the New Anti-addiction Notice. However, the length of the grace period remains to be confirmed by relevant government authorities. The SMPPB further confirmed that online game companies will not be punished by the SMPPB during the grace period if they have started active measures to gradually comply with the requirements of the New Anti-addiction Notice and the SMPPB will give further notice or instructions to online game companies if any implementation measures are promulgated. As of the Latest Practicable Date, we had not received any notice from SMPPB or NAPP that we have violated any rules under the New Anti-addiction Notice. As advised by our PRC Legal Adviser, since we have taken active measures to comply with the requirements of the New Anti-addiction Notice, the risk of our online games and us being subject to any restrictions or punishments for non-compliance with the requirements of the New Anti-addiction Notice is remote if the measures are effected within the grace period.

Furthermore, as part of our measures to mitigate any compliance risk in relation to the New Anti-addiction Notice and other relevant developments, we have established and assigned the responsibility to a regulatory risk committee (comprising Mr. Dai Yunjie, our President, Mr. Shen Sheng, our Chief Technology Officer, Mr. Fan Shuyang, our Executive Director, Mr. Gong Rui, Our

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Chief Financial Officer and Mr. Li Dong, our legal director, led by Mr. Dai Yunjie) to pay close attention to the developments of the relevant policies and regulations regulating the operations of our online games in China. We will also engage an external IT consultant to review and test the effectiveness of our upgraded systems upon completion. We will promptly consult with our PRC Legal Adviser as and when required. In particular, given that the Notice introduced requirements with respect to the real-name registration and anti-addiction rules for minors, we will closely monitor, on a regular basis, its development and any follow-up specific implementation rules to be published in the future. Such special committee will play an important role in ensuring the compliance of our game operating business with the relevant rules and regulations in effect from time to time, findings of which will be taken into account in our business operations in the future.

Having reviewed the system upgrades plan developed by the Company and sought the views of the Internal Control Consultant on the technical feasibility of the system upgrades plan, as well as taking into account the expected costs involved in implementing the system upgrades, the Sole Sponsor is of the view that (i) the Company has taken active steps to address the requirements under the Notice, (ii) the system upgrades plan is designed to address the requirements under the New Anti-addiction Notice which the Company currently does not comply with, and (iii) there is no technological or economic hurdle for the Company to implement the system upgrades so that it can be compliant with the New Anti-addiction Notice.

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The following table sets forth details of our material licenses and permits relating to our business and operations (apart from those pertaining to general business requirements), the holding entity, the issuing authority, the grant date and expiry date.

License/Permit/Approval/ Certificate	Holder	Issuing Authority	Date of Grant	Expiry Date
Internet Culture Operation License (網絡文化經營許可證) ...	X.D. Network	Shanghai Administration of Culture, Radio, Film and Television (上海市文 化廣播影視管理局)	November 28, 2011	October 24, 2020
Internet Publishing Service License (互聯網出版許可證)	X.D. Network	State Administration of Radio and Television (國 家廣播電視總局)	November 24, 2015	November 23, 2020
Value-added Telecommunication Business Operation License (for Information Service) (增值電信業務經營許可 (僅限信息服務)) ...	X.D. Network	Shanghai Communications Administration (上海市通 信管理局)	September 25, 2017	April 4, 2022
High-tech Enterprise Certificate (高新技術企 業證書) ⁽¹⁾	X.D. Network	Shanghai Science and Technology Commission (上海市科學技術委員會), Shanghai Finance Bureau (上海市財政局), Shanghai State Taxation Bureau (上 海市國家稅務局) and Shanghai Local Taxation Bureau (上海市地方稅 務局)	November 24, 2016	November 23, 2019
Internet Culture Operation License (網絡文化經營許可證) ...	Yiwan	Shanghai Municipal Administration of Culture and Tourism (上海市文化 和旅遊局)	May 27, 2019	May 27, 2022
Value-added Telecommunication Business Operation License (for Information Service) (增值電信業務經營許可 (僅限信息服務)) ...	Yiwan	Shanghai Communications Administration (上海市通 信管理局)	October 20, 2017	October 20, 2022

(1) We submitted an application for renewal of this certificate in August 2019, which was still under process as of the Latest Practicable Date. Our PRC Legal Adviser also advised us that there existed no material legal impediment to renew such certificate as of the Latest Practicable Date.

OVERSEAS TAXATION

In 2016, 2017 and 2018 and the five months ended May 31, 2019, 2.1%, 31.7%, 61.5% and 67.8% of our game operating revenue were generated from overseas markets, respectively. These overseas markets primarily included South Korea, Japan, Hong Kong, Taiwan and Southeast Asia.

During the Track Record Period, our overseas game operating revenue were mainly derived from the above mentioned jurisdictions, in which the applicable income tax of the majority revenue

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generated have been withheld either by third party publishers or third party distribution platforms or where income tax is not applicable. In Hong Kong, we have established several subsidiaries which are engaged in our overseas game publishing and operating business. As such, we are subject to Hong Kong corporate tax.

In South Korea and Japan, a non-resident enterprise is subject to local corporate income tax if it is considered as operating business through a permanent establishment in these jurisdictions. To the best knowledge and belief of the Company and based on the fact that all the game operating activities such as entering into game sale contracts, payment of fees, delivery of games are made through third party distribution platforms, and we do not have any physical presence in these jurisdictions, nor own any platform or server where the customers in these jurisdictions can gain access to download or play our games, we consider that our subsidiaries in Hong Kong, which operate our overseas game publishing and operating business, are unlikely to be regarded as having a permanent establishment in these jurisdictions. In addition, although we have a subsidiary in South Korea which is a holding company established to hold minority interest investment in NEXTIV Inc. and does not have any employee nor carry on any ordinary business activities. As such, the subsidiary in South Korea has no operating income.

In Taiwan, starting from May 2005, the game operating revenue derived from the sales of gaming application through third party platforms to customers in Taiwan would constitute Taiwan sourced income and subject to Taiwan income tax. For income generated since 2017, third party publishers or third party distribution platforms should report gross income and pay income tax accordingly based on tax ruling. According to our contracts with the third party publishers, our transaction documents with third party distribution platforms and tax ruling, they would deduct the full amount of withholding or similar taxes and remit it to the competent tax authorities. Given that our subsidiaries in Hong Kong do not own any platform or server where the customers in Taiwan can gain access to download or play our games, we consider that, to our best knowledge and belief, the income tax risk in Taiwan of our subsidiaries in Hong Kong after 2017 is low and under control. As the income sourced from Taiwan before 2017 is immaterial, the relevant tax risk is immaterial.

Almost all of the revenue derived from Southeast Asia in 2018 and the five months period ended May 31, 2019 were generated from the provision of game maintenance and operation services to game publisher, of which game publisher has withheld applicable taxes on behalf of us. The revenue generated from Southeast Asia before 2018 is immaterial.

Based on the above and the fact that we do not have any operating subsidiaries nor branches in overseas jurisdictions other than Hong Kong during the Track Record Period, we are subject to Hong Kong corporate income tax for overseas game operation save and except income tax withheld by third party publishers and third party distribution platforms and we did not identify any other overseas corporate income taxes.

Besides, while some jurisdictions in which we earned a majority of overseas revenue do impose withholding tax and/or value-added tax on the licensing or the provision of digital services, third party publishers or third party distribution platforms have withheld taxes on behalf of us. Other than the game operating revenue generated from overseas markets where either third party publishers or third party distribution platforms have withheld taxes or withholding tax and/or value-added tax are not applicable, the remaining overseas revenue that may subject to tax exposure accounted for less than 5% of our game operating revenue for each year or period. We had not identified any material tax

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exposure in relation to our business in overseas jurisdictions. However, as the international tax environment is changing, we may have potential tax liabilities including new or additional taxes in the future. See “Risk Factors—Risks Related to Our Business and Industry—We may have potential tax liabilities including new or additional taxes.”

As a measure to manage our overseas tax exposure, we have engaged an external tax advisor to advise us in respect of tax compliance in the course of business and provide training to us on a periodic basis of changes to the relevant regulations which may affect our tax compliance obligations and tax liabilities in the existing markets, or in respect of entering new markets, or offering new products. The external tax advisor will also help us manage the tax compliance obligations arising from revenue generated from overseas markets.

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PRC REGULATORY BACKGROUND

Overview

Foreign investment activities in the PRC are mainly governed by the Catalog and the Negative List, which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and other relevant laws divide industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged”, “restricted” and “prohibited” categories). On June 30, 2019, the NDRC and the MOFCOM jointly promulgated the Negative List, which became effective on July 30, 2019. As advised by our PRC Legal Adviser, a summary of our business/operation that is subject to foreign investment restriction or prohibition in accordance with the Negative List is set out below (the “Relevant Businesses”):

Categories	Our business / operation
“Prohibited” Internet publication	X.D. Network’s principal business involves the publication of game through mobile apps and websites, and X.D. Network holds an internet publication service license (the “Internet Publication License”) issued by the SAPPRFT. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet publication business.
Internet cultural business	<p>X.D. Network’s principal business involves the operation of games through mobile apps and websites, which falls within the scope of “internet cultural products” under the Provisional Regulations for the Administration of Internet Culture (《互聯網文化管理暫行規定》). X.D. Network holds an internet cultural business license (the “Internet Cultural License”) issued by the Shanghai Municipal Administration of Culture, Radio, Film and Television.</p> <p>Yiwan is a non-wholly owned subsidiary held as to 55.77% by X.D. Network. Yiwan’s principal business involves the operation of the online gaming community and platform for downloading games through mobile apps and websites, which falls within the scope of “Internet cultural products” under the Provincial Regulations for the Administration of internet Culture. Yiwan holds an Internet Cultural License issued by the Shanghai Municipal Administration of Culture and Tourism.</p> <p>According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business.</p>
“Restricted” Value-added telecommunication services business	<p>The principal business of X.D. Network involves publication and operation of games through mobile apps and websites, which falls within the scope of “value-added telecommunication service” under the Telecommunication Regulations (《電信條例》).</p> <p>Yiwan’s principal business involves the operations of the online gaming community and platform for downloading games through mobile apps and websites, which falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations.</p> <p>According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business. Each of X.D. Network and Yiwan holds a value-added telecommunications business operating license (within the business scope of internet content provider) (the “ICP License”) for the provision of internet content issued by the local counterpart of the MIIT in Shanghai Municipality.</p>

As advised by our PRC Legal Adviser, while the principal business of X.D. Network in the publication and operation of games and the principal business of Yiwan in the operation of the online

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falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations (《電信條例》), where foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business, each of our PRC Consolidated Affiliated Entities conducting our principal business in publication of games which requires the Internet Publication License or operations of games, each of which prohibits foreign investments, to operate its principal business of publication and/or operations of games through mobile apps and websites.

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

Qualification requirements

Value-added telecommunication service business

On December 11, 2001, the State Council of the PRC promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “FITE Regulations”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including internet information services. In addition, a foreign investor who invests in value-added telecommunications business in the PRC must possess prior experience in, and a proven track record of, operating value-added telecommunications businesses overseas (the “Qualification Requirements”). Foreign investors that meet these requirements must obtain approvals from the MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. 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, its foreign investor’s previous value-added telecommunication business track record, such as previous permit, filing or experience of operating well-known websites or Apps or previous telecommunications business licenses issued by the relevant local authorities and satisfactory proof of the Qualification Requirements. As advised by our PRC Legal Adviser, the guidance memorandum does not provide clear guidance on how such filing requirement can be fulfilled, and does not provide any further interpretation or guidance on more proof or record required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Adviser has advised us that as of the Latest Practicable Date, no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements. See “Business—Game Publishing and Operation” and “Business—Our Strategies.”

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the PRC Consolidated Affiliated Entities where the relevant PRC law allow foreign investors to invest and to hold a majority interest in value-added telecommunications business through our offshore subsidiaries. With the aim to meet the Qualification Requirements, we have 37 registered trademarks in several overseas jurisdictions as of the Latest Practicable Date. We also publish and operate games in various countries and regions. Furthermore, we are developing overseas versions of TapTap.

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Our PRC Legal Adviser is of the view that the above steps taken by us are reasonable and appropriate for gradually building up a track record to meet the Qualification Requirements, the fulfillment of which is subject to the competent authorities' absolute discretion. Nevertheless, based on the verbal consultation with MIIT conducted by our PRC Legal Adviser, MIIT will only make a final determination as to whether the Qualification Requirements are satisfied when it receives the detailed application materials and concrete facts. We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any update to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the Listing. We will make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements. Nevertheless, even if we have taken the above steps with the aim to meet the Qualification Requirements, each of our PRC Consolidated Affiliated Entities conducting our principal business of publication or operations of games must also hold the Internet Publication License or Internet Cultural License, which prohibits foreign investments, and we would not be able to directly hold any equity interest in our PRC Consolidated Affiliated Entities.

Investment held by X.D. Network

In addition to the restricted and/or prohibited business of our Company, X.D. Network also directly or indirectly holds investment in certain entities in the PRC (the "Relevant Entities" and each a "Relevant Entity"), each of which (i) is engaged in business subject to foreign investment prohibition under the Negative List which will impair the continuous validity of the relevant licenses or permits of the prohibited businesses held or invested by these entities; (ii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List; however, the Relevant Entities intend to invest or engage in potential businesses which are subject to foreign investment prohibition and has expressly rejected our Company's proposed transfer of the interest in these entities held by our Group to WFOE; or (iii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List; however, the transfer of its equity interest directly or indirectly held by X.D. Network is subject to other stakeholders' consent and assistance and the Company was unable to procure such consent/assistance. It would be impracticable to obtain the consent and/or the assistance from all of the relevant stakeholders required for our Company's proposed transfer of the interest in the Relevant Entity held by our Group to WFOE.

Set out below is a summary of the Relevant Entities held by X.D. Network:

No.	Name of the Relevant Entities	Interest held by our Group as at the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
<i>Relevant Entities currently invest or engage in businesses which are subject to foreign investment prohibition</i>				
1.	Shanghai Xinyu Animation Design Co. Ltd. (上海欣雨動畫設計有限公司) ("Shanghai Xinyu")	27.86% equity interest held by X.D. Network (Note 2)	Comic and animation design and production	Yes
2.	Xiamen So Funny Information Technology Co., Ltd. (廈門真有趣信息科技有限公司) ("Xiamen So Funny")	18% equity interest held by X.D. Network	Research and development of games, provision of internet cultural products and services	Yes

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No.	Name of the Relevant Entities	Interest held by our Group as at the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
3.	Heart Dreams (Shanghai) Information Science and Technology Co., Ltd. (心夢想(上海)信息科技有限公司) (“Heart Dreams”)	46% equity interest held by X.D. Network	Provision of internet cultural products and services	Yes
4.	Xiamen Eling Network Science and Technology Co., Ltd. (廈門易靈網絡科技有限公司) (“Xiamen Eling”)	8.33% equity interest held by X.D. Network	Research and development of games, provision of internet cultural products and services	Yes
5.	Beijing Waterbell Information Technology Co., Ltd. (北京水琴鈴信息技術有限公司) (“Beijing Waterbell”)	8% equity interest held by X.D. Investment (Note 3)	Research and development of games, provision of internet cultural products and services	Yes
6.	Shanghai Fantablade Network Science and Technology Co., Ltd. (上海幻刃網絡科技有限公司) (“Shanghai Fantablade”)	25% equity interest held by X.D. Investment	Research and development of games, provision of internet cultural products and services	Yes
7.	Shanghai LinkedTune Culture Communication Co., Ltd. (上海領音文化傳播有限公司) (“Shanghai LinkedTune”)	20% equity interest held by X.D. Investment	Research and development of games, provision of internet cultural products and services	Yes
8.	Gamecores (Beijing) Culture Communication Co., Ltd. (機核(北京)文化傳媒有限公司) (“Gamecores”)	19.55% equity interest held by X.D. Investment	Provision of game-related media services, provision of internet cultural products and services	Yes
9.	Nanjing Xihuagu Animation Design Co., Ltd. (南京戲畫谷動漫設計有限公司) (“Nanjing Xihuagu”)	10% equity interest held by X.D. Investment	Comic and animation design and production	Yes
10.	Shanghai Bianyue Culture Communication Co., Ltd. (上海變月文化傳播有限公司) (“Shanghai Bianyue”)	15.32% equity interest held by X.D. Investment	Comic and animation design and production	Yes
11.	Guangzhou MakeBestGame Co., Ltd. (廣州壕遊信息科技有限公司) (“Guangzhou MakeBestGame”)	20% equity interest held by X.D. Investment	Research and development of games, provision of internet cultural products and services	Yes
12.	Guangzhou Ruiguo Information Science and Technology Co., Ltd. (廣州睿果信息科技有限公司) (“Guangzhou Ruiguo”)	12% equity interest held by X.D. Investment	Research and development of games, provision of internet cultural products and services	Yes
13.	Chengmai Youmu Technology Co., Ltd. (澄邁優目科技有限公司)	3.46% equity interest held by Yiwan (Note 2)	Advertising and Data Service, provision of internet cultural products and services	Yes

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No.	Name of the Relevant Entities	Interest held by our Group as at the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
<i>Relevant Entities intend to invest or engage in businesses which are subject to foreign investment prohibition</i>				
14.	Beijing Screambox Studio Network Science and Technology Co., Ltd. (北京斯庫瑞姆博克斯網絡科技有限公司) (“Beijing Screambox”)	10% equity interest held by X.D. Investment	Research and development of games	No
15.	Shanghai Qingyue Software Science and Technology Co., Ltd. (上海擎月軟件科技有限公司) (“Shanghai Qingyue”)	15% equity interest held by X.D. Investment	Research and development of games	No
16.	Shanghai Wanmeng Digital Science and Technology Co., Ltd. (上海頑夢數碼科技有限公司) (“Shanghai Wanmeng”)	15% equity interest held by X.D. Investment	Research and development of games	No
17.	Shanghai Genai Information Science and Technology Co., Ltd. (上海格奈信息科技有限公司) (“Shanghai Genai”)	10% equity interest held by X.D. Investment	Overseas publication of games	No
18.	Tianjin Duiyou Science and Technology Co., Ltd. (天津市隊友科技有限公司) (“Tianjin Duiyou”)	15.80% equity interest held by X.D. Investment	Research and development of games	No
19.	Huanyu (Beijing) Science and Technology Co., Ltd. (幻羽(北京)科技有限公司) (“Huanyu”)	10% equity interest held by X.D. Investment	Research and development of games	No
20.	90KM Network Science and Technology (Shanghai) Co., Ltd. (玖萬里網絡科技(上海)有限公司) (“90KM”)	5% equity interest held by X.D. Investment	Research and development of games	No
21.	Beijing Cloud Media Information Technology Co., Ltd. (北京雲際傳媒信息技術有限公司) (“Beijing Cloud Media”)	13.64% equity interest held by X.D. Investment	Provision of game-related media services	No
22.	Shanghai Chatie Network Science and Technology Co., Ltd. (上海茶鐵網絡科技有限公司) (“Shanghai Chatie”)	10% equity interest held by X.D. Investment	Research and development of games	No
23.	Beijing Guanyi Investment Consulting Co., Ltd. (北京觀頤投資顧問有限公司) (“Beijing Guanyi”)	1% equity interest held by X.D. Investment	Equity Investment holding	No

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No.	Name of the Relevant Entities	Interest held by our Group as at the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
24.	Xuebeng Science and Technology (Beijing) Co., Ltd. (雪崩科技(北京)有限公司) (“Xuebeng”)	13.33% equity interest held by X.D. Investment	Game community	No
25.	Shanghai Zhuiqu Network Science and Technology Co., Ltd. (上海追趣網絡科技有限公司) (“Shanghai Zhuiqu”)	10% equity interest held by X.D. Investment	Promotion of games	No
Other Relevant Entities				
26.	Shanghai Jibiao Software Co., Ltd. (上海吉標軟件有限公司) (“Shanghai Jibiao”)	20% equity interest held by X.D. Network	Research and development of games	No
27.	Shanghai Jixin Network Science and Technology Co., Ltd. (上海極心網絡科技有限公司) (“Shanghai Jixin”)	20% equity interest held by X.D. Network	Research and development of games	No
28.	Shanghai Mengyuan Network Science and Technology Co., Ltd. (上海盟源網絡科技有限公司) (“Shanghai Mengyuan”)	20% equity interest held by X.D. Network	Research and development of games	No
29.	Shanghai Youying Network Science and Technology Co., Ltd. (上海遊英網絡科技有限公司) (“Shanghai Youying”)	10% equity interest held by X.D. Investment	Research and development of games	No
30.	Shanghai Xinfu Network Information Science and Technology Co., Ltd. (上海新賦網絡信息科技有限公司) (“Shanghai Xinfu”)	20% equity interest held by X.D. Investment	Online education	No

As of the Latest Practicable Date,

- (1) Certain Relevant Entities currently invest in certain target companies which are principally engaged in prohibited businesses. As advised by our PRC Legal Adviser, the transfer of such Relevant Entities to WFOE would not be in compliance with the relevant foreign investment prohibition and therefore impair the continuous validity of the relevant licenses or permits for such prohibited businesses held by such target companies.
- (2) Yiwan is a non-wholly owned subsidiary of X.D. Network.
- (3) X.D. Investment is an investment platform of X.D. Network.

Compelling reasons to hold investment in Relevant Entities through X.D. Network

Our Company has compelling reasons to hold investment interests in 13 Relevant Entities including Shanghai Xinyu, Xiamen So Funny, Heart Dreams, Xiamen Eling, Beijing Waterbell, Shanghai Fantablade, Shanghai LinkedTune, Gamecores, Nanjing Xihuagu, Shanghai Bianyue, Guangzhou MakeBestGame, Guangzhou Ruiguo and Chengmai Youmu, through X.D. Network, X.D. Investment or Yiwan. As advised by our PRC Legal Adviser, these entities invest or engage in businesses which are subject to foreign investment prohibition under the Negative List. Our PRC Legal Adviser has advised that, due to foreign investment prohibition, the direct and indirect shareholders of

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these Relevant Entities or the target companies in which they invested, as applicable, must be controlled by the PRC nationals or PRC-incorporated corporations. The transfer of our investment interests in such Relevant Entities from X.D. Network, X.D. Investment or Yiwan to WFOE would not be in compliance with the relevant foreign investment prohibition and therefore would impair the continuous validity of the relevant licenses or permits for the prohibited businesses held or invested by such Relevant Entities.

In respect of 12 Relevant Entities including Beijing Screambbox, Shanghai Qingyue, Shanghai Wanmeng, Shanghai Genai, Tianjin Duiyou, Huanyu, 90KM, Beijing Cloud Media, Shanghai Chatie, Beijing Guanyi, Xuebeng and Shanghai Zhuiqu, to the best knowledge and information of our Company, these entities do not currently carry out business operations and intend to invest or engage in businesses that are subject to the foreign investment prohibition on engaging or investing in businesses subject to foreign investment restriction under the Negative List; however, they intend to invest or engage in businesses which are subject to foreign investment prohibition and have expressly rejected our Company's proposed transfer of the interest in these entities held by the Group to WFOE.

In respect of the remaining five Relevant Entities (the "Other Relevant Entities"): (i) Shanghai Jibiao and Shanghai Jixin, which are currently in the course of deregistration; and (ii) Shanghai Mengyuan, Shanghai Youying and Shanghai Xinfu, to the best knowledge and information of the Company, do not currently carry out business operations which are subject to foreign investment prohibition under the Catalog. However, transferring the interests held by X.D. Network or its subsidiaries in these entities is subject to other stakeholders' consent and assistance and our Company was unable to procure such consent/assistance.

Other stakeholders' consent or assistance required for transferring our Group's investment interests from X.D. Network to WFOE

It is impracticable for our Group to transfer its pre-existing investment interests in the Relevant Entities directly or indirectly held by X.D. Network to WFOE without consent and/or assistance from other stakeholders of the Relevant Entities. As set out in the table above in the section headed "—Investment held by X.D. Network," pursuant to the the Companies Law of the PRC (《中華人民共和國公司法》) and the articles of association of the Relevant Entities and the applicable PRC laws and regulations, any transfer of the interest in the Relevant Entities directly or indirectly held by X.D. Network and, if applicable, any resultant amendment to the Relevant Entities' articles of association require the consent and assistance of the other joint venture partners or shareholders.

Furthermore, in respect of the Relevant Entities in which X.D. Network is merely a minority shareholder in each of the Relevant Entities, the influence that our Company or X.D. Network could exert on the Relevant Entities or on lobbying and obtaining the consent and approvals of other shareholders for implementing the transfer of their investment interests to WFOE is very limited.

Our Company has engaged in preliminary communication with the relevant joint venture partners and shareholders of each of the Relevant Entities in respect of our Company's proposal to transfer its investment interests directly or indirectly held by X.D. Network to WFOE; however, as of the Latest Practicable Date, such requests had been either rejected by the relevant parties or our Company was still awaiting response from such parties. Such communication process and its results were out of our Company's control.

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Immateriality to our Company's financial results and operating status

The Relevant Entities are immaterial to our Group in terms of their contribution to our Company's financial results and operating status for the following reasons:

- (a) Our Group's investment in the Relevant Entities does not form part of, or relate to, the principal business of our Group. X.D. Network and its subsidiaries are only passive minority investors in the Relevant Entities and are not involved in their daily operations and management.
- (b) Our Company's interests in the Relevant Entities are accounted for using the equity method accounting or as financial assets at fair value through profit or loss in our Company's combined financial statements. The financial results of the Relevant Entities are not consolidated into our Company's combined financial statements.

Our Company recorded a share of gain amounting to RMB1.4 million and fair value loss amounting to RMB12.5 million from its investments in the Relevant Entities, net impact of which was approximately RMB11.1 million for the year ended December 31, 2018, accounting for approximately 3% of our Company's net profit. In addition, the investments in the Relevant Entities accounted for approximately 3.3% of our Company's total assets as at December 31, 2018. Accordingly, the impact on such investments in the Relevant Entities on our Company's combined financial statements is not significant. The Other Relevant Entities are primarily long-term financial investments of our Company. Our Company does not intend to and undertakes that it will not increase its investment or holding of equity interest in the Other Relevant Entities in the future. Given that our Company will not increase its holding in the Other Relevant Entities and with a view to limiting our Company's exposure in the Other Relevant Entities, our Company undertakes that, for so long the Other Relevant Entities are held under the contractual arrangements, our Company shall take all reasonable measures to procure that the Other Relevant Entities shall not contribute to more than 1% of our Company's profit before tax for any financial year nor account for more than 1% of our Company's total assets as of any financial year end. In particular, our legal and compliance departments will closely monitor the financial results of the Other Relevant Entities on a periodic basis. If their contribution to our Company's profit before tax or our total assets is expected to exceed 1%, we will further negotiate with relevant joint venture partners and shareholders of the Other Relevant Entities to obtain their consent and assistance. Our Company confirms that our Group will cease to hold the Other Relevant Entities through the Contractual Arrangements once other stakeholders' consent for transferring the relevant investment has been obtained. Our Company further undertakes that, in the event that our Company proposes to acquire any business or equity interest in another company involving contractual arrangements, it will only do so in compliance with the Stock Exchange's Guidance Letter HKEX-GL77-14.

Our Contractual Arrangements

Overview

In view of the aforementioned PRC regulatory background, after consultation with our PRC Legal Adviser, we determined that it was not viable for our Company to hold our PRC Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions and prohibitions, we would gain effective control over, and receive all the economic benefits generated by, the businesses currently operated by our PRC Consolidated Affiliated Entities through the Contractual Arrangements between WFOE, on the one hand, and our PRC Consolidated Affiliated Entities and their respective

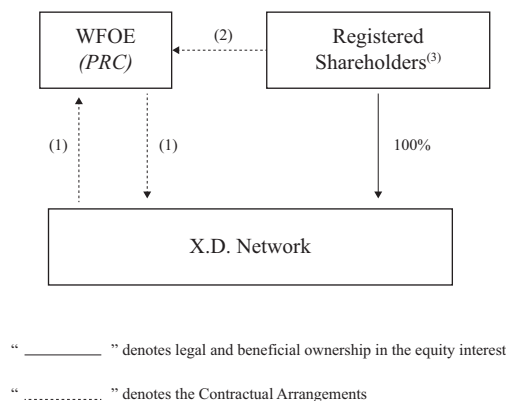
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shareholders, on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of X.D. Network and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. The Contractual Arrangements currently in effect were entered into on June 16, 2019, whereby WFOE has acquired effective control over the financial and operational policies of our PRC Consolidated Affiliated Entities and has become entitled to all the economic benefits derived from their operations. We believe that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions and prohibitions in the PRC.

Our Directors believe that the Contractual Arrangements are fair and reasonable because (i) the Contractual Arrangements were negotiated on an arm's length basis and entered into between WFOE and our PRC Consolidated Affiliated Entities; (ii) by entering into an exclusive consultation and technical service agreement with WFOE, which is our subsidiary established under the PRC laws, our PRC Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing; and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

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



- (1) WFOE provides technical consultation and other services in exchange for service fees from X.D. Network. See “—Our Contractual Arrangements—Exclusive Service Agreement.”
- (2) The Registered Shareholders executed an exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in X.D. Network. See “—Our Contractual Arrangements—Exclusive Option Agreement.”
The Registered Shareholders granted first priority security interests in favor of WFOE, over the entire equity interests in X.D. Network held by Registered Shareholders. See “—Our Contractual Arrangements—Equity Pledge Agreement.”
The Registered Shareholders executed the Voting Rights Proxy Agreement and Powers of Attorney in favor of WFOE, for the exercise of all shareholders' rights in X.D. Network. See “—Our Contractual Arrangements—Voting Rights Proxy Agreement and Powers of Attorney.”
The spouse of each Relevant Individual Shareholders executed an undertaking in favor of WFOE, see “—Our Contractual Arrangements—Spouse Undertakings.”
- (3) Xindong Holding, Shanghai Jiexin Investment Management Partnership (Limited Partnership), Fuzhou Tianmeng Digital Company Limited (福州天盟數碼有限公司), Shanghai Muxinyinxi Investment Management Partnership (Limited Partnership), Dongfang Xinghui (Shanghai) Investment Center (Limited Partnership) (東方星輝(上海)投資中心(有限合夥)), Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司), Tibet Taifu Culture Media Co., Ltd. (西藏泰富文化傳媒有限公司), Xiamen Qunce Chuangying Equity Investment Partnership (Limited Partnership), Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), Tianjin Jinwutong Investment Management Partnership (Limited Partnership) and the Relevant Individual Shareholders (including Mr. Huang, Mr. Dai, Mr. Zhao, Mr. Hong Shen, Mr. Shen Sheng, Mr. Wang Chenguang, Mr. Pan Zuqiang, Ms. Zhang Aifen,

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Ms. Chen Ying, Mr. Jia Shaochi, Mr. Huang Yecheng, Ms. Pan Chenping and Mr. Huang Xiwei) are collectively referred to as “Registered Shareholders.”

Circumstances under which we will unwind the Contractual Arrangements

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of our apps and websites to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants the Internet Publication Licenses and the Internet Cultural Licenses, as applicable, to sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

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

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

Exclusive Service Agreement

Pursuant to an exclusive consultation and technical service agreement dated June 16, 2019 entered into between WFOE and X.D. Network (the “Exclusive Service Agreement”), X.D. Network agreed to engage WFOE as its exclusive provider to provide X.D. Network with technical consultation and services, including but not limited to, (i) licensing the operation of the self-developed games and licensed games; (ii) licensing the use of the software, copyright and proprietary technology; (iii) providing comprehensive solutions for business operation and management skills; (iv) daily management, maintenance and update of the hardware and database; (v) development, maintenance and update of the software and online games; (vi) employee training; (vii) assistance in the collection and research of the technical information in compliance with the restriction under relevant PRC laws; and (viii) other services as required by X.D. Network from time to time. In exchange for these services, X.D. Network shall pay (i) a service fee, which shall consist of the total consolidated profit of X.D. Network in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions recognized by WFOE in each financial year, which may include any accumulated deficit of X.D. Network and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any); and (ii) the supplemental service fee as otherwise agreed by X.D. Network and WFOE for the specific consulting service or technical service (if any) required by X.D. Network. Meanwhile, X.D. Network agreed to any adjustment WFOE may make on the services scope and the service fee in accordance with the PRC tax law and PRC tax practice.

During the term of the Exclusive Service Agreement, WFOE enjoys all the economic benefits in relation to X.D. Network business operation.

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

The Exclusive Service Agreement also provides that WFOE has the exclusive and proprietary ownership, rights and interests in all intellectual property arising out of or created during the performance of the Exclusive Service Agreement.

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The Exclusive Service Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in X.D. Network or the entire assets held by X.D. Network have been transferred to WFOE or its appointee(s); or (ii) terminated in writing by WFOE thirty days in advance.

Exclusive Option Agreement

Pursuant to an exclusive option agreement dated June 16, 2019, entered into among WFOE, X.D. Network and the Registered Shareholders (the “Exclusive Option Agreement”), WFOE has the irrevocable, unconditional and exclusive right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders all or any part of their equity interests in X.D. Network and from X.D. Network all or any part of the assets of X.D. Network at any time in WFOE’s absolute discretion in accordance with the provision of the Exclusive Option Agreement and to the extent permitted by the PRC laws. The consideration in relation to purchasing shares from the Registered Shareholders shall be RMB1 or the lowest price as permitted under the applicable PRC laws. The consideration in relation to purchasing assets from X.D. Network shall be the lowest price as permitted under the applicable PRC laws. The Registered Shareholders shall return the consideration received to WFOE or any person designated by WFOE.

In the case that the PRC laws allow WFOE to directly hold all or any part of the equity interest in X.D. Network, WFOE shall notify X.D. Network of exercising the right for WFOE to purchase, or to designate one or more persons/entities to purchase, the maximum amount of shares in X.D. Network permitted by the related PRC laws as soon as practicable.

The Registered Shareholders and X.D. Network, among other things, have undertaken that:

- without the prior written consent of WFOE, they shall not engage in any business which will have substantial adverse effect on the assets, business, rights and management of X.D. Network;
- without the prior written consent of WFOE, they shall not increase or decrease registered capital of X.D. Network, or enter into reorganization, separation, or merger;
- without the prior written consent of WFOE, they shall not, and shall procure the senior management of X.D. Network not to sell, transfer, mortgage or otherwise dispose of any assets, business, income of X.D. Network;
- without the prior written consent of WFOE, they shall not cause X.D. Network to terminate any major contract (for purpose of this subsection, a contract with a consideration exceeding RMB1 million shall be deemed a major contract) or execute any contract which has substantial conflict with current major contracts;
- without the prior written consent of WFOE, they shall not appoint or remove any directors supervisor or management who should have been appointed or removed by the Registered Shareholders;
- without the prior written consent of WFOE, they shall not cause X.D. Network to distribute dividends to its shareholders;
- they shall maintain X.D. Network’s corporate existence and ensure X.D. Network shall not be terminated, dissolved or liquidated;

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- without the prior written consent of WFOE, they shall not change the current applicable accounting principle or appoint or change the auditor of X.D. Network unless it is required by the relevant laws and regulations;
- without the prior written consent of WFOE, they shall not in any manner supplement, change or amend the articles of association or change the business scope of X.D. Network;
- without the prior written consent of WFOE, they shall not cause X.D. Network to provide or obtain any loan, provide guarantees or other forms of guarantee or undertake any substantial obligation other than in the ordinary course of business;
- they shall operate X.D. Network's businesses in compliance with the laws and regulations and refrain from any action or omission that may adversely affect X.D. Network's reputation or validity of licenses;
- during the term of the Exclusive Option Agreement, they shall timely notify WFOE of any situation which might adversely affect the existence, business operation, financial status, asset or reputation of X.D. Network and take all measures approved by WFOE to resolve the adverse conditions or take effective remedial measures in due course; and

The Registered Shareholders, among other things, have covenanted that:

- they shall transfer the remaining proceeds they received from liquidation or dissolution to WFOE or any other person designated by WFOE to the extent permitted by the PRC laws;
- they shall promptly transfer any income, profit distribution or dividend distributed by X.D. Network to WFOE or any other person designated by WFOE to the extent permitted by the PRC laws as part of the service fee under the Exclusive Service Agreement; and
- they shall obtain written confirmation from any successor of their equity interests to inherit and fulfill all the responsibilities, obligations and undertakings under the Exclusive Option Agreement.

X.D. Network, among other things, has covenanted that:

- it shall provide WFOE with information on X.D. Network's business operations and financial information or other documents at the request of WFOE;
- it shall transfer any income, profit distribution or dividend distributed by its subsidiaries, as requested by WFOE, to WFOE or any other person designated by WFOE to the extent permitted by the PRC laws as part of the service fee under the Exclusive Service Agreement; and
- in the event of dissolution or liquidation as required under PRC laws, (i) WFOE has the rights of the liquidation group and/or the rights to nominate, recommend or appoint the members of the liquidation group; and (ii) X.D. Network shall sell all remaining assets after the deduction of the mandatory payment under the PRC laws to WFOE at the lowest price as permitted under applicable PRC laws and transfer all the profits generated from such transaction to WFOE or any other person designated by WFOE as part of the service fee under the Exclusive Service Agreement.

The Exclusive Option Agreement shall remain effective unless terminated in the event that (i) the entire equity interests held by the Registered Shareholders in X.D. Network or the entire assets held by X.D. Network have been transferred to WFOE or its appointee(s); or (ii) in writing by WFOE thirty days in advance.

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Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement dated June 16, 2019 entered into between WFOE, X.D. Network and the Registered Shareholders (the “Equity Pledge Agreement”), the Registered Shareholders agreed to unconditionally and irrevocably pledge all of their respective equity interests in X.D. Network to WFOE as collateral security for securing the performance of their obligations under the Contractual Arrangements or for any and all of the secured indebtedness under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends arising from the equity interests in X.D. Network held by the Registered Shareholders.

The Equity Pledge Agreement came into effect upon execution and shall remain valid until after all the contractual obligations of the Registered Shareholders and X.D. Network under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and X.D. Network under the Contractual Arrangements have been fully settled. The Registered Shareholders should complete the registration with the relevant administration for industry and commerce in accordance with the Equity Pledge Agreement.

Upon the occurrence of an event of default (as stipulated in the Equity Pledge Agreement) and unless it has been successfully resolved to WFOE’s satisfaction within 30 days after WFOE delivers a notice to the Registered Shareholders and/or X.D. Network requesting rectification of such event of default, WFOE may exercise their right under the Equity Pledge Agreement to deal with the equity interest.

As of the end of August 2019, the pledges by the Registered Shareholders have been registered with the relevant PRC authorities as required by the relevant PRC laws and regulations.

Voting Rights Proxy Agreement and Powers of Attorney

The Registered Shareholders, WFOE and X.D. Network entered into the Voting Rights Proxy Agreement on June 16, 2019, pursuant to which, each of the Registered Shareholder agreed to enter into a powers of attorney respectively through which each of the Registered Shareholders shall agree to irrevocably appointed WFOE or its appointees (including but not limited to the directors of the holding companies of WFOE and their successors and liquidators replacing such directors but excluding those non-independent or who may give rise to conflict of interests) as their exclusive agents to act on their behalf to exercise all of their respective rights as the shareholder of X.D. Network in accordance with the articles of association of X.D. Network. These rights include, among other things, the rights (i) to propose, convene and attend shareholders’ meetings of X.D. Network in the capacity of a proxy of the Registered Shareholders; (ii) to exercise the voting rights on behalf of the Registered Shareholder on all the resolutions which shall be approved at shareholders’ meeting, including but not limited to (a) the election and appointment of directors and other senior management of X.D. Network who should be appointed or removed by the shareholders of X.D. Network; (b) the sale, transfer, pledge or disposal of any or all equity interests in X.D. Network held by the Registered Shareholders; (c) the decision on the dissolution or liquidation related matters of X.D. Network, including the appointment and delegation of members of the liquidation group and/or their proxy and the approval of the liquidation plan and liquidation report; and (d) the amendments to the articles of association; (iii) to file a lawsuit against the legal representative, director, general management or other senior management of X.D. Network when he act in a manner which is detrimental to the interest of X.D. Network or take other legal actions on behalf of the Registered Shareholders; (iv) to represent the Registered Shareholders in executing any equity transfer documents or other related documents; (v) to deal with

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any governmental approvals, registration, filing or any other procedures to effect the transfer under the Exclusive Option Agreement; (vi) to submit any required document to related company registry or other authorities; and (vii) to exercise other voting rights of shareholders under the articles of association of X.D. Network.

The Voting Rights Proxy Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in X.D. Network and/or the entire assets held by X.D. Network have been transferred to WFOE or its appointee(s) in accordance to the Exclusive Service Agreement; or (ii) terminated in writing by WFOE thirty days in advance.

Spouse Undertakings

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the “Spouse Undertakings”) to the effect that (i) the spouse has full knowledge of and unconditionally and irrevocably consents to the entering into the Contractual Arrangements (as amended from time to time) among the respective Relevant Individual Shareholders, WFOE and X.D. Network; (ii) the spouse shall be bound by the Contractual Arrangements (as amended in X.D. Network from time to time) and take all necessary actions to ensure the appropriate implementation of the Contractual Arrangements; (iii) the spouse has no direct right to or interest in such interests of the Relevant Individual Shareholder and will not have any claim on such interests; (iv) the spouse unconditionally and irrevocably undertakes that he/she shall not in any manner act against the Contractual Arrangements; and (v) in the event that the spouse of the Relevant Individual Shareholders holds the interests in X.D. Network, such spouse shall enter into a series of agreements which are similar to the Contractual Arrangements with WFOE and X.D. Networks as requested by WFOE.

Our PRC Legal Adviser is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of death or divorce of any Relevant Individual Shareholder; and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and WFOE or our Company can still enforce its rights under the Contractual Arrangements against the Registered Shareholders.

Other Key Terms under the Contractual Arrangements

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules and procedures. The arbitration shall be conducted in Beijing. The arbitral award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may (i) award remedies regarding the equity interests held by the Registered Shareholders, property interests or other assets of X.D. Network; (ii) compensate the loss of WFOE as a result of breach of the Contractual Arrangements; (iii) order specific performance or winding up of X.D. Network; or (iv) grant injunctive measures to restrict a party from carrying out activities in violation of the Contractual Arrangements. When awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, the court with competent jurisdiction may grant the interim relief such as restricting the party in breach to stop conducting any act which is in violation of the Contractual Arrangements or any act which may cause WFOE to suffer further losses. The parties

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agree that the courts of Hong Kong, Cayman Islands, China and other relevant jurisdiction (being the place where X.D. Network is incorporated or the principal assets of X.D. Network, WFOE or its subsidiaries are located) shall all be deemed to have competent jurisdiction.

However, our PRC Legal Adviser has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral awards made by the arbitral tribunal, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

As a result of the above, in the event that X.D. Network or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors—Risks Related to Our Contractual Arrangements.”

Conflict of Interest

Each of the Registered Shareholders has given its irrevocable undertakings in the Voting Rights Proxy Agreement and Powers of Attorney which address potential conflicts of interests that may arise in relation to the Contractual Arrangements. See “—Our Contractual Arrangements—Voting Rights Proxy Agreement and Powers of Attorney.”

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Relevant Individual Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the Succession Law of the PRC, the successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, WFOE may enforce its rights against the successors. Pursuant to the Contractual Arrangements, any heir of the Relevant Individual Shareholders shall inherit any and all rights and obligations of the Relevant Individual Shareholders under the Contractual Arrangements as a result of their death, loss of capacity, or under other circumstances which would affect their exercise of right as Registered Shareholders of X.D. Network.

According to the terms of the Exclusive Option Agreement, each of the Registered Shareholders has undertaken, (i) in the event of death or loss of capacity or any other events that could possibly affect his exercise or fulfillment of the rights and obligations as a shareholder of X.D. Network, or (ii) in the event of the bankruptcy or dissolution, or any other events that could possibly affect its exercise or fulfillment of the rights and obligations as a shareholder of X.D. Network, his or its successor in the undertakings of the Registered Shareholders shall assume all the rights and obligations of the Registered Shareholders under the Exclusive Option Agreement.

Based on the foregoing, our PRC Legal Adviser is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of loss of capacity, death, bankruptcy (if applicable), or divorce of the Registered Shareholders; and (ii) the loss of capacity, death, bankruptcy (if applicable) or divorce of the Registered Shareholders would not affect the validity of the Contractual Arrangements, and WFOE may enforce its rights under the Contractual Arrangements against the successors of such Registered Shareholders.

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Loss sharing

Under the relevant PRC laws and regulations, neither our Company nor WFOE is legally required to share the losses of, or provide financial support to, our PRC Consolidated Affiliated Entities. Our PRC Consolidated Affiliated Entities are also limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our PRC Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our PRC Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreement, without the prior written consent of WFOE, X.D. Network shall not, among others, (i) engage in any business which will have substantial adverse effect on the assets, business, interest and management of X.D. Network; (ii) sell, transfer, mortgage or dispose of in any manner any assets, business, income or option of X.D. Network; (iii) increase or decrease its registered capital, or change the structure of X.D. Network by reorganization, separation or merger; (iv) cause X.D. Network to terminate any major contract (for purpose of this subsection, a contract with a consideration exceeding RMB1 million shall be deemed a major contract) or execute any contract which has substantial conflict with current major contracts; (v) appoint or remove any director, supervisor or management who should have been appointed or removed by the Registered Shareholders; (vi) cause X.D. Network to distribute in any manner dividends to its shareholders; (vii) change the current applicable accounting principal, appoint or change the auditor of X.D. Network unless it is required by the relevant laws and regulations; (viii) in any manner supplement, change or amend the articles of association and the business scope of X.D. Network; (ix) cause X.D. Network to provide or obtain any loan, provide guarantee or other forms of guarantee or undertake any substantial obligations other than in the ordinary course of business. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered by X.D. Network can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a liquidation or dissolution required by the PRC laws, (i) the Registered Shareholders of our PRC Consolidated Affiliated Entities shall give the remaining proceeds they received from liquidation or dissolution to the WFOE or its designee(s) to the extent permitted by the PRC laws; and (ii) X.D. Network shall sell all remaining assets after the deduction of the mandatory payment under the PRC laws to WFOE at the lowest price as permitted under the applicable PRC laws and transfer all the profits generated from such transaction to WFOE or any other person designated by WFOE as part of the service fee under the Executive Service Agreement.

Insurance

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

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Company's confirmation

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

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, we believe that the Contractual Arrangements are narrowly tailored to achieve our business purpose and minimize the potential conflict with the relevant PRC laws and regulations. Our PRC Legal Adviser has advised that:

- (a) WFOE and X.D. Network were respectively established under the PRC laws and are in valid existence;
- (b) as advised by the respective signatories, parties to each of the agreement under the Contractual Arrangements have obtain necessary authorization and have the power to execute such agreements and perform their respective obligation;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of X.D. Network or WFOE;
- (d) none of the Contractual Arrangements would be deemed as (i) concluded by means of fraud or coercion by one party, thereby damaging the interests of the State; (ii) a malicious collusion conducted to damage the interests of the State, a collective group or a third party; (iii) concealing illegal intentions with a lawful form; (iv) the damage to public interest; or (v) a violation of laws or mandatory administrative regulations (the "Five Circumstances"), which would result the Contractual Arrangements to be deemed as void under the PRC Contract Law;
- (e) upon execution of the Contractual Arrangements, each agreement under the Contractual Arrangements is legal, valid and legally binding upon the signing parties and their respective successors and the execution, revisions, performance and termination of each agreement under the Contractual Arrangements does not require any approvals, authorizations or consents to be obtained from the PRC governmental authorities, except that:
 - (i) any share pledge contemplated under the Equity Pledge Agreement is subject to the registration in compliance with the PRC Property Rights Law;
 - (ii) the transfer of any share from the Registered Shareholders to WFOE or any other person designated by WFOE under the Exclusive Option Agreement is subject to the approvals, registration or filing with the PRC regulatory authority;
 - (iii) the exercise of WFOE's rights of the liquidation group under the Exclusive Option Agreement might not be applicable in the event of the liquidation of X.D. Network; and
 - (iv) the arbitral awards/remedial measures provided under the dispute resolution provisions of the Contractual Arrangements shall subject to the PRC courts' recognition.

However, we have been advised by our PRC Legal Adviser that there are uncertainties regarding the interpretation and application of the current and future PRC laws and regulations over the

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validity of the Contractual Arrangements. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinions of our PRC Legal Adviser in the future.

The Notice 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, the State Administration of Radio Film and Television (the “SARFT”) and the GAPP (《關於印發<中央編辦對文化部、廣電總局、新聞出版總署<“三定”規定>中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋>的通知》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that the SARFT will be responsible 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.

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

Notwithstanding the foregoing, according to the verbal consultation with the SMPPB, conducted by the Company, our PRC Legal Adviser, the Sole Sponsor and its PRC legal advisers, the SMPPB confirmed that the Contractual Arrangements would not (i) be subject to the approval, permission, registration or filing requirements of the SMPPB; (ii) be deemed as invalid; or (iii) be punished by the SMPPB. According to the verbal consultation with Shanghai Municipal Administration of Culture and Tourism (上海市文化和旅遊局, the “SMACT”), conducted by the Company, our PRC Legal Adviser, the Sole Sponsor and its PRC legal advisers, the SMACT confirmed that the Contractual Arrangements would not be subject to the filing requirement of the SMACT. According to the verbal consultation with Administration of Shanghai Culture Market (上海市文化市場行政執法總隊, the “ASCM”), conducted by the Company, our PRC Legal Adviser, the Sole Sponsor and its PRC legal advisers, the ASCM confirmed that the ASCM has not imposed any penalty on contractual arrangements. Our PRC Legal Adviser has advised us that (i) all of them are competent government authorities for our Company’s principal business activities; and (ii) based on such consultations, the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid or under the applicable PRC laws and regulations and would not be challenged or subject to penalty for any violation of the relevant PRC laws and regulations. Our PRC Legal Adviser is of the

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view that the use of the Contractual Arrangements does not constitute a breach of the relevant laws and regulations.

Based on the above analysis and advice from our PRC Legal Adviser, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See “Risk Factors—Risks Related to Our Contractual Arrangements.”

We are aware of a Supreme People’s Court ruling (the “Supreme People’s Court Ruling”) made in October 2012 and two arbitral decisions from the Shanghai International Arbitration Center made in 2010 and 2011 respectively 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” as set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitral panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC; and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the Five Circumstances. Our PRC Legal Adviser is of the view that the relevant terms of our Contractual Arrangements do not fall within the Five Circumstances. In particular, our PRC Legal Adviser is of the view that the Contractual Arrangements would not be deemed as “concealing an illegitimate purpose under the guise of legitimate acts” such that they also do not fall within “concealing illegal intentions with a lawful form” as one of the Five Circumstances under Article 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegal intentions. The intentions of the Contractual Arrangements are (a) to enable X.D. Network to transfer its economic benefits to WFOE as service fees for engaging WFOE as its exclusive service provider; and (b) to ensure that the Registered Shareholders do not take any action that is contrary to the interests of WFOE. In accordance with Article 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of our PRC Consolidated Affiliated Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, our PRC Legal Adviser is of the view that the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of our PRC Consolidated Affiliated Entities

Under the Exclusive Service Agreement, it was agreed that, in consideration of the services provided by WFOE, X.D. Network shall pay services fees to WFOE. The services fee shall consist of the total consolidated profit of X.D. Network in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions recognized by WFOE in each financial year, which may include any accumulated deficit of X.D. Network and all of its consolidated subsidiaries in

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respect of the preceding financial year(s) (if any). WFOE has the right to periodically receive or inspect the accounts of our PRC Consolidated Affiliated Entities.

In addition, under the Exclusive Option Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as WFOE's prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fee under the Exclusive Service Agreement, such income, profit distribution or dividend to WFOE or any other person/entity designated by WFOE to the extent permitted under applicable PRC laws. Because of the Contractual Arrangements between WFOE, X.D. Network and the Registered Shareholders, WFOE can effectively control, recognize and receive all the economic benefit of the business and operations of our PRC Consolidated Affiliated Entities. Accordingly, our PRC Consolidated Affiliated Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of our PRC Consolidated Affiliated Entities is disclosed in note 2.2.1 to the Accountant's Report set out in Appendix I to this prospectus.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

The Foreign Investment Law

Foreign Investment Law (《中華人民共和國外商投資法》) was adopted at the Second Session of the Thirteenth National People's Congress of the PRC on March 15, 2019 and will come into force from January 1, 2020. The Foreign Investment Law 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 Foreign Investment Law stipulates the implement of the management systems of pre-establishment national treatment and "negative list" for foreign investment. The "negative list", which will be issued by or upon approval by the State Council, refers to special administrative measures for access of foreign investment in specific fields in China. A foreign investor shall not invest in any field in the "negative list" which is prohibited from foreign investment. A foreign investor shall fulfill the investment requirements stipulated under the relevant laws and regulations for any field in the "negative list" which is restricted from foreign investment. Concerning fields not mentioned in the "negative list", management shall be conducted under the principle of consistency of domestic and foreign investment. The Foreign Investment Law does not contain or quote the stipulation of the "negative list".

Impact and Potential Consequences of the Foreign Investment Law on the Contractual Arrangements

The Foreign Investment Law defines the foreign investment as the investment activities directly or indirectly conducted by foreign investors in the PRC, and sets forth the specific situations that should be regarded as foreign investment. Furthermore, the Foreign Investment Law stipulates that "foreign investment includes the investment made in the PRC by foreign investors through any other means under the laws, administrative regulations and provisions stipulated by the State Council." Our PRC Legal Adviser confirmed that: since (i) after the promulgation of the Foreign Investment Law on March 15, 2019 and up to the Latest Practicable Date, no laws, administrative regulations or State Council provisions have been issued which specify contractual arrangements as a method of foreign

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investment; and (ii) the Foreign Investment Law does not specify contractual arrangements as foreign investment, the Foreign Investment Law will not have a material impact on the Contractual Arrangements and each of the agreements under the Contractual Arrangements, and the legality and validity of the Contractual Arrangements would not be affected. See “Risk Factors—Risks Related to Our Contractual Arrangements” for further details of the risks we face relating to our Contractual Arrangements.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

- (i) major issues arising from the implementation of and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- (iv) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our PRC Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that our executive Directors, Mr. Huang Yimeng and Mr. Dai Yunjie are the Registered Shareholders, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently under the following measures:

- (i) the decision-making mechanism of the 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 the Board at which it is applicable for him or her to do so, and if he or she is to be regarded as having any material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (ii) 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;
- (iii) we have appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
- (iv) we will disclose in our announcements, circulars, annual and interim reports, whatever appropriate, in accordance with the requirements under the Listing Rules regarding

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decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his or her associate 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.

CONNECTED TRANSACTIONS

Prior to the Listing, our Group has entered into certain transactions with our connected persons which are continuing in nature and are expected to continue after the Listing. Upon Listing, such transactions between us and our connected persons will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

The table below sets forth the parties who will become our connected persons upon Listing and the nature of their relationship with our Group:

<u>Name of our connected persons</u>	<u>Connected Relationship</u>
Mr. Huang	Mr. Huang is our Director and our Controlling Shareholder, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.
Mr. Dai	Mr. Dai is our Director and our substantial shareholder, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.
Mr. Zhao	Mr. Zhao is a director of Xingdong Korea Co., Ltd., our subsidiary, and is therefore a connected person of our Company at the subsidiary level under Rule 14A.07(1) of the Listing Rules. Mr. Zhao was appointed as a director of X.D. Network in November 2014 and ceased to be the director of X.D. Network since January 2019 to pursue his other personal and business commitment.
Shanghai Maichuang Network Technology Limited (上海脈創網絡科技有限公司) (“Shanghai Maichuang”)	Shanghai Maichuang is held by Mr. Dai’s spouse and Independent Third Parties as to 32.00% and 68.00%, respectively, as at the Latest Practicable Date, and therefore an associate of Mr. Dai and a connected person of our Company under Rule 14A.07(4) of the Listing Rules.

CONNECTED TRANSACTIONS

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Continuing connected transaction	Applicable Listing Rules	Waivers sought	Historical amounts for the year ended December 31, 2016, 2017, 2018 and the five months ended May 31, 2019 (RMB in millions)	Proposed annual cap for the year ending December 31, 2019, 2020 and 2021 (RMB in millions)
Non-exempt Continuing Connected Transactions				
1. IDC Services Framework Agreement	14A.34, 14A.35, 14A.49, 14A.71, 14A.76	Announcement requirement under Chapter 14A of the Listing Rules	2016: 7.5 2017: 8.0 2018: 10.1 2019(5M): 5.9	2019: 12.3 2020: 14.6 2021: 16.7
2. Contractual Arrangements	14A.34, 14A.35, 14A.36, 14A.49, 14A.52 to 59, 14A.71	Requirements as to announcement, circular, independent shareholders' approval, annual caps, limiting the period of agreement to a fixed term under Chapter 14A of the Listing Rules	N/A	N/A

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Group, which are either (i) subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules; or (ii) subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions Subject to Reporting, Annual Review and Announcement Requirements

1. IDC Services Framework Agreement

Description of the Agreement

On November 26, 2019, Shanghai Maichuang entered into an Internet Data Center (the "IDC") services framework agreement (the "IDC Services Framework Agreement") with our Company (for itself and on behalf of other members of our Group), pursuant to which Shanghai Maichuang agreed to provide IDC services and related technical support services to our Group. IDC services and related technical support services include, but are not limited to, server equipment colocation services, bandwidth and Internet protocol (the "IP") address offerings, content delivery network (the "CDN") acceleration services, and maintenance and support services. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

The initial term of the IDC Services Framework Agreement shall commence on the Listing Date and expire on December 31, 2021.

CONNECTED TRANSACTIONS

Reasons for the Transactions

Shanghai Maichuang is an IDC services provider in China and offers internet and data-related services, including IDC services and CDN services. Since our establishment, Shanghai Maichuang has been providing us with IDC services and related technical support services, and therefore has acquired a deep understanding of our business and operational requirements. Having considered our previous purchasing experience with Shanghai Maichuang and our long-term and stable cooperation, our Directors believe that Shanghai Maichuang is capable of fulfilling our demands in a reliable and cost-effective manner and entering into the IDC Services Framework Agreement would minimize disruption to our operation and internal procedures.

Pricing Policy

With respect to the service fees payable for server equipment colocation, bandwidth and IP address offering, the service fees payable by us are based on the number of servers and IPs provided by Shanghai Maichuang, the bandwidth usage amount, and the respective market fee rates determined after arm's-length negotiation between the parties with reference to prevailing market rates.

With respect to the service fee payable for CDN services, we adopted pricing models of pay-by-bandwidth for domestic network acceleration services and pay-by-traffic for global network acceleration services, respectively. The service fee payable by us is primarily based on (i) our monthly peak bandwidth value recorded under the pay-by-bandwidth pricing model, and (ii) the actual traffic used and calculated under the pay-by-traffic model. The respective fee rates are determined after arm's-length negotiation between the parties with reference to prevailing market rates.

Historical Amounts

The aggregate amount of service fees we incurred in relation to IDC services and related technical support services provided by Shanghai Maichuang for the three years ended December 31, 2018 and the five months ended May 31, 2019 are set out in the table below:

	For the year ended December 31,			For the five months ended May 31,
	2016	2017	2018	2019
	(RMB in millions)			(RMB in millions)
Service fees we incurred in relation to IDC services and related technical support services provided by Shanghai Maichuang	7.5	8.0	10.1	5.9

Based on the audit reports of Shanghai Maichuang for the three years ended December 31, 2018, the service fees we incurred in relation to IDC services and related technical support services provided by Shanghai Maichuang accounted for approximately 49.82%, 45.76% and 42.03% of the total revenue of Shanghai Maichuang, respectively.

Annual Caps and Basis of Caps

The proposed annual caps for the service fees under the IDC Services Framework Agreement for the three years ending December 31, 2021 are set out as follows:

	For the year ended December 31,		
	2019	2020	2021
	(RMB in millions)		
Service fees under the IDC Services Framework Agreement	12.3	14.6	16.7

CONNECTED TRANSACTIONS

The proposed annual caps were determined primarily based on (i) the historical transaction amounts and the year-on-year growth rate for the year ended December 31, 2018, and (ii) the expected increase in demand for servers, bandwidth and IP address and CDN service as our business continues to grow.

Listing Rules Implications

As the highest applicable percentage ratio for each of the proposed annual caps for the three years ending December 31, 2021 is expected to exceed 0.1% but below 5% on an annual basis, the transactions under the IDC Services Framework Agreement will constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

Continuing Connected Transactions Subject to Reporting, Announcement, Circular and Independent Shareholders' Approval Requirement

2. Contractual Arrangements

Background

As disclosed in the section headed “Contractual Arrangements” in this prospectus, due to regulatory restrictions on foreign ownership in the PRC, we conduct a substantial portion of our business through our PRC Consolidated Affiliated Entities in the PRC. We do not hold any equity interests in X.D. Network. X.D. Network is held by, among others, Mr. Huang, Mr. Dai and Mr. Zhao who are our connected persons. The Contractual Arrangements entered into among WFOE and X.D. Network and the shareholders of X.D. Network enable us to (i) receive substantially all of the economic benefits from X.D. Network in consideration for the services provided by WFOE; (ii) exercise effective control over our PRC Consolidated Affiliated Entities through X.D. Network; and (iii) hold an exclusive option to purchase all or part of the equity interests and assets of X.D. Network when and to the extent permitted by PRC laws.

See “Contractual Arrangements” for detailed terms of the Contractual Arrangements.

Listing Rules Implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Mr. Huang, Mr. Dai and Mr. Zhao, are connected persons of our Group. Mr. Huang and Mr. Dai are our executive Directors and Mr. Zhao was a director of X.D. Network during the 12 months preceding the Latest Practicable Date. As such, Mr. Huang, Mr. Dai and Mr. Zhao are therefore connected persons of our Group.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered

CONNECTED TRANSACTIONS

into, among others, by any of the PRC Consolidated Affiliated Entities and any member of our Group (“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, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, if such transactions were subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules.

INTERNAL CONTROL MEASURES FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

For non-exempt continuing connected transactions, we will establish the following internal review procedures upon the Listing to ensure that the pricing under the non-exempt continuing connected transactions is fair and reasonable:

- we will adopt and implement a management system on connected transactions and our Board and the various internal departments of our Company (including the finance, legal and internal control departments) will be responsible for the control and daily management in respect of the continuing connected transactions;
- our Board and various internal departments of our Company (including the finance, legal and internal control departments) will be jointly responsible for evaluating the terms under the IDC Services Framework Agreement for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each transaction;
- we will, to the extent commercially practicable, seek to obtain quotations from independent third parties for similar services and will compare the commercial terms offered by the independent third parties with those offered by Shanghai Maichuang;
- our Board and various internal departments of our Company will regularly monitor the fulfillment status and the transaction updates under the the IDC Services Framework Agreement. In addition, the management of our Company will also regularly review the pricing policies of the IDC Services Framework Agreement; and
- our independent non-executive Directors and auditors will conduct an annual review of the continuing connected transactions under the IDC Services Framework Agreement and provide annual confirmation to ensure that, in accordance with the Listing Rules, the transactions are conducted in accordance with the terms of the IDC Services Framework Agreement, on normal commercial terms and in accordance with the pricing policy.

WAIVER APPLICATIONS

In respect of the continuing connected transactions described above under the IDC Services Framework Agreement, the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2021 are expected to be more than 0.1% but less than 5%. Accordingly, the continuing connected transactions under the IDC Services Framework Agreement are subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

CONNECTED TRANSACTIONS

As the transactions under the IDC Services Framework Agreement are expected to be carried out on a recurring basis, our Directors consider that strict compliance with the aforesaid announcement requirement will be impractical, and such requirement will lead to unnecessary administrative costs and create an onerous burden on us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, pursuant to Rule 14A.105 of the Listing Rules, a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of the transactions under the IDC Services Framework Agreement, provided that the total amount of transactions for each of the three years ending December 31, 2021 will not exceed the relevant proposed annual caps as set out in this section.

The independent non-executive Directors and auditors of our Company will review whether the transactions under the above continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the IDC Services Framework Agreement as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules. Apart from the announcement requirement, for which waiver has been sought and granted, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

The Contractual Arrangements

In respect of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the period of the Contractual Arrangements to a fixed term under Rule 14A.52 of the Listing Rules pursuant to Rule 14A.105 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange, subject, however, to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of our independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (c) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (d) below) will, however, continue to be applicable.

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Consolidated Affiliated Entities through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests and assets at a consideration which shall be the higher of (a) a nominal price or (b) the lowest price as

CONNECTED TRANSACTIONS

permitted under applicable PRC laws; (ii) the business structure under which the profit generated by the PRC Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to WFOE by X.D. Network under the Exclusive Service Agreement; and (iii) our Group's right to control the management and operation of, as well as the substance of, all of the voting rights of X.D. Network.

(c) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding on the one hand, and the PRC Consolidated Affiliated Entities on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies) 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 our 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 companies) 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.

(d) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual 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 X.D. Network to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and X.D. Network during the relevant financial period under paragraph (c) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company's auditors will carry out review procedures annually on the transactions, pursuant to the Contractual Arrangements, and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our PRC

CONNECTED TRANSACTIONS

Consolidated Affiliated Entities to the holders of their equity interests which are not otherwise subsequently assigned or transferred to our Group.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our PRC Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, and at the same time the directors, chief executives or substantial shareholders of our PRC Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, our PRC Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, our PRC Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our PRC Consolidated Affiliated Entities will undertake that, for so long as our Shares are listed on the Stock Exchange, our PRC Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor with full access to their relevant records for the purpose of our Company’s auditor’s review of the connected transactions.
- In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated in any New Intergroup Agreements (as defined above); (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from our PRC Consolidated Affiliated Entities in any New Intergroup Agreements; and (iii) the requirement of limiting the period of the Contractual Arrangements to a fixed term under Rule 14A.52 of the Listing Rules pursuant to Rule 14A.105 of the Listing Rules, for so long as Shares are listed on the Stock Exchange. The waiver is subject to the condition that the Contractual Arrangements subsist and that our PRC Consolidated Affiliated Entities will continue to be treated as our Company’s subsidiaries, but their directors, chief executives or substantial shareholders of our PRC Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company (excluding, for this purpose, our PRC Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, the PRC Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

DIRECTORS’ CONFIRMATION

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions set out above have been and will be entered into in the ordinary and usual course of business on normal commercial terms or better which are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed

CONNECTED TRANSACTIONS

annual caps in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

SOLE SPONSOR'S CONFIRMATION

Having considered the above, the Sole Sponsor believes that the aforesaid non-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of business of our Company on normal commercial terms which are fair and reasonable, and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements, the Sole Sponsor considers that the Contractual Arrangements require a tenure of more than three years because such arrangements are the basis on which our Group can derive the economic benefits from X.D. Network which is its principal business and it is important for our Group to ensure that the financial and operational policies of X.D. Network can be effectively controlled by WFOE and any possible leakages of assets and values of X.D. Network can be prevented on an uninterrupted basis. The Sole Sponsor confirms that it is normal business practice for agreements under Contractual Arrangements to be of duration longer than three years.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Upon Listing, our Board will consist of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. The following table provides certain information about our Directors:

Name	Age	Position	Roles and Responsibilities	Date of joining our Group	Date of appointment as a Director
Mr. Huang Yimeng (黃一孟)	37	Executive Director and Chairman of the Board and Chief Executive Officer	Responsible for the overall operations and management of our Group	July 2011	January 25, 2019
Mr. Dai Yunjie (戴雲傑)	37	Executive Director and President	Responsible for daily operations, overseas business development and human resources of our Group	July 2011	June 3, 2019
Mr. Shen Sheng (沈晟)	42	Executive Director and Chief Technology Officer	Responsible for the overall technological policies, product research and development and the establishment of technological platforms of our Group	July 2011	June 3, 2019
Mr. Fan Shuyang (樊舒陽)	36	Executive Director and one of the Joint Company Secretaries	Responsible for daily operations, corporate governance and legal and compliance affairs of our Group	February 2012	June 3, 2019
Mr. Tong Weiliang (童瑋亮)	46	Non-executive Director	Providing professional opinion and judgment to the Board	May 2015	June 3, 2019 ⁽¹⁾
Mr. Chen Feng (陳豐)	47	Non-executive Director	Providing professional opinion and judgment to the Board	January 2019	June 3, 2019 ⁽¹⁾
Mr. Pei Dapeng (裴大鵬)	41	Independent non-executive Director	Providing independent opinion and judgment to the Board	October 2017	June 3, 2019 ⁽¹⁾
Mr. Xin Quandong (辛全東)	46	Independent non-executive Director	Providing independent opinion and judgment to the Board	October 2017	June 3, 2019 ⁽¹⁾
Mr. Gao Shaoxing (高少星)	40	Independent non-executive Director	Providing independent opinion and judgment to the Board	October 2017	June 3, 2019 ⁽¹⁾

(1) Our non-executive Directors and independent non-executive Directors were appointed on June 3, 2019 and their appointments will take into effect from the Prospectus Date.

None of our Directors and members of senior management are related to other Directors or members of senior management.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Huang Yimeng (黃一孟), aged 37, is an executive Director, the Chairman of the Board and the Chief Executive Officer of our Company. Mr. Huang has over 13 years of experience in games, telecommunications, technology and internet industries and is primarily responsible for the overall operations and management of our Group. Mr. Huang has been the chairman of the board of directors of X.D. Network since July 2011. Mr. Huang currently also holds directorships in various of our subsidiaries, our PRC Consolidated Affiliated Entities and Relevant Entities. In addition, Mr. Huang has abundant management experience in the technology industry, including as the chief executive officer of Shanghai Shaosi Network Technology Co., Ltd. (上海少思網絡科技有限公司) from May 2007 to June 2011, and the chief executive officer of Shanghai Weixi Network Technology Co., Ltd. (上海維西網絡科技有限公司) from June 2005 to April 2007. Mr. Huang graduated from Fudan High School in China in July 2000.

Mr. Dai Yunjie (戴雲傑), aged 37, is an executive Director and the President of our Company. Mr. Dai has over 13 years of experience in games, telecommunications, technology and internet industries and is primarily responsible for daily operations, overseas business development and human resources of our Group. Mr. Dai has been the president of X.D. Network since July 2011. Mr. Dai currently also holds directorships in various of our subsidiaries, Consolidated Affiliated Entities and Relevant Entities. Mr. Dai has been an executive director of Shanghai Qingwu Network Technology Co., Ltd. (上海輕舞網絡科技有限公司) since August 2014, and an executive director of Shanghai Yinzhi Network Technology Co., Ltd. (上海隱志網絡科技有限公司) since November 2003. In addition, Mr. Dai was the chief operating officer of Shanghai Shaosi Network Technology Co., Ltd. (上海少思網絡科技有限公司) from May 2007 to June 2011, and the chief operating officer of Shanghai Weixi Network Technology Co., Ltd. (上海維西網絡科技有限公司) from June 2005 to April 2007. Mr. Dai graduated from Shanghai University in China majoring in mechanical engineering and automation in June 2006.

Mr. Shen Sheng (沈晟), aged 42, is an executive Director and Chief Technology Officer of our Company. Mr. Shen has more than seven years of experience in games, telecommunications, technology and internet and is primarily responsible for the overall technological policies, product research and development and the establishment of technological platforms of our Group. Mr. Shen has been a director of X.D. Network since July 2011. Mr. Shen has served as an executive director of Shanghai Yuanzhi Investment Management Co., Ltd. (上海源志投資管理有限公司) since September 2014, the chairman of the board of directors of Shanghai Pinzhi Culture Communication Co., Ltd. (上海品志文化傳播有限公司) since October 2011, and the chairman of Shanghai Archer Information Technology Co., Ltd. (上海射手信息科技有限公司) since March 2010. Mr. Shen attended Shanghai Finance College in China from September 1995 to June 1998 studying International Finance.

Mr. Fan Shuyang (樊舒陽), aged 36, is an executive Director and one of the joint company secretaries of our Company. Mr. Fan has also served as the secretary to the board of directors, the product manager and project manager of X.D. Network since February 2012. Mr. Fan has more than twelve years of experience in game and consultancy industries and is primarily responsible for daily operations, corporate governance and legal and compliance affairs of our Group. Prior to joining our Group, Mr. Fan served as a project manager at SEGA Shanghai (世嘉(上海)) from January 2010 to January 2012, a transfer pricing consultant at KPMG China from July 2009 to December 2009 and a software engineer at SEGA Shanghai from July 2006 to July 2007. Mr. Fan obtained his bachelor's degree in automation from Tongji University in China in July 2007 and his master's degree in electronic business management from University of Warwick in the United Kingdom in January 2009.

DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. Tong Weiliang (童瑋亮), aged 46, is a non-executive Director of our Company. Mr. Tong has extensive experience in investment and technology industries. Mr. Tong has also served as a director of X.D. Network since May 2015. He founded Beijing Tonghang Investment Management Co., Ltd. (北京桐行投資管理有限公司) in October 2013. He founded Phoenix Tree Capital Partners (天津金梧桐投資管理合夥企業(有限合夥)) in December 2014 and currently serves as the founding partner. Before that, Mr. Tong was a partner of Beijing Gebi Investment Advisory Co., Ltd. (北京戈壁投資諮詢有限公司) and its related companies and Beijing Zhitong Wuxian Technology Co., Ltd. (北京智通無限科技有限公司) and its related companies from January 2011 to September 2013 and December 2005 to December 2010, respectively. Mr. Tong obtained his college's degree in computer applications from Jinling Institute of Technology (金陵科技學院) in September 1993 and MBA from Concordia University Wisconsin in the United States in September 2011.

Mr. Chen Feng (陳豐), aged 47, is a non-executive Director of our Company. Mr. Chen has extensive industry experience in the telecommunications and games industries. Mr. Chen has been a director of Tap Media Inc. and Chinese ABC Inc. since November 2014 and September 2017, respectively. Mr. Chen has been an executive director and a senior vice president of IGG Inc. (a company listed on the Main Board of the Stock Exchange (Stock Code: 799)) since June 2016 and May 2014, respectively, where he is responsible for strategic investment business. Before that, Mr. Chen served as a senior vice president of 91.com from March 2011 to March 2014, a senior vice president of NetDragon Websoft Inc. (a company listed on the Main Board of the Stock Exchange (Stock Code: 777)) from May 2002 to June 2007. Mr. Chen obtained his bachelor's degree and master's degree in electronic engineering from University of California Los Angeles in the United States in June 1993 and June 1995, respectively.

As of the Latest Practicable Date, our non-executive Director, Mr. Chen, held directorship and approximately 1.06% equity interest in IGG Inc, which engages in development and operation of online games. Mr. Chen was not involved in the daily management and operation of our Company. As such, the directorship held by Mr. Chen in IGG Inc would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

Independent Non-Executive Directors

Mr. Pei Dapeng (裴大鵬), aged 41, is our independent non-executive Director. Mr. Pei has also been an independent director of X.D. Network since October 2017. Mr. Pei has extensive industry experience in E-commerce and network technology. In addition to his positions in our Group, Mr. Pei has been the chairman of the board of directors and chief executive officer in Shopex Software Co., Ltd. (商派軟件有限公司) since March 2019. Mr. Pei also served as the general manager in Shopex Software Co., Ltd. (商派軟件有限公司) from June 2017 to February 2019. Mr. Pei served as the general manager in Youliang (Shanghai) Information Technology Co., Ltd. (有量(上海)信息技術有限公司) from April 2015 to May 2017. Mr. Pei served as the general manager in Shanghai Youliang Marketing Co., Ltd. (上海有量市場營銷策劃有限公司) from November 2014 and March 2015. Mr. Pei served as the general manager in Ku Mei (Shanghai) Information Technology Co., Ltd. (酷美(上海)信息技術有限公司) from January 2009 and October 2014. Mr. Pei served as the general manager of Shanghai Shopex Network Technology Co., Ltd. (上海商派網絡科技有限公司) from November 2006 to December 2008. Mr. Pei obtained his bachelor's degree in Informatics from East China Normal University in China in July 2000.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xin Quandong (辛全東), aged 46, is our independent non-executive Director. Mr. Xin also serves as an independent director of X.D. Network since October 2017. Mr. Xin has extensive experience in accounting and investment industries. In addition to his positions in our Group, Mr. Xin has been founding partner and chief executive officer of Shanghai Honggu Equity Investment Fund (上海紅穀股權投資基金) since August 2015. Before that, Mr. Xin served as the partner and managing director of Shanghai Chengding Equity Investment Fund (上海誠鼎股權投資基金) from May 2010 to July 2015, as chairman and general manager of Shanghai Big Thumb Home Service Co., Ltd. (上海大拇指家庭服務有限公司) from June 2008 to May 2010, as executive vice president of Shanghai East Joy Long Motor Airbag Co., Ltd. (上海東方久樂汽車安全氣囊股份有限公司) from December 2006 to July 2007, as chief financial officer and deputy general manager of Shanghai Huabo Investment Consulting Co., Ltd. (上海華博投資諮詢有限公司) from April 2003 to December 2006, as investment manager of Shanghai Keyuan Investment Consulting Co., Ltd. (上海科遠投資諮詢有限公司) from April 2001 to November 2012. Mr. Xin obtained his bachelor's degree in accounting from Shanghai University of Finance and Economics in China in July 1996. Mr. Xin has been accredited as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since 1998 and has obtained the fund practice qualification from Asset Management Association of China in 2017.

Mr. Gao Shaoxing (高少星), aged 40, is our independent non-executive Director. Mr. Gao also serves as an independent director of X.D. Network since October 2017. Mr. Gao has extensive industry experience in investment and network technology. In addition to his positions in our Group, Mr. Gao has been the general manager of Beijing iDremo Technology Co., Ltd. (北京卓萌科技有限公司) and Beijing Mengbao Technology Co. Ltd. (北京萌寶科技有限公司) since November 2013 and May 2015. Before that, Mr. Gao served as the managing director of Beijing Shunwei Capital Investment Consulting Co., Ltd. (北京順為資本投資諮詢有限公司) from April 2012 to July 2014. Mr. Gao graduated from Xi'an No. 83 High School in China in July 1997.

Save as disclosed above, none of our Directors held any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

Save as disclosed herein, to the best knowledge, information and belief of the Directors having made all reasonable inquiries, there was no other matters with respect to the appointment of the Directors that need to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules.

Save as disclosed in this prospectus, none of our Directors have any interests in any businesses, other than our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business that would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table provides certain information about our senior management:

Name	Age	Position	Roles and Responsibilities	Date of joining our Group	Date of appointment as senior management of our Company
Mr. Huang Yimeng (黃一孟)	37	Executive Director, Chairman of the Board and Chief Executive Officer	Responsible for the overall operations and management of our Group	July 2011	June 3, 2019
Mr. Dai Yunjie (戴雲傑)	37	Executive Director and President	Responsible for daily operations, overseas business development and human resources of our Group	July 2011	June 3, 2019
Mr. Shen Sheng (沈晟)	42	Executive Director and Chief Technology Officer	Responsible for overall technological policies, product research and development and the establishment of technological platforms of our Group	July 2011	June 3, 2019
Mr. Fan Shuyang (樊舒陽)	36	Executive Director and one of the Joint Company Secretaries	Responsible for daily operations, corporate governance and legal and compliance affairs of our Group	February 2012	June 3, 2019
Mr. Gong Rui (龔睿)	34	Chief Financial Officer	Responsible for overall finance, investments, and strategic development of our Group	November 2018	June 3, 2019

For biographical details of Mr. Huang, Mr. Dai, Mr. Shen Sheng and Mr. Fan Shuyang, see “—Directors—Executive Directors.”

Mr. Gong Rui (龔睿), aged 34, has been appointed as the Chief Financial Officer of our Company since June 3, 2019 and is primarily responsible for the overall finance, investments, and strategic development of our Group. Mr. Gong has been the chief financial officer of X.D. Network since November 2018. Mr. Gong has 10 years of experience in the investment banking and financial management industries. Prior to joining our Group, Mr. Gong served as associate vice president and vice president in China Culture Industry Investment Fund Management Co., Ltd. (中國文化產業投資基金管理有限公司) from September 2014 to November 2018, an associate in BOCI Asia Limited from July 2012 to September 2014, and an analyst in BOCI Asia Limited from June 2010 to June 2012 and BOCI Securities Limited from December 2009 to May 2010. Mr. Gong obtained his bachelor’s degree in science in Peking University in China in July 2008 and his master’s degree in science in Boston University in the United States in September 2009.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed herein, none of the senior management of our Company held any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang (樊舒陽), was appointed as one of the joint company secretaries of our Company on June 3, 2019. Mr. Fan is also an executive Director of our Company. See “—Directors—Executive Directors” in this section for his biography.

Mr. Yim Lok Kwan (嚴洛鈞), aged 32, was appointed as one of our joint company secretaries on June 3, 2019. Mr. Yim is currently a manager of SWCS Corporate Services Group (Hong Kong) Limited, a company engaged in the business of providing corporate services. Mr. Yim has over six years of professional experience in corporate service field. He obtained a bachelor’s degree in accounting from Hong Kong Shue Yan University and a master’s degree in corporate governance from The Hong Kong Polytechnic University. He is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

DIRECTORS’ AND SENIOR MANAGEMENT’S REMUNERATION

For details of the service contracts and appointment letters that we have entered into with our Directors, see “Statutory and General Information—C. Further Information about our Directors—1. Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this prospectus.

The aggregate amount of fees, salaries, allowances, retirement benefits scheme contributions and benefits in kind we paid to our Directors for the years ended December 31, 2016, 2017, 2018 and the five months ended May 31, 2019 were approximately RMB2.3 million, RMB4.8 million, RMB5.3 million and RMB1.7 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in the Accountant’s Report in Appendix I to this prospectus.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the financial year ending December 31, 2019 is expected to be approximately RMB3.5 million.

The five highest paid individuals of our Group for the years ended December 31, 2016, 2017, 2018 and the five months ended May 31, 2019 included nil, one, nil and nil Directors, respectively, whose remuneration is included in the aggregate amount of wages, salaries, bonuses, pensions, and other social security costs, and other benefits we paid to the relevant Directors as set out above. For the years ended December 31, 2016, 2017, 2018 and the five months ended May 31, 2019, the aggregate amount of wages, salaries, bonuses, pensions, and other social security costs, and other benefits paid to the remaining five, four, five and five individuals were RMB4.6 million, RMB10.7 million, RMB19.8 million and RMB5.3 million, respectively. Further details on the remuneration of the five highest paid individuals during the Track Record Period is set out in the Accountant’s Report in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to any Director or any of the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by any Director or any of the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

DIRECTORS AND SENIOR MANAGEMENT

In order to incentivize our Directors, senior management and other employees for their contribution to our Group and to retain suitable personnel in our Group, we adopted the RSU Scheme on June 3, 2019. See “Statutory and General Information—D. RSU Scheme” in Appendix IV to this prospectus for further information.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

CORPORATE GOVERNANCE

Strategy and Development Committee

We have established a strategy and development committee to oversee the strategic issues and development of our Group. The primary duties of the strategy and development committee are to make recommendations to our Board in relation to the long-term development and strategic plans of our Company. The strategy and development committee comprises Mr. Huang, Mr. Dai, Mr. Tong Weiliang, Mr. Chen Feng and Mr. Pei Dapeng. Mr. Huang is the chairman of the strategy and development committee.

Audit Committee

We have established an audit committee in compliance with Rule 3.21 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions and to advise the Board. The audit committee comprises three independent non-executive Directors, namely Mr. Pei Dapeng, Mr. Xin Quandong and Mr. Gao Shaoxing. Mr. Xin Quandong is the chairman of the audit committee. Mr. Xin Quandong is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Remuneration and Appraisal Committee

We have established a remuneration and appraisal committee in compliance with Rule 3.25 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration and appraisal committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The remuneration and appraisal committee comprises one executive Director, namely Mr. Dai and two independent non-executive Directors, namely Mr. Xin Quandong and Mr. Gao Shaoxing. Mr. Gao Shaoxing is the chairman of the remuneration and appraisal committee.

Nomination Committee

We have established a nomination committee with written terms of reference in compliance with the Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding the appointment of Directors and Board succession. The nomination committee comprises one executive Director, namely Mr. Huang, and two independent non-executive Directors, namely Mr. Pei Dapeng and Mr. Gao Shaoxing. Mr. Pei Dapeng is the chairman of the nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

MANAGEMENT PRESENCE

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, see “Waivers from Strict Compliance with the Listing Rules—Waiver in Respect of Management Presence in Hong Kong.”

BOARD DIVERSITY POLICY

We have adopted a diversity policy of the Board which sets out the objective and provides that all appointments of the members of the Board should be made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective. Our nomination committee will review and assess the composition of the Board and make recommendations to the Board on appointment of members of the Board. Meanwhile, our nomination committee will consider the benefits of all aspects of diversity and seek to achieve Board diversity through the consideration of a number of factors, including without limitation, professional experience, skills, knowledge, education background, age, gender, cultural and ethnicity and length of service, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board. Under the current composition of our Board, our Board has a balanced mix of knowledge, skills and experiences, including experiences in games, technology, internet, investment, accounting and financial markets. Our Directors have a diverse education background including business administration, accounting, automation engineering, electric engineering, computer applications, international finance, informatics.

We recognize that the gender diversity at the Board level can be improved given its current composition of all male Directors. Our nomination committee will use its best efforts to, within three years from the Listing Date, identify and recommend at least one female candidate to the Board for its consideration to appoint as a Director. While we recognize that any Board appointment will be based on meritocracy and candidates will be considered against objective criteria having due regard for the benefits of diversity on the Board, we will strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to stakeholders’ expectation and international and local recommendation best practices, with the ultimate goal of bringing our Board to gender parity. We will also ensure that there is gender diversity when recruiting staff at mid to senior level and we are committed to provide career development opportunities for female staff so that we will have a pipeline of female senior management and potential successors to our Board in a few years’ time.

Our nomination committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. Upon Listing, our nomination committee will review our diversity policy of the Board and compliance with the Corporate Governance Code to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the diversity policy of the Board on annual basis.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor (the “Compliance Advisor”) pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Advisor will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Advisor will advise our Company in certain circumstances including:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of our Compliance Advisor shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

VERYCD WEBSITE FOUNDED BY MR. DAI AND MR. HUANG

In 2003, Mr. Dai and Mr. Huang established a peer-to-peer (“P2P”) resource sharing website (the “VeryCD Website”), which was operated mainly through Shanghai Weixi Network Technology Co., Ltd. (上海維西網絡科技有限公司) (“Shanghai Weixi”) for the period from 2005 to 2009 and Shanghai Yinzhi Network Technology Co., Ltd. (上海隱志網絡科技有限公司) (“Shanghai Yinzhi”) after 2009. Shanghai Weixi was established in the PRC by Mr. Dai and Mr. Huang and was voluntarily deregistered in 2009 with no outstanding liabilities. Shanghai Yinzhi was established in the PRC in which Mr. Dai is the director and controlling shareholder. Shanghai Yinzhi’s business or the operation of the VeryCD Website do not form part of the business of our Group.

In the early 2000s, the VeryCD Website was a P2P resource sharing website in the PRC that allowed users to share media resources such as videos, and for users to download the resources provided by other users. The PRC regulatory framework of the intellectual property protection was relatively new to the business practitioners back then. Shanghai Yinzhi and Shanghai Weixi were involved as defendants to the copyright infringement civil claims in relation to the VeryCD Website. The VeryCD Website was alleged to bear civil liabilities for contributory infringement of intellectual property rights under such P2P resources sharing business model and the management team of Shanghai Yinzhi undertook various remedial measures.

In July 2010, the Tort Law of the People’s Republic of China came into effect and it was unclear as to how to interpret the general provisions under the Tort Law. Shanghai Yinzhi established an internal enforcement team in 2011 to monitor alleged infringement of intellectual property rights, disabled access to shared resources that involved risks of copyright infringement and tried to adjust its P2P resources sharing business model to comply with the new law. In the second half of 2011, Shanghai Yinzhi changed its business model by cooperating with Youku and Tudou, the two leading

online video platforms, to provide a gateway to selected sources viewable on such cooperative platforms as Shanghai Yinzhi believed that these online video platforms possessed the necessary copyrights for the video content resources. Shanghai Yinzhi had specifically required in its contracts with Youku and Tudou that they should possess the necessary copyrights permitting the download of the resources and contents on the cooperative platforms. However, such business model still exposed Shanghai Yinzhi to copyright infringement claims. Shanghai Yinzhi was held liable by the courts for contributory infringement as it was found out that the online video platforms did not possess relevant copyrights under those claims although Shanghai Yinzhi had no actual knowledge of such platforms not possessing the relevant copyrights. As advised by the PRC Legal Advisors, the fact that Shanghai Yinzhi had “no actual knowledge” of the online video platforms did not possessing the relevant copyrights is not definitive in leading to the courts’ decisions. In establishing contributory liabilities of Shanghai Yinzhi in these claims, the courts had possibly taken into account a mix of factors, including the fact that the gateway service model was established with the cooperation of Internet service providers such as Shanghai Yinzhi. As such, the “no actual knowledge” argument did not effectively or entirely exempt Shanghai Yinzhi from liabilities arising from the copyright infringement by those online video platforms. Therefore, Shanghai Yinzhi ceased the gateway service model around August 2012.

After August 2012, Shanghai Yinzhi only kept minimum download functions because it considered that a portion of the resources uploaded to the VeryCD Website had little or no IP infringement risks. Therefore, Shanghai Yinzhi did not shut down the entire website but decided to focus on more stringent risk identification and monitoring. In particular, Shanghai Yinzhi implemented remedial measures in the following aspects:

- *Continued monitoring of resources through risk identification system.* The internal enforcement team of Shanghai Yinzhi identified high-risk resources based on its internal standards and procedures. For example, movies or videos would generally be considered as high risks and resources involving expired intellectual properties right or resources uploaded by their copyright owners would be considered as low risks. For high risks resources identified by the internal enforcement team, Shanghai Yinzhi reached out to the relevant users for proof of intellectual rights ownership and disabled access to resources if no such proof could be provided.
- *Disabling access to resources upon receipt of complaint.* Intellectual properties rights holders could submit complaints to Shanghai Yinzhi concerning the infringement by the resources on the VeryCD Website, and if the enforcement team received complaints, it would take immediate actions to remove or disable access to such resources.
- *Switch to undirected search and directory model.* After cessation of the cooperation with online video platforms around August 2012, Shanghai Yinzhi operated only the undirected search and directory model. Under such model, Shanghai Yinzhi only provided users with website directory and users could only obtain resources via third party websites.

From 2013 to 2016, Shanghai Yinzhi received no more infringement claims relating to its download functions, which led Shanghai Yinzhi to reasonably believe that the above remedial measures were effective in minimizing intellectual property infringement risks during this period. However, since March 2017, and as of July 2019, Shanghai Yinzhi received new infringement claims in relation to its remaining download functions, among which, 22 claims alleged IP infringement by allowing users to download 22 eBooks and 38 claims alleged IP infringement by allowing users to

DIRECTORS AND SENIOR MANAGEMENT

download 38 albums through the VeryCD Website (including one claim withdrawn by the claimant). Following the receipt of new infringement claims, Shanghai Yinzhi ultimately shut down the VeryCD Website's resource download functions in entirety in November 2017.

The copyright infringement civil claims received by Shanghai Yinzhi and Shanghai Weixi and pursued by the relevant claimants can be categorized as follows: (i) 149 civil claims targeting the alleged infringements resulting from resource sharing on the VeryCD Website that occurred before August 2011 and received from October 2006 to March 2014 (the "Resource Sharing Claims"); (ii) 159 civil claims targeting the alleged infringements resulting from the gateway service model that occurred before the end of August 2012 and received from June 2012 to October 2014 (the "Gateway Service Claims"); and (iii) 59 civil claims targeting the alleged infringements resulting from Shanghai Yinzhi's remaining download functions that occurred before November 2017 and received from March 2017 to July 2019 (the "Download Claims"). Please see below details of the Resource Sharing Claims, the Gateway Service Claims and the Download Claims:

	Status of claims		Settlement amount paid by Shanghai Yinzhi and/or Shanghai Weixi (RMB in millions)	Claimed amount for pending cases (RMB in millions)
Resource Sharing				
Claims	All claims have been settled and fully paid by Shanghai Yinzhi and Shanghai Weixi	87 claims were settled with claimants through mediation or private settlement	1.8	N/A
		62 claims were settled through obtaining court rulings	0.6	
Gateway Service				
Claims	All claims have been settled and fully paid by Shanghai Yinzhi	152 claims were settled with claimants through mediation or private settlement	1.1	N/A
		7 claims were settled through obtaining court rulings	0.1	
Download Claims . .	Five cases are pending in the second instance and others have been settled with claimants through mediation or private settlement and fully paid by Shanghai Yinzhi		1.5	0.7

Taking into account (i) the genuine efforts made by Shanghai Yinzhi to address the intellectual properties rights infringement risks with no dishonesty identified; (ii) the lack of intent on the part of Mr. Dai and Mr. Huang to breach the law; (iii) the limited financial exposure of the claims and minimal risk of additional material claims given that the download functions of the VeryCD Website have ceased; (iv) neither Mr. Dai or Mr. Huang having been investigated or penalized by any PRC governmental authorities in connection with the VeryCD Website, and both Mr. Dai and Mr. Huang not being included in the "List of Dishonest Enforcers" by the PRC Courts as of the Latest Practicable Date; and (v) Mr. Huang and Mr. Dai have attended courses and seminars of intellectual property rights provided by Zhong Lun Law Firm in February and April 2019, and have gained thorough understanding of the laws and regulations relating to intellectual property rights. Mr. Huang and Mr. Dai will also seek and have access to legal advice from our PRC Legal Adviser as and when required and will continue to attend relevant courses and seminars in relation to new developments of laws and regulations relating to intellectual property rights. Our Directors are of the view, and the Sole Sponsor

DIRECTORS AND SENIOR MANAGEMENT

concurs with such view, that the VeryCD Website's involvements as defendants in numerous copyright infringement claims should not be deemed to affect the suitability of Mr. Dai and Mr. Huang to act as Directors of our Company, and hence our Company's suitability for the Listing.

CORPORATE GOVERNANCE CODE

Our Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group to achieve effective accountability. Our Company intends to comply with all code provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules after the Listing except for Code Provision A.2.1 of the Corporate Governance Code, which provides that the roles of Chairman of the Board and Chief Executive Officer should be separate and should not be performed by the same individual.

The role of Chairman of the Board and Chief Executive Officer of our Company are currently performed by Mr. Huang. In view of Mr. Huang's substantial contribution to our Group since our establishment and his extensive experience, we consider that having Mr. Huang acting as both our Chairman and Chief Executive Officer will provide strong and consistent leadership to our Group and facilitate the efficient execution of our business strategies. We consider it appropriate and beneficial to our business development and prospects that Mr. Huang continues to act as both our Chairman and Chief Executive Officer after the Listing, and therefore currently do not propose to separate the functions of Chairman and chief executive officer.

While this would constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of our Company, given that: (i) there are sufficient checks and balances in the Board, as a decision to be made by our Board requires approval by at least a majority of our Directors, and our Board comprises three independent non-executive Directors, which is in compliance with the requirement under the Listing Rules; (ii) Mr. Huang and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of our Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman of the Board and Chief Executive Officer is necessary.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming the Over-Allotment Option is not exercised), the family trust of Mr. Huang, our founder, executive Director, Chairman of the Board and Chief Executive Officer, will be interested in and will control approximately 37.17% of the total issued share capital of our Company through Happy Today Holding Limited. Therefore Mr. Huang and Happy Today Holding Limited will remain our Controlling Shareholders upon the Listing.

Confirmation

As of the Latest Practicable Date, our non-executive Director, Mr. Chen Feng, held directorship and approximately 1.06% equity interests in IGG Inc, which engages in developments and publication of mobile games. On the basis that Mr. Chen Feng, in his capacity as our non-executive Director, is not involved in the daily management and operation of our Company, the directorship held by Mr. Chen Feng would not give rise to any material competition issue under Rule 8.10 of the Listing Rules. See “Directors and Senior Management” for further details of Mr. Chen Feng.

Save as disclosed above, neither Mr. Huang nor any of our Directors was, as of the Latest Practicable Date, interested in any business which competes, or is likely to compete, directly or indirectly, with the business of our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after completion of the Global Offering.

Management Independence

Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Huang is our executive Director, Chairman of the Board and Chief Executive Officer. Our daily operational and management decisions are made collectively by our executive Directors and senior management.

Each of our Directors is aware of his fiduciary duties as a director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their managerial roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational Independence

Our Group holds all the relevant material licenses, qualifications, intellectual properties and permits required for conducting our Group's business. Our Group has sufficient capital, facilities and employees to operate our business independently from our Controlling Shareholders and their close associates. Our Group also has independent access to our customers and an independent management team to operate our business. We have also established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business.

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their close associates. Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and their close associates after the Listing.

Financial Independence

Our Group has an independent internal control, accounting and financial management system as well as an independent finance department which makes financial decisions according to our Group's own business needs. Our Group's accounting and finance functions are independent of our Controlling Shareholders.

Our source of funding was independent from our Controlling Shareholders and neither our Controlling Shareholders nor any of their close associates financed our operations during the Track Record Period. Our Directors confirm that, as of the Latest Practicable Date, there were no subsisting loans, guarantees or pledges provided by our Controlling Shareholders and/or their close associates to our Group.

Based on the aforesaid, our Directors believe that we have the ability to conduct our business independently from our Controlling Shareholders and their close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their close associates after the Listing.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance to protect the interests of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders' meeting is held for considering proposed transactions in which our Controlling Shareholders have a material interest, our Controlling Shareholders shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (b) where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (c) our Board will consist of a balanced composition of executive and non-executive Directors, including not less than one-third of independent non-executive Directors, to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, individually and collectively, possess the requisite knowledge

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

and experience. They are committed to providing impartial and professional advice to protect the interests of our minority Shareholders;

- (d) in the event that our independent non-executive Directors are requested to review any conflict of interests between our Group and our Controlling Shareholders, our Controlling Shareholders shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in our annual reports or by way of announcements; and
- (e) we have appointed Guotai Junan Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors' duties and corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders and/or Directors to protect minority Shareholders' rights after the Listing.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive officer as of the Latest Practicable Date, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the following persons are expected to have an interest and/or short positions in our Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, and, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of substantial shareholder	Nature of interest	As of the Latest Practicable Date		Immediately following the completion of the Global Offering (assuming the Over-Allotment Option is not exercised)	
		Number of Shares	Approximate percentage in our Company	Number of Shares	Approximate percentage in our Company
Mr. Huang	Settlor of a discretionary trust ⁽¹⁾	157,605,000	43.74%	157,605,000	37.17%
Credit Suisse Trust Limited	Trustee ⁽¹⁾	157,605,000	43.74%	157,605,000	37.17%
Happy Today Company Limited	Interest in controlled corporation ⁽¹⁾	157,605,000	43.74%	157,605,000	37.17%
Happy Today Holding Limited	Beneficial owner ⁽¹⁾	157,605,000	43.74%	157,605,000	37.17%
Mr. Dai	Settlor of a discretionary trust ⁽²⁾	67,545,000	18.74%	67,545,000	15.93%
Credit Suisse Trust Limited	Trustee ⁽²⁾	67,545,000	18.74%	67,545,000	15.93%
Danger & Sons Inc.	Interest in controlled corporation ⁽²⁾	67,545,000	18.74%	67,545,000	15.93%
Aiks Danger Inc.	Beneficial owner ⁽²⁾	67,545,000	18.74%	67,545,000	15.93%

(1) Happy Today Holding Limited is a company incorporated in the British Virgin Islands and is wholly owned by Happy Today Company Limited. Happy Today Company Limited is held by the Happy Today Trust, which was established by Mr. Huang as the settlor. Credit Suisse Trust Limited is the trustee of the Happy Today Trust, and Mr. Huang and his family members are the beneficiaries of the Happy Today Trust. Mr. Huang is also a director of Happy Today Holding Limited. As such, each of Mr. Huang, Credit Suisse Trust Limited and Happy Today Company Limited is deemed to be interested in our Shares held by Happy Today Holding Limited.

(2) Aiks Danger Inc. is a company incorporated in the British Virgin Islands and is wholly owned by Danger & Sons Inc. Danger & Sons Inc. is held by the Danger and Sons Trust, which was established by Mr. Dai as the settlor. Credit Suisse Trust Limited is the trustee of the Danger and Sons Trust, and Mr. Dai and his family members are the beneficiaries of the Danger and Sons Trust. Mr. Dai is also a director of Aiks Danger Inc.. As such, each of Mr. Dai, Credit Suisse Trust Limited and Danger & Sons Inc. is deemed to be interested in our Shares held by Aiks Danger Inc.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have any interest and/or short positions in our Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, and, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company.

SHARE CAPITAL

As of the date of this prospectus, the authorized and issued share capital of our Company is as follows:

Authorized Share Capital:	(US\$)
1,000,000,000	100,000
Issued Share Capital:	(US\$)
360,358,500	36,035.85

Assuming the Over-allotment Option is not exercised at all, the issued share capital of our Company immediately following the completion of the Global Offering will be as follows:

Issued Share Capital:		US\$	Approximate percentage of issued share capital
360,358,500	Shares in issue immediately before the Global Offering	36,035.85	85.00%
63,600,000	Shares to be issued under the Global Offering (excluding any shares which may be issued under the Over-allotment Option)	6,360.00	15.00%
<u>423,958,500</u>	Shares in total	<u>42,395.85</u>	<u>100.00%</u>

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following the completion of the Global Offering will be as follows:

Issued Share Capital:		US\$	Approximate percentage of issued share capital
360,358,500	Shares in issue immediately before the Global Offering	36,035.85	84.19%
67,660,000	Shares to be issued under the Global Offering and Shares may be issued under the Over-allotment Option ⁽²⁾	6,766.00	15.81%
<u>428,018,500</u>	Shares in total	<u>42,801.85</u>	<u>100.00%</u>

(1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

(2) Assuming a total of 9,540,000 Shares will be sold and issued upon exercise of the Over-allotment Option in full.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this prospectus, and will qualify and rank equally for all dividends or other distributions declared, made or paid on our Shares on a record date which falls after the date of this prospectus.

ALTERATION OF SHARE CAPITAL

Our Company may from time to time by ordinary resolution or special resolution (as the case may be) of shareholders alter the share capital of our Company. For a summary of the provisions in the Articles regarding alterations of share capital, see “Summary of the Constitution of our Company and Cayman Companies Law—Summary of the Constitution of our Company—2. Articles of Association—2.5 Alteration of Capital” in Appendix III to this prospectus for further information.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company has only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its authorized share capital; (ii) consolidate and divide its share capital into shares of larger amount; (iii) subdivide its shares into shares of smaller amount; and (iv) cancel any shares which have not been taken or agreed to be taken by any person. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. See “Summary of the Constitution of our Company and the Cayman Companies Law—Summary of the Constitution of the Company—2. Articles of Association—2.5 Alteration of capital” in Appendix III to this prospectus for further details.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- 20% of the aggregate nominal value of our Shares in issue immediately following completion of the Global Offering; and
- the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed “—General Mandate to Repurchase Shares” in this section.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

See “Statutory and General Information—A. Further Information about our Company and our Subsidiaries—4. Resolutions of the Shareholders of Our Company dated November 19, 2019” in Appendix IV to this document for further details of this general mandate to allot, issue and deal with Shares.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering.

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognized by the SFC and the

SHARE CAPITAL

Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information—A. Further Information about our Company and our Subsidiaries—4. Resolutions of the Shareholders of Our Company dated November 19, 2019” in Appendix IV to this document.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See “Statutory and General Information—A. Further Information about our Company and our Subsidiaries—4. Resolutions of the Shareholders of Our Company dated November 19, 2019” in Appendix IV to this prospectus for further details of the repurchase mandate.

OUR RSU SCHEME

The RSU Scheme was adopted on June 3, 2019 to recognize and reward participants for their contribution to our Group, to attract best available personnel, and to provide additional incentives to them to remain with and further promote the success of our Group’s business. Each RSU is a right to receive (i) one Share; or (ii) an equivalent value in cash with reference to the market value of one Share on or about the date of vesting, at the end of the vesting period, subject to vesting conditions provided for under the RSU Scheme. In order to allow release of Shares to beneficiaries upon vesting of each RSU under the RSU Scheme, our Company has allotted and issued 8,437,540 Shares in aggregate to the RSU Holding Entity which hold our Shares on trust. Upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), the number of Shares held by the RSU Holding Entity shall be 8,437,540 Shares, representing 1.99% of the issued Shares. A summary of the principal terms of the RSU Scheme is set out in the section headed “Statutory and General Information—D. RSU Scheme” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

The following discussion and our analysis should be read in conjunction with our combined financial statements included in “Appendix I—Accountant’s Report,” together with the accompanying notes. Our combined financial statements have been prepared in accordance with the IFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and “Business” and elsewhere in this prospectus.

OVERVIEW

We develop and operate quality games in China and overseas. We also operate TapTap, a leading game community and platform in China. According to Frost & Sullivan, among PRC game operators who earned a majority of game operating revenue overseas in 2018, we ranked fifth in terms of revenue from mobile games in 2018. According to the same source, TapTap was the largest game community and platform in China by average MAUs in 2018. Our business lines are:

- **Games:** we develop, publish and operate games and generate game operating revenue from sales of in-game virtual items in online games and sales of premium games through third-party and our proprietary distribution platforms; and
- **Information Services:** we provide online marketing services to game developers on TapTap and generate information service revenue.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our historical financial information has been prepared in accordance with the IFRS which comprises all standards and interpretations approved by the International Accounting Standards Board and is presented in Renminbi unless otherwise stated. Our historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are carried at fair value.

Immediately prior to and after the Reorganization, our business was carried out by X.D. Network and its subsidiaries. Pursuant to the Reorganization, our business is ultimately under effective control of our Company through direct equity holding or through the Contractual Arrangements. The Company and those companies newly set up during the Reorganization had not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of our business and did not result in any changes in our business substance, management or the ultimate owners of our business. Since the Reorganization had not been completed as of May 31, 2019, the historical financial information has been prepared on a combined basis. The historical financial information is presented using the carrying value of our businesses. For companies acquired from, or disposed of to, a third party, their financial information is included in or excluded from the historical financial information from the respective dates of the acquisitions or disposals. Intercompany transactions, balances and unrealized gains or loss on transactions between our Group companies are eliminated on consolidation.

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MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected and, we expect, will continue to affect our business, financial condition, results of operations and prospects.

Continued Success of Our Games

The size of our user base reflects the popularity of our games and services and it is a fundamental driver of our sustainable growth. In order to achieve sustainable growth of our business, we must continuously make strong efforts to attract new users, retain our existing users and ultimately improve our monetization. This requires that we consistently source, develop and launch new games that meet the evolving user interests and preferences, and continue to upgrade and enhance our existing games to encourage in-game purchases and extend the life cycle of our games to retain and expand our user base as well as to maximize monetization potential.

Our results of operations are also affected by our ability to convert our active users to paying users and subsequently retain them. Spending in our games is discretionary and users can be sensitive to the price. We put much effort into marketing and pricing our in-game virtual items to optimize user monetization.

Relationships with Third-Party Business Partners

Our third-party business partners primarily include game developers and distribution platforms.

Our relationships with game developer partners that we license games from largely affect our ability to license and develop quality games, which may, in turn, affect our ability to effectively expand our game portfolio and acquire new users. In particular, our negotiation of fee arrangements with game developer partners is dependent on our relationships with them, therefore affecting our ability to license games at commercially reasonable costs, which may further impact on our results of operations.

Apart from our proprietary distribution platforms, we publish our games through third-party distribution platforms, including App Store and Google Play. Our relationship with these third-party distribution platforms, particularly our ability to negotiate favorable terms with them, and our dependence on such third-party distribution platforms, can directly affect our costs and profitability. In particular, we rely on these third parties to promote our games, record gross billings, process payments from users and, on some occasions, maintain the security of their channels. Some of these third-party distribution platforms have strong bargaining power in dealing with game developers and publishers like us and we are subject to the standard service terms and conditions of these third-party distribution platforms with regard to the promotion and distribution of our games.

Continued Success of TapTap

We generate information service revenue primarily from our provision of online marketing services through TapTap to game developers. As a result, we rely on a sufficient level of popularity and user base of TapTap to attract game developers to use our online marketing services.

Maintaining and growing a user base on TapTap requires that we continue to popularize TapTap with quality mobile game content and enhance user engagement. If TapTap loses its

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popularity, our distribution performance may suffer and fail to meet game developers' expectations, and they may switch to other distribution platforms or seek to cooperate with other online marketing service providers. Any loss or deterioration of our relationship with any of our game developer partners may result in a decrease in our information service revenue and, in turn, materially and adversely affect our business and results of operations.

Development of the Mobile Game Industry

Our results of operations are affected by the general conditions affecting the mobile game industry, including the overall economic condition, regulatory environment and advancement in technologies. The mobile game industry, particularly in China, has a relatively short history and has experienced rapid growth in recent years. It is also subject to evolving regulations and policies in China and overseas, which may therefore affect our operations. In addition, our continued success depends on our ability to monetize our user base. The level of spending of our users depends on their level of disposable income and local economic conditions. The rising penetration of high-speed wireless internet connections and smartphones, as well as new technologies such as virtual reality and augmented reality, have also been tremendously influential in the mobile game industry.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of our financial statements in accordance with IFRS. These significant accounting policies are set forth in note 2 to the Accountant's Report in Appendix I to this prospectus, which are important for an understanding of our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 4 to the Accountant's Report in Appendix I to this prospectus. The preparation of our financial statements requires our management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. We continually evaluate the estimates and judgments based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and will continue assessing our estimates and judgments going forward.

Our management has identified below the accounting policies, estimates and judgments that they believe are critical to the preparation of our financial statements.

Revenue Recognition

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. The following is a description of the accounting policy for our principal revenue streams:

Game operating revenue

We are a publisher of online games developed by third-party game developers or us. We license online games from game developers and publish them through third-party and our proprietary

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distribution platforms. We operate games under a free-to-play model where we generate revenue through sales of in-game virtual items or under a pay-to-play model where we generate revenue by charging a fixed amount when gamers download the games.

Proceeds earned from selling in-game virtual items are shared between us and the game developers. The amount paid to the game developers is generally calculated based on amounts paid by gamers, after deducting the fees paid to payment channels and distribution platforms, multiplied by a predetermined percentage for each game.

We evaluate agreements with the gamers, game developers, distribution platforms and payment channels in order to determine whether or not we act as the principal or as an agent in the arrangement with each party respectively, which we consider in determining if relevant revenue should be reported gross or net of the predetermined amount of the proceeds shared with the other parties. The determination of whether to record the revenue gross or net is based on an assessment of various factors, including but not limited to whether we: (i) are primarily responsible for fulfilling the promise to provide the specified good or service, which typically includes responsibilities for acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specification); (ii) have inventory risk before the specified good or service has been transferred to a customer, or after transferring the control to the customer (for example, if the customer has a right of return); and (iii) have discretion in establishing the prices for the specified goods or services.

(i) When we act as principal

During the Track Record Period, we developed mobile games or entered into game license arrangements with game developers, under which we take primary responsibilities of game operation, where: (i) we are generally the initiator who raised ideas and plans for providing specification, modification or updates of the game products or services desired by the gamers; and (ii) for certain licensed games that we made a localized version of, our costs incurred during developing the games are more than the game developer, while the game developer is merely providing intellectual properties of character images and figures, and we are providing game services and products relating to gaming experience to gamers; and (iii) besides publishing, providing payment solutions and marketing promotion, we have the right to determine the pricing of in-game virtual items or downloading the pay-to-play games, as well as the selection of distribution platforms and the payment channels. In these situations, we considered ourselves as a principal and view gamers to be our customers, and record the online game revenue under such arrangements on a gross basis. Commissions paid to distribution platforms and payment channels and license fees paid to third-party game developers are recorded as cost of revenue.

Where we are acting as a principal under the free-to-play model, we recognize the revenue derived from sales of in-game virtual items as below:

- For consumable virtual items that are extinguished after consumption in the form of fixed charges levied on each round of games played, revenue is recognized (as a release from deferred revenue) when the items are consumed and the related services are rendered.
- For durable virtual items that are accessible and beneficial to paying players over an extended period of time, revenue is recognized ratably over the average life of durable virtual items for the applicable game, which we make best estimates to be the average playing period of paying players (“Player Relationship Period”).

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We estimate the Player Relationship Period on a game-by-game basis. 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 other similar types of games developed by us or by third-party developers until the new game establishes its own patterns and history. We consider the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. While we believe our estimates to be reasonable based on available gamer information, we may revise such estimates in the future as the games' operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of paying players of the games change. Any adjustments arising from changes in the Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in gamer behavior patterns.

Where we are acting as a principal under the pay-to-play model, we recognize revenue from gamers upon the purchases and completion of downloading the games. Commissions paid to distribution platforms and payment channels and license fees paid to third-party game developers are recorded as cost of revenue.

(ii) When we act as agents of game developers

Under arrangements where the game developer take primary responsibilities as mentioned above, we view the game developers to be our customers and consider ourselves as the agent of the game developers, and recognize revenue from game developers based on certain percentage of sales of in-game virtual items and recognize revenue in the month when related sales occur.

If we have been given latitude by the game developers in selecting distribution platforms and payment channels for our service to the game developers, commissions paid to the distribution platforms and payment channels are presented on a gross basis and included in cost of revenue. In contrast, for games cooperated with App Store or Google Play, the game developers are fully aware of App Store or Google Play's roles and responsibilities, and we do not have the latitude in selecting and negotiating with App Store or Google Play, and do not have the primary responsibility to game developers for the service provided by them. In such cases, commissions charged by App Store or Google Play are deducted from revenue.

(iii) When we act as agents of game publishers

We also engage in providing game maintenance and operation services to game publishers, including game promotion, customer services, technical support and localization. We consider the game publisher to be our customer and recognize revenue on a net basis, which means that our revenue represents a certain percentage of gross billings paid by game publishers to us.

Information service revenue

Information service revenue mainly represents revenue generated from performance-based online marketing service provided to game developers, game publishers and advertising agencies through TapTap.

Revenue from performance-based online marketing service is recognized when relevant specific performance measures (such as delivery of pay-for-click, pay-for-download, among other things) are fulfilled.

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Current and Deferred Income Tax

The income tax expense or benefit for the period comprises current and deferred tax. Current and deferred income tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where our subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. We also establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, we are unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives us the ability to control the reversal of the temporary difference in the foreseeable future, the deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and

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liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Fair Value Measurements

We measure fair values of financial instruments using the following fair value hierarchy that reflects the observability and significance of the inputs used in making the measurements:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of December 31, 2016, 2017, 2018 and May 31, 2019, our short-term investments and long-term investments measured at fair value through profit or loss were measured at fair value using level 3 inputs. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including the use of quoted market prices or dealer quotes for similar instruments, and the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate. For details, see note 3.3 to the Accountant's Report in Appendix I to this prospectus.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements:

Description					Unobservable inputs	Range of inputs				Relationship of unobservable inputs to fair value
	As of December 31,			As of May 31,		As of December 31,			As of May 31,	
	2016	2017	2018			2016	2017	2018		
	(RMB in thousands)									
Investments in unlisted companies	50,038	36,451	33,687	38,114	Expected volatility	44.71%-63.16%	40.46%-57.68%	39.35%-50.4%	39.18%-49.6%	The higher the expected volatility, the higher the fair value
					Discount for lack of marketability ("DLOM")	25%-30%	25%-31%	25%-26%	21%-27%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	45,702	115,738	156,647	241,728	Expected rate of return	2.7%-5.6%	3.25%-6.14%	3.88%-3.98%	2%-4.67%	The higher the expected rate of return, the higher the fair value

If expected volatility is 10% higher, the fair value of investments in unlisted companies will be RMB0.25 million, RMB0.17 million, RMB1.63 million and RMB0.19 million higher in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively, and the profit before tax will be RMB0.25 million, RMB0.17 million, RMB1.63 million and RMB0.19 million higher, respectively.

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If expected volatility is 10% lower, the fair value of investments in unlisted companies will be RMB0.27 million, RMB0.17 million, RMB1.18 million and RMB0.18 million lower in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively, and the profit before tax will be RMB0.27 million, RMB0.17 million, RMB1.18 million and RMB0.18 million lower, respectively.

If DLOM is 10% higher/lower, the fair value of investments in unlisted companies will be RMB0.36 million, RMB0.82 million, RMB0.20 million and RMB0.2 million lower/higher in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively, and the profit before tax will be RMB0.36 million, RMB0.82 million, RMB0.20 million and RMB0.2 million lower/higher, respectively.

If expected rate of return is 10% higher/lower, the fair value of wealth management products issued by commercial banks will be RMB0.01 million, RMB0.02 million, RMB0.02 million and RMB0.06 million higher/lower in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively, and the profit before tax will be RMB0.01 million, RMB0.02 million, RMB0.02 million and RMB0.06 million higher/lower, respectively.

We have instituted internal policies on valuation methodologies, models and procedures for valuation of level 3 financial assets. We perform valuation assessment of short-term wealth management products and long-term investments in unlisted companies. For our major investments in unlisted companies that require level 3 fair value estimation, we have engaged an independent qualified professional valuer to perform the relevant valuation assessments. We focus on the valuation methodologies, computation basis, key assumptions, qualifications and underlying rationales in such assessments. Our finance department also performed accounting reviews on the valuation reports prepared by the independent valuer. Meanwhile, for our investments in short-term wealth management products, we determine the fair value of such assets based on the discounted cash flow model using the expected return rate as discount rate.

When carrying out the valuation work, our finance department adheres to the principle of substance over form to ensure the valuation methodologies adopted are appropriate as to the underlying financial instruments to reflect accurately the economic substance. Our finance department also performs risk assessments on (i) the effectiveness of its valuation models to enhance the reasonableness and reliability of such models periodically, and (ii) any material adjustments to existing valuation models or the implementation of any new valuation models. Our audit department also internally audits the internal controls and implementation of the valuation policies and gives recommendations for improvement. Our Directors are satisfied with the valuation work for financial assets categorized within level 3 of fair value measurement in the historical financial information for the purpose of the preparation of the Accountant's Report as referred to in Appendix I to this prospectus.

The reporting accountant's opinion on our historical financial information for the Track Record Period is set out in Appendix I to this Prospectus.

The Sole Sponsor considered that appropriate steps have been taken by the reporting accountant and the Company in carrying out the level 3 fair value estimation for (i) the wealth management products; and (ii) the long term investments in unlisted companies and that the Company has not unduly relied on the valuation report prepared by the independent valuer regarding the major investments in unlisted companies.

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Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment of Goodwill

We carry out our annual impairment test on goodwill by comparing the recoverable amounts of cash-generating units ("CGU") to the carrying amounts. The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flows extrapolated using the estimated growth rates stated below beyond the five-year period. We believe that it is appropriate to cover a five-year period in our cash flow projection, because it captures the development stage of our businesses during which we expect to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by us. Our management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

Impairment review on the goodwill has been conducted by the management as of December 31, 2016, 2017 and 2018 and May 31, 2019, according to IAS 36 "Impairment of assets." The key assumptions used in the significant CGU value-in-use calculations are as follows:

	As of December 31,		As of May 31,
	2017	2018	2019
Game Segment			
Annual revenue growth rate for the 5-year period (%)	4.4%~6.5%	3.0%~21.6%	3.0%~32.5%
Gross profit rate (%)	43.0%~43.5%	52.2%~63.0%	51.7%~59.9%
Terminal revenue growth rate (%)	3.0%	3.0%	3.0%
Pre-tax discount rate (%)	19.7%	19.7%	19.0%
	As of December 31,		As of May 31,
	2017	2018	2019
Information Service Segment			
Annual revenue growth rate for the 5-year period (%)	10.0%~92.5%	5.0%~39.9%	3.0%~57.9%
Gross profit rate (%)	87.7%~88.7%	89.9%~91.4%	90.6%~91.6%
Terminal revenue growth rate (%)	3.0%	3.0%	3.0%
Pre-tax discount rate (%)	23.9%	21.6%	22.0%

As of December 31, 2016, given the short period of time after Yiwan acquisition, we are not aware of any impairment indicator or significant changes in the key assumptions and parameters used in the purchase price allocation of Yiwan.

The budgeted gross profit rates used in the goodwill impairment testing were determined by our management based on past performance and its expectation for market development. The expected

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revenue growth rate and gross profit rates are following the business plan approved by us. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

The headroom of the game and information service CGUs are shown as below:

	As of December 31,		As of May 31,
	2017	2018	2019
	(RMB in thousands)		
Game segment	1,185,580	2,320,423	3,277,781
Information service segment	158,742	642,321	1,325,696

We perform the sensitivity analysis based on the assumption that revenue amount or the discount rate has been changed. Had the estimated key assumption during the forecast period been changed as below the headroom would be decreased to as below:

	As of December 31,		As of May 31,
	2017	2018	2019
	(RMB in thousands)		
Game Segment			
Revenue growth rate decreased by 10%	1,131,451	2,153,367	2,978,562
Gross profit rate decreased by 10%	767,444	1,532,884	2,326,168
Terminal value decreased by 10%	1,100,637	2,167,989	3,080,215
Discount rate increased by 10%	1,023,411	2,025,207	2,869,711
	As of December 31,		As of May 31,
	2017	2018	2019
	(RMB in thousands)		
Information Service Segment			
Revenue growth rate decreased by 10%	112,632	580,190	1,186,247
Gross profit rate decreased by 10%	16,322	337,201	941,229
Terminal value decreased by 10%	140,740	595,226	1,249,677
Discount rate increased by 10%	121,561	547,656	1,155,805

As of December 31, 2017, a 278% decrease in estimated revenue growth rate, a 28% decrease in estimated gross profit rate, a 327% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment. As of December 31, 2018, a 172% decrease in estimated revenue growth rate, a 29% decrease in estimated gross profit rate, a 429% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment. As of May 31, 2019, a 140% decrease in estimated revenue growth rate, a 34% decrease in estimated gross profit rate, a 568% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment. As of December 31, 2017, a 36% decrease in estimated revenue growth rate, a 11% decrease in estimated gross profit rate, a 65% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment. As of December 31, 2018, a 143% decrease in estimated revenue growth rate, a 21% decrease in estimated gross profit rate, a 240% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment. As of May 31, 2019, a 131% decrease in estimated revenue growth rate, a 34% decrease in estimated gross profit rate, a 439% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment. Reasonable possible changes in key assumptions would not lead to impairment as of December 31, 2016, 2017 and 2018 and as of May 31, 2019, respectively. For details, see note 16 to the Accountant's Report in Appendix I to this prospectus.

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Application of IFRS 9 and IFRS 15

IFRS 9 “Financial Instruments” replaces the previous standard IAS 39 “Financial Instruments: Recognition and Measurement.” The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. We have consistently applied IFRS 9 throughout the Track Record Period.

IFRS 15 “Revenue from contracts with customers” replaces the previous revenue standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. We have consistently applied IFRS 15 throughout the Track Record Period.

We have assessed the effects of the adoption of IFRS 9 and IFRS 15 on our financial statements and identified the following areas that have been affected:

- ***Adoption of new impairment model.*** IFRS 9 requires the recognition of impairment provisions of financial assets measured at amortized cost based on expected credit losses. We assessed that the adoption of the new impairment methodology would not result in significant difference on bad debt provision.
- ***Presentation of contract liabilities in the consolidated balance sheets.*** IFRS 15 requires separate presentation of contract liabilities in the consolidated balance sheets. This has resulted in some reclassification in relation to our unsatisfied performance obligations. As of December 31, 2016, 2017 and 2018 and May 31, 2019, contract liabilities were RMB58.7 million, RMB105.2 million, RMB90.9 million and RMB100.5 million, respectively, which should have been presented as “deferred revenue” should IAS 18 be applied throughout the Track Record Period.

Based on the above assessment, we consider that the adoption of IFRS 9 and IFRS 15 did not have any significant impact on our financial position and performance during the Track Record Period.

Adoption of IFRS 16

IFRS 16 introduces a comprehensive model for the identification of the lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 introduces a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees on the statement of financial position except for short-term leases and leases of low-value assets.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by us. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implied in the lease, if that rate can be determined, or our incremental borrowing rate.

Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be presented as financing cash flows.

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For details about IFRS 16, see note 2.23 to the Accountant's Report in Appendix I to this prospectus.

Our management believes that the adoption of IFRS 16 does not have a material impact on the financial position and performance of our Group during the Track Record Period when compared to those prepared under IAS 17.

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PRINCIPAL COMPONENTS OF COMBINED STATEMENT OF COMPREHENSIVE INCOME

The following table summarizes our results of operations for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(Unaudited)										
(RMB in thousands except for percentages)										
Revenue	765,521	100.0	1,344,399	100.0	1,887,108	100.0	758,604	100.0	1,033,032	100.0
Cost of revenue	(424,797)	(55.5)	(741,651)	(55.2)	(776,309)	(41.1)	(316,114)	(41.7)	(341,265)	(33.0)
Gross profit	340,724	44.5	602,748	44.8	1,110,799	58.9	442,490	58.3	691,767	67.0
Selling and marketing expenses	(186,289)	(24.3)	(244,358)	(18.2)	(447,989)	(23.7)	(160,146)	(21.1)	(240,031)	(23.2)
Research and development expenses	(79,434)	(10.4)	(117,443)	(8.7)	(197,780)	(10.5)	(59,763)	(7.9)	(92,508)	(9.0)
General and administrative expenses	(66,693)	(8.7)	(83,840)	(6.2)	(107,315)	(5.8)	(36,452)	(4.8)	(79,275)	(7.7)
Net impairment losses on financial assets ..	(654)	(0.1)	(960)	(0.1)	(299)	0.0	(303)	0.0	(222)	0.0
Fair value changes on investments measured at fair value through profit or loss	(15,605)	(2.0)	(21,069)	(1.6)	(3,351)	(0.2)	(6,516)	(0.9)	7,714	0.7
Other income	6,386	0.8	958	0.1	8,141	0.4	383	0.1	8,260	0.8
Other gains/(losses), net	44,203	5.8	(2,091)	(0.1)	24,232	1.3	(1,395)	(0.2)	(559)	0.0
Operating profit	42,638	5.6	133,945	10.0	386,438	20.4	178,298	23.5	295,146	28.6
Finance income	1,183	0.2	3,024	0.2	4,993	0.3	1,833	0.2	4,164	0.4
Finance costs	(1,987)	(0.3)	(2,085)	(0.2)	(2,320)	(0.1)	(809)	(0.1)	(1,273)	(0.1)
Share of results of investments accounted for using equity method	(18,509)	(2.4)	7,587	0.6	285	0.0	56	0.0	(841)	(0.1)
Profit before income tax	23,325	3.1	142,471	10.6	389,396	20.6	179,378	23.6	297,196	28.8
Income tax expenses ..	45	0.0	(21,934)	(1.6)	(36,675)	(1.9)	(21,953)	(2.9)	(29,674)	(2.9)
Profit for the year/period	23,370	3.1	120,537	9.0	352,721	18.7	157,425	20.7	267,522	25.9
Profit for the year/period attributable to:										
Equity holders of the Company ..	25,181	3.3	116,630	8.7	285,028	15.1	128,559	16.9	184,808	17.9
Non-controlling interests ⁽¹⁾	(1,811)	(0.2)	3,907	0.3	67,693	3.6	28,866	3.8	82,714	8.0

(1) The net income attributable to non-controlling interests in 2018 and the five months ended May 31, 2018 and 2019 was mainly from Yiwan and Longcheng, which were both in profit position in 2018 and the five months ended May 31, 2018 and 2019.

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Revenue

Our revenue is mainly derived from (i) games, principally operating business where we generate revenue primarily from sales of in-game virtual items in online games and sales of premium games through third-party and our proprietary distribution platforms, and (ii) information services where we generate revenue primarily from providing online marketing services on TapTap. The following table summarizes our revenue by component and business line for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(Unaudited)									
	(RMB in thousands except for percentages)									
Games	765,521	100.0	1,263,408	94.0	1,592,347	84.4	646,729	85.3	856,339	82.9
Game										
operating	754,454	98.5	1,253,617	93.3	1,588,115	84.1	643,988	84.9	853,848	82.7
Online										
games ...	748,931	97.8	1,216,094	90.5	1,544,485	81.8	635,701	83.8	840,177	81.3
Premium										
games ...	5,523	0.7	37,523	2.8	43,630	2.3	8,287	1.1	13,671	1.4
Others ⁽¹⁾	11,067	1.5	9,791	0.7	4,232	0.3	2,741	0.4	2,491	0.2
Information										
services	—	—	80,991	6.0	294,761	15.6	111,875	14.7	176,693	17.1
Total revenue	765,521	100.0	1,344,399	100.0	1,887,108	100.0	758,604	100.0	1,033,032	100.0

(1) Others in game operating are primarily derived from licensing copyrights of our games or game contents to other game publishing companies for agreed periods, and other game publishers pay license fees for the right to operate our games in specified geographic areas. The license fees normally comprise of a fixed lump sum and variable fees calculated based on a predetermined rate on the cash paid by gamers collected by the publishers related to the licensed games.

During the Track Record Period, our game revenue showed an increasing trend, primarily reflecting the growth of our game operating business. However, it decreased as a percentage of our total revenue, contributing 100.0%, 94.0%, 84.4% and 82.9% of total revenue in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively. Such decreases were attributable to an increase in our revenue from information service business during the same periods, as we started to generate revenue from our information service business from 2017 after we consolidated Yiwan in December 2016 and expanded our online marketing business on TapTap since then.

Games

Our revenue from game business is primarily derived from operating online games and premium games.

Our online games are all free-to-play games, which are free to install and play and the revenue of such games is generated from the sales of in-game virtual items. In 2016, 2017, 2018 and the five months ended May 31, 2019, revenue from our online games was primarily derived from mobile games, which contributed 77.5%, 92.1%, 93.6% and 94.9% to our revenue from online games, respectively. Such increases were accompanied by decreases in revenue contributions from web games, reflecting the switch of our focus from web games to mobile games in our game operating business during the Track Record Period.

Our premium games are pay-to-play games, which require gamers to pay an initial fee to buy access to such games. The revenue of our premium games primarily consists of proceeds from sales of

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these games. The increases in the revenue from our premium games during the Track Record Period were mainly attributable to the solid performance of new premium games launched, such as ICEY (艾希) and Muse Dash (喵斯快跑).

(i) Gross basis versus net basis

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the periods indicated:

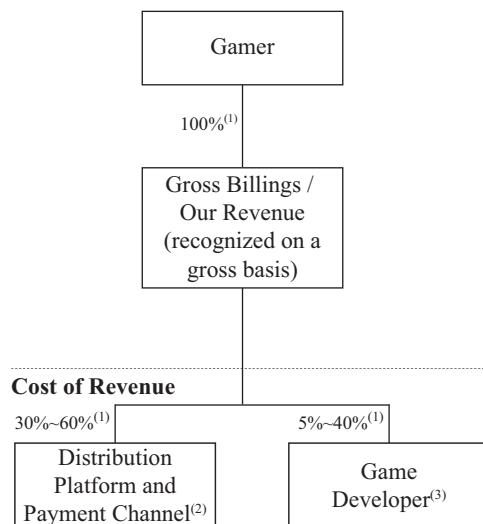
	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
							Unaudited			
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(RMB in thousands except for percentages)										
Revenue recognized										
on a gross basis . .	739,519	98.0	1,155,384	92.2	1,100,627	69.3	501,444	77.9	417,508	48.9
Revenue recognized										
on a net basis	14,935	2.0	98,233	7.8	487,488	30.7	142,544	22.1	436,340	51.1
Total	754,454	100.0	1,253,617	100.0	1,588,115	100.0	643,988	100.0	853,848	100.0

During the Track Record Period, as a percentage of the total game operating revenue, our game operating revenue recognized on a gross basis decreased and that recognized on a net basis increased, mainly as a result of the increased revenue from Ragnarok M in overseas markets. Such changes had contributed to the increase in gross margin of game operating business from 43.9% in 2017 to 53.5% in 2018 and from 53.0% in the five months ended May 31, 2018 to 62.1% in the same period of 2019, as certain commissions charged by distribution platforms and payment channels and shares of proceeds to game developers have been net off for revenue generated on a net basis.

Whether we recognize our game operating revenue on a gross basis or a net basis depends on whether we act as a principal or an agent.

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When we act as principal under circumstances described under “—Significant Accounting Policies and Estimates—Revenue Recognition—Game operating revenue—(i) when we act as principal,” we recognize game operating revenue on a gross basis, which means that our revenue represents the whole gross billings of the games, and recognize commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers as cost of revenue, as illustrated in the diagram below:

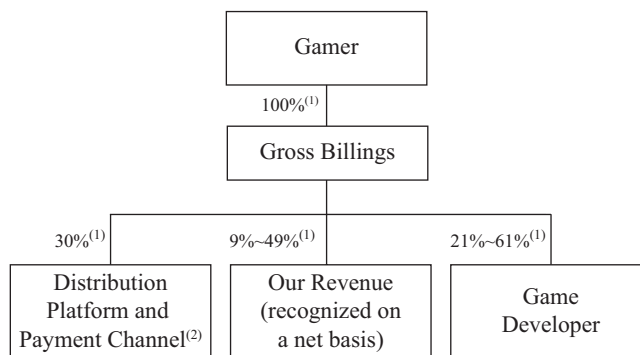


(1) All percentages in the diagram are calculated based on the gross billings generated from gamers.

(2) We do not deduct distribution platform fees when publishing through our proprietary distribution platforms.

(3) We do not have revenue sharing with game developers when publishing our self-developed games.

When we act as agent of game developers, we are usually responsible for matters including providing payment solutions and market promotion services for the games and recognize game operating revenue on a net basis, which means that our revenue represents a certain percentage of gross billings of the games, as illustrated in the diagram below:



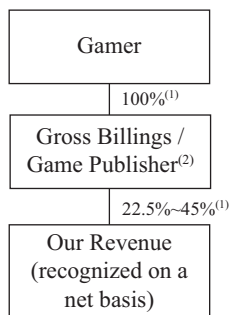
(1) All percentages in the diagram are calculated based on the gross billings generated from gamers.

(2) We do not deduct distribution platform fees when publishing through our proprietary distribution platforms.

Game publishing and operating involves a number of workstreams such as game localization, installation, server maintenance, marketing, customer service and version updates. While game publishers sometimes publish and operate games on their own, they may also engage third-party service provider like us as their agents to provide game maintenance and operation services such as game promotion services, customer services, technical support services and localization services. Engaging service providers enable publishers to take advantage of the strength of other professional service providers in certain areas so that they can operate their games more efficiently.

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When we act as agent of game publishers, we receive payments from game publishers and recognize game operating service revenue on a net basis, which means that our revenue represents a certain percentage of gross billings paid by game publishers to us, as illustrated in the diagram below:



(1) All percentages in the diagram are calculated based on the gross billings generated from gamers.

(2) During the Track Record Period, we mainly acted as the agent to game publishers in the case of Ragnarok M, where we provided technical support and/or operation support to Gravity and its associates with respect to the operation of Ragnarok M in overseas markets. For details, see “Business—Our Online Games—Ragnarok M.”

(ii) Breakdown by geographic region

The table below sets out a breakdown of our game operating revenue in China and overseas markets for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(RMB in thousands except for percentages)										
PRC	738,804	97.9	856,007	68.3	611,418	38.5	276,680	43.0	275,176	32.2
Overseas	15,650	2.1	397,610	31.7	976,697	61.5	367,308	57.0	578,672	67.8
Total	754,454	100.0	1,253,617	100.0	1,588,115	100.0	643,988	100.0	853,848	100.0

In 2016, 2017, 2018 and the five months ended May 31, 2019, our game operating revenue generated from overseas markets continued to grow, contributing 2.1%, 31.7%, 61.5% and 67.8% to our total game operating revenue, respectively. We earned overseas game operating revenue mainly from South Korea, Hong Kong and Taiwan, and Southeast Asia during the Track Record Period. This was in line with our commitment to introducing excellent games to more people across different regions, as we began putting efforts to overseas expansion from 2016. Our game operating revenue generated from China decreased from RMB 856.0 million in 2017 to RMB 611.4 million in 2018 primarily due to the suspension of granting preapproval by NAPP to either domestic or foreign games during the period from April 2018 to December 2018. See “Business—Licenses and Permits.”

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(iii) Breakdown by self-developed and licensed games

The following table sets forth a breakdown of our game operating revenue into self-developed and licensed games for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Unaudited)										
(RMB in thousands except for percentages)										
Self-developed										
games ⁽¹⁾	575,621	76.3	835,205	66.6	925,737	58.3	359,667	55.8	605,509	70.9
PRC	565,085	74.9	725,397	57.9	464,109	29.2	182,880	28.4	203,007	23.8
Overseas	10,536	1.4	109,808	8.7	461,628	29.1	176,787	27.4	402,502	47.1
Licensed games	178,833	23.7	418,412	33.4	662,378	41.7	284,321	44.2	248,339	29.1
PRC	173,719	23.0	130,610	10.4	147,309	9.3	93,800	14.6	72,169	8.5
Overseas	5,114	0.7	287,802	23.0	515,069	32.4	190,521	29.6	176,170	20.6
Total	754,454	100.0	1,253,617	100.0	1,588,115	100.0	643,988	100.0	853,848	100.0

(1) The revenue of our self-developed games include the revenue generated from a joint-developed game, Ragnarok M. See “Business—Our Online Games—Game Performance” for details on the revenue breakdown of Ragnarok M for the Track Record Period.

In 2016, 2017 and 2018, our game operating revenue from self-developed games and that from licensed games both increased in absolute amount, though our game operating revenue from self-developed games decreased as a percentage of the total game operating revenue. This reflected our increased efforts in sourcing quality intellectual properties from third parties to enhance our game portfolio. Our operating revenue from self-developed games increased both in absolute amount and as a percentage of the total game operating revenue in the five months ended May 31, 2019 as compared to the same period in 2018, mainly attributable to the solid performance of Ragnarok M in Southeast Asia since its launch in October 2018, and decreased revenue contribution from licensed online games such as Girls’ Frontline (少女前線) and Tales of Erin (蒼藍境界) as they reached the maturity stage, and from our licensed premium game, ICEY (艾希).

Information services

Our revenue from information service business is primarily derived from performance-based online marketing services provided through TapTap to game developers, game publishers and advertising agencies. TapTap is operated by our subsidiary, Yiwan.

We started to consolidate Yiwan from December 2016, when it became our 55.05% owned subsidiary. For details on Yiwan’s financial information prior to December 20, 2016, see “—Financial Information of Yiwan.”

In 2017 and 2018 and the five months ended May 31, 2019, our information service revenue contributed 6.0%, 15.6% and 17.1% to our total revenue, respectively, and the substantial increase in such revenue from 2017 to 2018 was mainly driven by our expanded user base of TapTap, and our increased efforts to monetize on the user base of TapTap.

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Cost of Revenue

The following table sets forth our cost of revenue by component for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(Unaudited)										
(RMB in thousands except for percentages)										
Games	424,797	55.5	709,207	52.8	740,911	39.3	303,939	40.1	324,833	31.4
Information services	—	—	32,444	2.4	35,398	1.8	12,175	1.6	16,432	1.6
Total	424,797	55.5	741,651	55.2	776,309	41.1	316,114	41.7	341,265	33.0

The following table sets forth our cost of revenue by nature for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Unaudited)										
(RMB in thousands except for percentages)										
Commissions charged by distribution platforms and payment channels	288,278	67.9	348,927	47.0	331,081	42.6	154,309	48.8	122,579	35.9
Sharing of proceeds to game developers	63,964	15.1	204,836	27.6	193,694	25.0	85,388	27.0	73,979	21.7
Bandwidth and servers custody fee	19,152	4.5	66,704	9.0	85,080	11.0	24,712	7.8	75,900	22.2
Employee benefits expenses	20,443	4.8	33,788	4.6	47,156	6.1	14,947	4.7	14,562	4.3
Amortization of intangible assets	16,621	3.9	31,598	4.3	42,540	5.5	13,894	4.4	23,762	7.0
Impairment charges	3,000	0.7	28,503	3.8	41,564	5.4	9,434	3.0	—	—
VAT input transfer out and tax surcharges	8,849	2.1	19,563	2.6	22,386	2.9	9,234	2.9	12,604	3.7
Others ⁽¹⁾	4,490	1.0	7,732	1.1	12,808	1.5	4,196	1.4	17,879	5.2
Total	424,797	100.0	741,651	100.0	776,309	100.0	316,114	100.0	341,265	100.0

(1) Others mainly include professional and technical services and depreciation of property, plant and equipment.

Our cost of revenue for game business primarily consists of commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers where we act as a principal, bandwidth and servers custody fee and employee benefits expenses. Our cost of revenue for information service business primarily consists of bandwidth and servers custody fee and employee benefits expenses.

Commissions charged by distribution platforms and payment channels represented the largest component of our cost of revenue during the Track Record Period, contributing 67.9%, 47.0%, 42.6% and

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35.9% of our total cost of revenue in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively. Commissions charged by distribution platforms and payment channels mainly comprise commissions paid to distribution platforms such as App Store and Google Play as well as payment channels for marketing and payment services rendered to us. We enter into distribution service agreements with distribution platforms, pursuant to which we typically pay a prescribed percentage of the gross billings deducting distribution platform and payment channel costs for games distributed through their distribution platforms. The payment channels are generally entitled to a prescribed percentage of the gross billings. The decreases in commissions charged by distribution platforms and payment channels as a percentage of total cost of revenue during the Track Record Period were primarily in line with the decreases in game operating revenue recognized on a gross basis as a percentage of total game operating revenue.

Sharing of proceeds to game developers mainly comprises license fees paid to game developers, pursuant to the relevant revenue sharing arrangements with them. The changes in sharing of proceeds to game developers during the Track Record Period were primarily in line with the change in game operating revenue recognized on a gross basis.

Bandwidth and servers custody fee primarily represents fees paid for using bandwidth and servers maintained by third parties to operate our games. We also pay for cloud services that we engage in our business operations. The increases in bandwidth and servers custody fee during the Track Record Period were in line with our business growth generally.

Employee benefits expenses mainly relate to our personnel in the games and information service businesses. The increases in our employee benefits expenses during the Track Record Period were in line with our business growth generally.

Impairment charges consist mainly of the impairment of prepayments for sharing of proceeds and game licenses and the impairment of intangible assets (such as game licenses and domain names).

Gross Profit and Gross Margin

The following table summarizes our gross profit and gross margin for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
(Unaudited)										
(RMB in thousands except for percentages)										
Games	340,724	44.5%	554,201	43.9%	851,436	53.5%	342,790	53.0%	531,506	62.1%
Information services . . .	—	—	48,547	59.9%	259,363	88.0%	99,700	89.1%	160,261	90.7%
Total	<u>340,724</u>	<u>44.5%</u>	<u>602,748</u>	<u>44.8%</u>	<u>1,110,799</u>	<u>58.9%</u>	<u>442,490</u>	<u>58.3%</u>	<u>691,767</u>	<u>67.0%</u>

The increases in our gross profit were primarily attributable to the continual increases of gross profit for both our game and information service businesses. Gross margin of our information service business is generally higher than that of the game business, mainly because our cost of operations remained relatively stable as our online marketing business scaled up, while we need to pay commissions to distribution platforms and payment channels and sharing of proceeds to game developers for game operating as a certain percentage of our revenue recognized on a gross basis. As a result, our overall gross margin improved during the Track Record Period, as the share of revenue from the information service business increased.

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The increase in gross margin for our game business from 2017 to the five months ended May 31, 2019 was mainly attributable to increased contribution of game operating revenue recognized on a net basis, arising primarily from the solid performance of Ragnarok M in overseas markets. The slight decrease in gross margin for our game business from 2016 to 2017 were mainly due to increases in impairment in long-term assets, bandwidth and server custody fee and amortization of intangible assets, which were partially offset by increased contribution of game operating revenue recognized on a net basis.

The increase in gross margin for our information service business during the Track Record Period was primarily because our cost of revenue for information service business, mainly comprising bandwidth and servers custody fee and employee benefits expenses, remained relatively stable, while our information service revenue increased.

Selling and Marketing Expenses

The following table summarizes our selling and marketing expenses for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Unaudited)										
(RMB in thousands except for percentages)										
Promotion and advertising expenses	172,269	92.5	228,711	93.6	426,189	95.1	148,458	92.7	219,041	91.3
Employee benefits expenses	7,925	4.3	10,333	4.2	13,340	3.0	5,905	3.7	7,210	3.0
Others ⁽¹⁾	6,095	3.2	5,314	2.2	8,460	1.9	5,783	3.6	13,780	5.7
Total	186,289	100.0	244,358	100.0	447,989	100.0	160,146	100.0	240,031	100.0

(1) Others mainly include office expenses and professional and technical services fees.

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses paid to external advertising agencies and professional information dissemination companies, which were the largest component of our selling and marketing expenses, representing 92.5%, 93.6%, 95.1% and 91.3% of our selling and marketing expenses in 2016, 2017, 2018 and the five months ended May 31, 2019, respectively, and (ii) employee benefit expenses relating to our selling and marketing personnel.

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Research and Development Expenses

The following table summarizes our research and development expenses for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(RMB in thousands except for percentages)										
Employee benefits expenses	67,286	84.7	98,049	83.5	162,217	82.0	46,923	78.5	75,553	81.7
Professional and technical services ..	9,607	12.1	17,865	15.2	33,939	17.2	12,344	20.7	15,855	17.1
Others ⁽¹⁾	2,541	3.2	1,529	1.3	1,624	0.8	496	0.8	1,100	1.2
Total	79,434	100.0	117,443	100.0	197,780	100.0	59,763	100.0	92,508	100.0

(1) Others mainly include bandwidth and servers custody fee and depreciation of property, plant and equipment.

Our research and development expenses primarily consist of (i) employee benefits expenses relating to our research and development employees, which were the largest component of our research and development expenses, representing 84.7%, 83.5%, 82.0%, 78.5% and 81.7% of our research and development expenses in 2016, 2017, 2018 and the five months ended May 31, 2018 and 2019, respectively, and (ii) professional and technical services fees including art design and translation services for our games.

General and Administrative Expenses

The following table summarizes our general and administrative expenses for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2016		2017		2018		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(RMB in thousands except for percentages)										
Employee benefits expenses	20,472	30.7	42,485	50.7	50,599	47.1	15,568	42.7	29,931	37.8
Depreciation of property, plant and equipment and right-of-use assets	14,024	21.0	15,805	18.9	21,020	19.6	6,544	18.0	11,915	15.0
Rental expenses and utilities	4,023	6.0	3,798	4.5	4,897	4.6	2,358	6.5	2,467	3.1
Office expenses	6,479	9.7	7,243	8.6	12,189	11.4	4,873	13.4	5,931	7.5
Professional and technical services	9,237	13.9	10,606	12.7	11,788	11.0	4,530	12.4	5,753	7.3
Listing expenses	—	—	—	—	2,415	2.3	—	—	15,108	19.1
Others ⁽¹⁾	12,458	18.7	3,903	4.6	4,407	4.0	2,579	7.0	8,170	10.2
Total	66,693	100.0	83,840	100.0	107,315	100.0	36,452	100.0	79,275	100.0

(1) Others mainly include VAT input transfer out and tax surcharges, bandwidth and servers custody fee, amortization of intangible assets, and impairment of long-term investments.

Our general and administrative expenses primarily consist of (i) employee benefits expenses relating to our administrative employees, (ii) depreciation of property, plant and equipment in

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connection with our office space in Shanghai and right-of-use assets pursuant to IFRS 16, (iii) professional and technical services, such as fees paid to audit and law firms, and (iv) office expenses incurred in the ordinary course of business.

Net Impairment Losses on Financial Assets

In 2016, 2017, 2018 and the five months ended May 31, 2018 and 2019, our net impairment losses on financial assets was RMB0.7 million, RMB1.0 million, RMB0.3 million, RMB0.3 million and RMB0.2 million, respectively, mainly relating to our bad debt provisions over receivables based on expected credit loss.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

The following table summarizes our fair value changes on investments measured at fair value through profit or loss for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
				(Unaudited)	
	(RMB in thousands)				
Fair value changes in long-term investments measured at fair value through profit or loss	(18,391)	(22,963)	(12,462)	(9,025)	4,572
Fair value changes in short-term investments measured at fair value through profit or loss	2,786	1,894	9,111	2,509	3,142
Total	(15,605)	(21,069)	(3,351)	(6,516)	7,714

Our fair value changes on investments measured at fair value through profit or loss reflect changes in the fair value of our long-term investments, such as venture investments in start-up TMT companies mainly located in China, and our short-term investments such as wealth management products issued by commercial banks.

Other Income

In 2016, 2017, 2018 and the five months ended May 31, 2019, our other income was RMB6.4 million, RMB1.0 million, RMB8.1 million and RMB8.3 million, respectively. Our other income refers to subsidies mainly for supporting game projects from the Shanghai local government authorities.

Other Gains (net)

Our gains (net) primarily consist of (i) fair value changes on our previously held equity interests in Yiwan and Longcheng as a result of our consolidation of them, as set forth in note 31 to the Accountant's Report in Appendix I to this prospectus, (ii) re-measurement gain relating to our investments in one of our associates using the equity method reclassified to long-term investment measured at fair value through profit or loss in 2018, after we were granted redemption rights from this associate, the details of which are set forth in note 17 to the Accountant's Report in Appendix I to this prospectus, and (iii) foreign exchange gain or loss, mainly relating to fluctuations of foreign exchange rates affecting the foreign currencies held in our bank accounts and trade receivables.

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Finance Income (net)

Our finance income (net) refers to interest income from our bank deposits with financial institutions, offset by charges made by financial institutions and interest expenses on lease liabilities pursuant to IFRS 16.

Income Tax Expenses

In 2017, 2018 and the five months ended May 31, 2019, we had income tax expenses of RMB21.9 million, RMB36.7 million and RMB29.7 million, respectively, translating into an effective tax rate of 15.4%, 9.4% and 10.0%, respectively. In 2016, we had income tax credits of RMB0.05 million. We are subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which our subsidiaries are domiciled and operate.

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. See “Appendix III—Summary of the Constitution of the Company and Cayman Companies Laws—Summary of Cayman Islands Company Law and Taxation—19 Taxation.”

Our subsidiaries operating in China are subject to the PRC corporate income tax rate of 25% for the Track Record Period. One of our subsidiaries in China, X.D. Network, was approved as a High and New Technology Enterprise, and accordingly, it was subject to a reduced enterprise income tax rate of 15%. Its status as a High and New Technology Enterprise is subject to renewal in November 2019, and we submitted an application for renewal of this certificate in August 2019. Another subsidiary of ours, Yiwan, is accredited as a “software enterprise” and it is exempt from enterprise income tax for two years, followed by a 50% reduction in applicable tax rates for the following three years, commencing from 2018. Furthermore, pursuant to relevant PRC tax laws and regulations, enterprises engaging in research and development activities are entitled to claim 150% in 2016 and 2017 and 175% in 2018 and onwards of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year. We have made our best estimate for such tax deduction to be claimed for our entities in ascertaining their assessable profits during the Track Record Period.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared on foreign investors from China effective from January 1, 2008. The withholding tax rate may be lowered to a minimum of 5% subject to conditions and requirements under the double taxation treaty arrangement between China and Hong Kong where the foreign investors are incorporated. During the Track Record Period, we did not have any plan to require our PRC subsidiaries to distribute their retained earnings, and intended to retain them to operate and expand our business in China. Accordingly, no deferred income tax liability on PRC withholding tax was accrued at the end of each reporting period.

In addition, our subsidiaries operating in Hong Kong are subject to Hong Kong profit tax at the rate of 16.5% on the estimated assessable profits and provisions that have been made during the Track Record Period.

RESULTS OF OPERATIONS

The following discussion compares the major components of our operating results in 2016, 2017, 2018 and the five months ended May 31, 2018 and 2019.

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Revenue

Comparisons between five months ended May 31, 2019 and 2018

Our revenue increased by 36.2% to RMB1,033.0 million in the five months ended May 31, 2019 from RMB758.6 million in the same period of 2018, primarily due to increased revenue from games and information service businesses.

Our revenue from game business increased by 32.4% to RMB856.3 million in the five months ended May 31, 2019 from RMB646.7 million in the same period of 2018. In particular,

- Our revenue from online games increased by 32.2% to RMB840.2 million in the five months ended May 31, 2019 from RMB635.7 million in the same period of 2018, primarily due to solid performance of Ragnarok M launched in Southeast Asia since October 2018, which was still in the growth stage in this geographical market in early 2019. The average MPUs of Ragnarok M increased to approximately 0.37 million in the five months ended May 31, 2019 from 0.16 million in the same period of 2018; and
- Our revenue from premium games increased by 65.0% to RMB13.7 million in the five months ended May 31, 2019 from RMB8.3 million in the same period of 2018, primarily due to solid performance of Muse Dash (喵斯快跑) launched in the PRC and overseas since June 2018.

Our revenue recognized on a gross basis decreased by 16.7% in the five months ended May 31, 2019 compared to the same period of 2018, mainly in relation to decreased revenue from Girls' Frontline (少女前线) as it reached the maturity stage. Our revenue recognized on a net basis increased substantially in the five months ended May 31, 2019 compared to the same period of 2018, mainly in relation to Ragnarok M in Southeast Asia which was launched in October 2018.

Our revenue from information service business increased by 57.9% to RMB176.7 million in the five months ended May 31, 2019 from RMB111.9 million in the same period of 2018, primarily due to: (i) lower revenue levels in the five months ended May 31, 2018 as a result of the suspension of TapTap's game downloading function from March 14 to June 14, 2018; and (ii) increased online marketing services to game developers after the suspension of the NAPP preapproval of domestic and foreign online games from April 2018 was lifted in December 2018.

Comparisons between 2018 and 2017

Our revenue increased by 40.4% to RMB1,887.1 million in 2018 from RMB1,344.4 million in 2017, primarily due to increased revenue from games and information service businesses.

Our revenue from game business increased by 26.0% to RMB1,592.3 million in 2018 from RMB1,263.4 million in 2017. In particular,

- Our revenue from online games increased by 27.0% to RMB1,544.5 million in 2018 from RMB1,216.1 million in 2017, primarily due to solid performance of newly launched games in 2018, such as Ragnarok M, which was launched in South Korea in March 2018, generating RMB68.4 million of revenue in 2018, and in Southeast Asia in October 2018, generating RMB232.0 million of revenue in 2018. The revenue of Ragnarok M in Hong Kong, Macau and Taiwan also increased from RMB48.9 million in 2017 to RMB96.9 million in 2018, as it was still in the growth stage in such geographical markets in early

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2018 and gradually moved to the maturity stage during the same year. The average MPUs of Ragnarok M increased to approximately 0.23 million in 2018 from 0.09 million in 2017; and

- Our revenue from premium games increased by 16.3% to RMB43.6 million in 2018 from RMB37.5 million in 2017, primarily due to solid performance of Muse Dash (喵斯快跑) launched in China and overseas since June 2018.

Our revenue recognized on a gross basis decreased by 4.7% in 2018 compared to 2017, mainly in relation to decreased revenue from Ragnarok M in China as it leveled off after the peak of this game in China, and decreased revenue from Heng Sao Qian Jun (橫掃千軍) as it reached the maturity stage. Our revenue recognized on a net basis increased substantially in 2018 compared to 2017, mainly in relation to Ragnarok M in South Korea and Southeast Asia launched in March and October 2018, respectively.

Our revenue from information service business increased substantially to RMB294.8 million in 2018 from RMB81.0 million in 2017, as we launched the online marketing services in July 2017 and increased monetization efforts in 2018.

Comparisons between 2017 and 2016

Our revenue increased by 75.6% to RMB1,344.4 million in 2017 from RMB765.5 million in 2016, primarily due to increased revenue from game business.

Our revenue from game business increased by 65.0% to RMB1,263.4 million in 2017 from RMB765.5 million in 2016. In particular,

- Our revenue from online games increased by 62.4% to RMB1,216.1 million in 2017 from RMB748.9 million in 2016, primarily due to solid performance of our popular games such as Ragnarok M launched in China since January 2017, and Girls' Frontline (少女前線) in South Korea after our consolidation of Longcheng in July 2017, with average MPUs of approximately 0.06 million and 0.08 million, respectively, during their respective operation period in 2017; and
- Our revenue from premium games increased substantially to RMB37.5 million in 2017 from RMB5.5 million in 2016, primarily due to the strong performance of ICEY (艾希), launched in China and overseas since November 2016.

Our revenue recognized on a gross basis increased by 56.2% in 2017 compared to 2016, mainly in relation to Ragnarok M in China launched in January 2017 and Girls' Frontline (少女前線) after our consolidation of Longcheng in July 2017. Our revenue recognized on a net basis increased substantially in 2017 compared to 2016, mainly in relation to Ragnarok M in Hong Kong, Macau and Taiwan launched in October 2017.

Our revenue from our information service business increased to RMB81.0 million in 2017 from nil in 2016, primarily due to our consolidation of Yiwan in December 2016, and the commencement of TapTap's online marketing services in 2017.

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Cost of Revenue

Comparisons between five months ended May 31, 2019 and 2018

Our cost of revenue increased by 8.0% to RMB341.3 million in the five months ended May 31, 2019 from RMB316.1 million in the same period of 2018, primarily due to increased cost of revenue from games and information service businesses.

Our cost of revenue from game business increased by 6.9% to RMB324.8 million in the five months ended May 31, 2019 from RMB303.9 million in the same period of 2018, primarily due to increases in (i) bandwidth and servers custody fee of RMB47.5 million, generally in line with the growth in our average MAUs of online games and mainly arising from the solid performance of Ragnarok M launched in Southeast Asia, and (ii) professional and technical services fee of RMB13.0 million, mainly as a result of an increase in translation costs in relation to our overseas expansion of the game business, which were partially offset by decreases in commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers of RMB43.2 million, mainly in line with the decrease in our game operating revenue recognized on a gross basis from RMB501.4 million in the five months ended May 31, 2018 to RMB417.5 million in the same period of 2019.

Our cost of revenue from information service business increased by 35.0% to RMB16.4 million in the five months ended May 31, 2019 from RMB12.2 million in the same period of 2018, primarily due to an increase in bandwidth and servers custody fee of RMB3.7 million, which was in line with the growth in the average MAUs of our TapTap mobile app, which increased from 14.5 million in the five months ended May 31, 2018 to 16.2 million in the same period of 2019, and partially due to the suspension of TapTap's game downloading function from March 14 to June 14, 2018.

Comparisons between 2018 and 2017

Our cost of revenue increased slightly by 4.7% to RMB776.3 million in 2018 from RMB741.7 million in 2017, primarily due to increased cost of revenue from game business.

Our cost of revenue from game business increased by 4.5% to RMB740.9 million in 2018 from RMB709.2 million in 2017, primarily due to increases in (i) bandwidth and servers custody fee of RMB17.7 million, generally in line with the growth of our average MAUs of online games from 3.65 million in 2017 to 8.76 million in 2018, and mainly arising from the solid performance of Ragnarok M launched in South Korea and Southeast Asia, (ii) impairment charges of RMB13.1 million, mainly relating to impairment provisions for prepayment of game licenses, in relation to an ARPG game developed by a Japanese game developer as the performance of its comparable version in Japan failed to meet our expectation, and (iii) employee benefits expenses of RMB11.3 million, due to increased levels of employee benefits. These increases were partially offset by decreases in commissions charged by distribution platforms and payment channels and sharing of proceeds to game developers of RMB29.2 million, which were in line with the decrease in our game operating revenue recognized on a gross basis from RMB1,155.4 million in 2017 to RMB1,100.6 million in 2018.

Our cost of revenue from information service business increased by 9.1% to RMB35.4 million in 2018 from RMB32.4 million in 2017, primarily due to increases in (i) employee benefits expenses of RMB2.0 million, due to increased levels of employee benefits, and (ii) bandwidth and servers custody fee of RMB0.7 million, generally in line with the growth of the average MAUs of our TapTap mobile app, which increased from 10.2 million in 2017 to 15.0 million in 2018.

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Comparisons between 2017 and 2016

Our cost of revenue increased by 74.6% to RMB741.7 million in 2017 from RMB424.8 million in 2016, primarily due to increased cost of revenue from games and information service businesses.

Our cost of revenue from game business increased by 67.0% to RMB709.2 million in 2017 from RMB424.8 million in 2016, primarily due to increases in (i) commissions charged by distribution platforms and payment channels, sharing of proceeds to game developers and bandwidth and servers custody fee of RMB229.6 million, generally in line with the growth of our game operating revenue recognized on a gross basis and mainly arising from Ragnarok M launched in China and Girls' Frontline (少女前線) in South Korea, and (ii) impairment charges of RMB25.5 million, mainly relating to impairment provisions for prepayments for game licenses of 11 games, including RPG and ARPG games, developed by PRC game developers that underperformed or failed.

Our cost of revenue from information service business increased to RMB32.4 million in 2017 from nil in 2016, primarily due to our consolidation of Yiwan after December 2016, and our launch of online marketing services on TapTap in July 2017.

Gross Profit and Gross Margin

Comparisons between five months ended May 31, 2019 and 2018

As a result of the foregoing, our gross profit increased by 56.3% to RMB691.8 million in the five months ended May 31, 2019 from RMB442.5 million in the same period of 2018. Our gross margin increased to 67.0% in the five months ended May 31, 2019 from 58.3% in the same period of 2018, primarily due to (i) increases in our gross margins of game business from 53.0% in the five months ended May 31, 2018 to 62.1% in the same period of 2019, as a result of the increase in the contribution from game operating revenue recognized on a net basis to total game operating revenue from 22.1% in the five months ended May 31, 2018 to 51.1% in the same period of 2019, mainly arising from the solid performance of Ragnarok M launched in Southeast Asia, and of information service business from 89.1% in the five months ended May 31, 2018 to 90.7% in the same period of 2019, as our cost of operations remained relatively stable as our information service business expanded, and (ii) an increase in the contribution of revenue from our information service business to total revenue from 14.7% in the five months ended May 31, 2018 to 17.1% in the same period of 2019, which in general enjoys a higher gross margin than the game business.

Comparisons between 2018 and 2017

Our gross profit increased by 84.3% to RMB1,110.8 million in 2018 from RMB602.7 million in 2017. Our gross margin increased to 58.9% in 2018 from 44.8% in 2017, primarily due to (i) an increase in our gross margin of game business from 43.9% in 2017 to 53.5% in 2018, as a result of the increase in the contribution from game operating revenue recognized on a net basis to total game operating revenue from 7.8% in 2017 to 30.7% in 2018, and (ii) an increase in the contribution of revenue from our information service business to total revenue from 6.0% in 2017 to 15.6% in 2018, which in general enjoys a higher gross margin than the game business, increasing to 88.0% in 2018 from 59.9% in 2017.

Comparisons between 2017 and 2016

Our gross profit increased by 76.9% to RMB602.7 million in 2017 from RMB340.7 million in 2016. Our gross margin remained relatively stable in 2016 and 2017.

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Selling and Marketing Expenses

Comparisons between five months ended May 31, 2019 and 2018

Our selling and marketing expenses increased by 49.9% to RMB240.0 million in the five months ended May 31, 2019 from RMB160.1 million in the same period of 2018. This was primarily due to (i) increased marketing activities in relation to launch of new games such as LifeAfter (明日之後) in South Korea, Extraordinary Ones (非人類學園) in Japan and South Korea and Ulala (不休的烏拉拉) in Hong Kong, Macau and Taiwan, and continued marketing activities of Ragnarok M in Southeast Asia launched since October 2018, and (ii) increased professional and technical service fees, mainly in relation to game-related animation production and voice acting.

Comparisons between 2018 and 2017

Our selling and marketing expenses increased by 83.3% to RMB448.0 million in 2018 from RMB244.4 million in 2017. This was primarily due to (i) increased marketing activities in relation to launch of new games such as Ragnarok M, Girls' Frontline (少女前線) and Azur Lane (碧藍航線) in South Korea, Taiwan and Southeast Asia, and (ii) increased efforts in marketing TapTap online to attract new gamers in China.

Comparisons between 2017 and 2016

Our selling and marketing expenses increased by 31.2% to RMB244.4 million in 2017 from RMB186.3 million in 2016. This was primarily due to (i) selling and marketing expenses of TapTap being consolidated into our results after our consolidation of Yiwan in December 2016, (ii) increased efforts in marketing TapTap to attract new users in 2017, and (iii) marketing of new games such as Girls' Frontline (少女前線) after our consolidation of Longcheng in July 2017.

Research and Development Expenses

Our research and development expenses increased by 47.8% to RMB117.4 million in 2017 from RMB79.4 million in 2016, increased by 68.4% to RMB197.8 million in 2018 from RMB117.4 million in 2017, and increased by 54.8% to RMB92.5 million in the five months ended May 31, 2019 from RMB59.8 million in the same period of 2018. This was primarily due to an increase in the number of our research and development personnel from 230 as of December 31, 2016 to 317 as of December 31, 2017, to 550 as of December 31, 2018, and further to 644 as of May 31, 2019, increased levels of employee benefits, and an increase in expenses relating to professional and technical services during the Track Record Period, as we continued to improve our research and development capabilities to enhance game quality and gameplay experience.

General and Administrative Expenses

Comparisons between five months ended May 31, 2019 and 2018

Our general and administrative expenses increased substantially to RMB79.3 million in the five months ended May 31, 2019 from RMB36.5 million in the same period of 2018. This was primarily due to (i) increased listing expenses (ii) increased levels of employee benefits of our general and administrative personnel, (iii) one-off share-based payments for stock repurchase, and (iv) increased depreciation of property, plant and equipment as our office spaces increased.

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Comparisons between 2018 and 2017

Our general and administrative expenses increased by 28.0% to RMB107.3 million in 2018 from RMB83.8 million in 2017. This was primarily due to an increase in the number of our general and administrative personnel from 72 as of December 31, 2017 to 108 as of December 31, 2018, increased depreciation of property, plant and equipment, and an increase in our office expenses due to increases in our office area in Shanghai in 2018 as we expanded in scale.

Comparisons between 2017 and 2016

Our general and administrative expenses increased by 25.7% to RMB83.8 million in 2017 from RMB66.7 million in 2016. This was primarily due to an increase in the number of our general and administrative personnel from 57 as of December 31, 2016 to 72 as of December 31, 2017 as we expanded in scale, mainly as a result of our consolidation of Longcheng.

Net Impairment Losses on Financial Assets

In 2016, 2017, 2018 and the five months ended May 31, 2018 and 2019, our net impairment losses on financial assets were RMB0.7 million, RMB1.0 million, RMB0.3 million, RMB0.3 million and RMB0.2 million, respectively, mainly relating to changes in our bad debt provisions based on expected credit loss. The decrease in our net impairment losses on financial assets from 2017 to 2018 was primarily due to our increased client base with better credit quality.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

In 2016, 2017 and 2018, we had fair value losses on investments measured at fair value through profit or loss of RMB15.6 million, RMB21.1 million and RMB3.4 million, respectively, mainly relating to our venture investments in start-up TMT companies mostly located in China. These companies had low profitability and accordingly we made provisions with respect to investments in such companies. Such losses were partially offset by fair value gains in short-term investments measured at fair value through profit or loss relating to our wealth management products. In the five months ended May 31, 2019, we had fair value gains on long-term investments and short-term investment of RMB4.6 million and RMB3.1 million, respectively.

Other Income

In 2016, 2017, 2018 and the five months ended May 31, 2019, our other income was RMB6.4 million, RMB1.0 million, RMB8.1 million and RMB8.3 million, respectively, mainly relating to the government subsidies we received which were non-recurring in nature. In particular, we received RMB4.1 million, RMB7.2 million and RMB6.9 million, respectively, from a high and new technology enterprise park in Shanghai in 2016 and 2018 and the five months ended May 31, 2019 to support our game projects.

Other Gains (net)

In the five months ended May 31, 2019, we had other losses (net) of RMB0.6 million, primarily comprising foreign exchange losses (net) of RMB1.0 million, relating to currencies held in our bank accounts and trade receivables, mainly resulting from fluctuations of the exchange rate of Renminbi to U.S. dollars.

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In 2018, we had other gains (net) of RMB24.2 million, primarily comprising (i) foreign exchange gains (net) of RMB9.5 million, relating to the foreign currencies held in our bank accounts and trade receivables, (ii) re-measurement gain of RMB9.4 million, arising from the re-classification of our investments in one of our associates using the equity method reclassified to long-term investment measured at fair value through profit or loss, as on July 30, 2018, one independent third party completed capital injection in such associate, reducing our equity interest in this associate from 23.00% to 19.55%, while we obtained redemption rights from this associate, and (iii) dilution gain of RMB5.1 million, resulting from the change of valuation of our investment in an associate following a capital injection from third parties, over which we still retained significant influence.

In 2017, we had other losses (net) of RMB2.1 million, primarily comprising foreign exchange losses (net) of RMB10.6 million, mainly due to the appreciation of Renminbi against the U.S. dollar in 2017 affecting our U.S. dollar denominated bank deposits and trade receivables, partially offset by fair value changes on previously held equity interests in step acquisition of RMB5.4 million, relating to our consolidation of Longcheng in July 2017.

In 2016, we had other gains (net) of RMB44.2 million, primarily comprising (i) fair value changes on previously held equity interests in step acquisition of RMB36.5 million, relating to our consolidation of Yiwan in December 2016, and (ii) foreign exchange gains (net) of RMB7.7 million, relating to the foreign currencies held in our bank accounts and trade receivables.

Finance Income (net)

Our finance income, net changed from a loss of RMB0.8 million in 2016 to a gain of RMB0.9 million in 2017, and further increased to RMB2.7 million in 2018, and increased substantially from RMB1.0 million in the five months ended May 31, 2018 to RMB2.9 million in the same period of 2019. This was primarily due to an increase in interest income from our bank deposits, resulting from an increase in the average balance of our bank deposits, partially offset by increased interest expenses on lease liabilities.

Share of Results of Investments Accounted for Using Equity Method

In the five months ended May 31, 2019, we shared losses of RMB0.8 million from investments accounted for using equity method, primarily due to losses of a provider of television-related software and a game developer invested by us.

In 2018, our share of results of investments accounted for using equity method was RMB0.3 million.

In 2017, our share of results of investments accounted for using equity method was RMB7.6 million, primarily due to the sound financial performance of Longcheng, which was an associate of ours accounted for using equity method before we consolidated it in July 2017.

In 2016, we shared losses of RMB18.5 million from investments accounted for using equity method, primarily due to losses of Yiwan, which was founded in March 2016 and accounted for as an associate using equity method before we consolidated it in December 2016.

Profit before Income Tax

As a result of the foregoing, our profit before income tax increased substantially from RMB23.3 million in 2016 to RMB142.5 million in 2017 and further increased to RMB389.4 million in

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2018, and increased by 65.7% from RMB179.4 million in the five months ended May 31, 2018 to RMB297.2 million in the same period of 2019.

Income Tax Expenses

Comparisons between five months ended May 31, 2019 and 2018

Our income tax expenses increased by 35.2% to RMB29.7 million in the five months ended May 31, 2019 from RMB22.0 million in the same period of 2018, primarily in line with the increase in our taxable income. Our effective income tax rate (calculated as income tax expense divided by profit before income tax) decreased to 10.0% in the five months ended May 31, 2019 from 12.2% in the same period of 2018, primarily in relation to the tax exemption entitlement received by Yiwan in late 2018.

Comparisons between 2018 and 2017

Our income tax expenses increased by 67.2% to RMB36.7 million in 2018 from RMB21.9 million in 2017, primarily in line with the increase in our taxable income. Our effective income tax rate (calculated as income tax expense divided by profit before income tax) decreased to 9.4% in 2018 from 15.4% in 2017, primarily as a result of the tax exemption enjoyed by Yiwan in 2018. See “—Principal Components of Combined Statement of Comprehensive Income—Income Tax Expenses.”

Comparisons between 2017 and 2016

We had income tax expenses of RMB21.9 million in 2017, representing an effective income tax rate (calculated as income tax expense divided by profit before income tax) of 15.4%. In 2016, we had income tax credits of RMB0.05 million, primarily because we utilized previously unrecognized temporary differences and tax losses in 2016.

Profit for the Year/Period

As a result of the foregoing, our profit for the year/period increased substantially from RMB23.4 million in 2016 to RMB120.5 million in 2017 and further increased to RMB352.7 million in 2018, and increased by 69.9% from RMB157.4 million in the five months ended May 31, 2018 to RMB267.5 million in the same period of 2019.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, we have funded our working capital primarily from cash generated from our business operations and equity contributions from our shareholders. After the Global Offering, we intend to finance our future capital requirements through the same sources of funds as above, together with the net proceeds we receive from the Global Offering. We do not anticipate any changes to the availability of financing to fund our operations in the future.

Working Capital Statement

Taking into account the net proceeds from the Global Offering and the financial resources available to us, including cash and cash equivalents and cash flows from operating activities, our Directors believe that we have sufficient working capital for our present requirements, that is, for at least 12 months from the date of this prospectus.

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Cash Flows

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

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	(Unaudited)				
	(RMB in thousands)				
Operating cash flows before movements in working capital	59,481	245,256	486,568	222,032	340,294
Changes in working capital	(60,845)	60,268	(287,864)	(119,478)	19,047
Income tax (paid)/refunded	(7,287)	(9,793)	(25,150)	(9,381)	9,799
Net cash (used in) / generated from operating activities	(8,651)	295,731	173,554	93,173	369,140
Net cash generated from / (used in) investing activities	74,206	(131,542)	(199,568)	(209,454)	(141,257)
Net cash (used in) / generated from financing activities	(10,567)	249,140	1,255	(8,992)	(158,340)
Net increase/(decrease) in cash and cash equivalents	54,988	413,329	(24,759)	(125,273)	69,543
Cash and cash equivalents at beginning of the year/period	114,529	178,127	577,972	577,972	573,233
Exchange gain/(loss) on cash and cash equivalents	8,610	(13,484)	20,020	(8,232)	3,524
Cash and cash equivalents at end of the year/period	178,127	577,972	573,233	444,467	646,300

Cash flows from operating activities

Cash flows from operating activities reflect: our profit before income tax adjusted for (i) non-cash and non-operating items (such as depreciation and amortization, impairment of long-term assets, and fair value changes on previously held equity interests in step acquisitions); (ii) the effects of movement in working capital (such as trade receivables, prepayments and deposits, and trade payables); and (iii) other cash items (such as income tax paid).

In the five months ended May 31, 2019, we had net cash generated from operating activities of RMB369.1 million, which represents our profit before income tax of RMB297.2 million, adjusted by non-cash and non-operating items, and positive movements in working capital of: (i) a decrease of RMB63.5 million in trade receivables, mainly because we settled the revenue accrued in 2018 related to Ragnarok M launched in Southeast Asia since October 2018; (ii) an increase of RMB11.7 million in trade payables, mainly in line with our revenue growth; partially offset by (iii) a decrease of RMB43.2 million in other payables and accruals, primarily due to a decrease in salaries and benefits payables as bonus payments were made after the year end.

In 2018, we had net cash generated from operating activities of RMB173.6 million, which represents our profit before income tax of RMB389.4 million for the year, adjusted by non-cash and non-operating items, and negative movements in working capital of: (i) an increase of RMB233.4 million in trade receivables, since part of the revenue related to Ragnarok M launched in Southeast Asia in October 2018 was not settled before the year end; and (ii) an increase of RMB41.0 million in prepayments, deposits and other assets, mainly payment of revenue sharing to

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game developers for new games; partially offset by (iii) an increase of RMB23.4 million in other payables and accruals, primarily due to increases in salaries and benefits payables and tax payables, reflecting our business growth.

In 2017, we had net cash generated from operating activities of RMB295.7 million, which represents our profit before income tax of RMB142.5 million for the year, adjusted by non-cash and non-operating items, and positive movements in working capital of: (i) an increase of RMB63.0 million in trade payables, mainly in line with our revenue growth; and (ii) a decrease of RMB39.9 million in prepayments, deposits and other assets, mainly because our prepayments for Ragnarok M were recognized in our income statement as expenses when such game was launched in 2017; partially offset by (iii) an increase of RMB87.5 million in trade receivables, primarily attributable to trade receivables of Longcheng, which we started to consolidate in July 2017.

In 2016, we had net cash used in operating activities of RMB8.7 million, which represents our profit before income tax of RMB23.3 million for the year, adjusted by non-cash and non-operating items, and negative movements in working capital of: (i) an increase of RMB20.1 million in prepayments, deposits and other assets, mainly payment of revenue sharing for Ragnarok M launched in 2017; and (ii) an increase of RMB17.1 million in trade receivables, mainly in line with our revenue growth.

Cash flows from investing activities

Our cash inflows from investing activities primarily consist of proceeds from disposal of short-term and long-term investments and interest income received. Our cash outflows from investing activities primarily consist of purchases of investments, property, plant and equipment, and intangible assets.

In the five months ended May 31, 2019, we had net cash used in investing activities of RMB141.3 million, which was primarily attributable to: (i) net cash used on investment in wealth management products issued by banks of RMB81.9 million; (ii) purchase of intangible assets (including prepayments for intangible assets) of RMB33.3 million for new games such as Langrisser (夢幻模擬戰) and Samurai Spirits Online (侍魂：隴月傳說), as we continued to enhance our game portfolio; and (iii) purchase of property, plant and equipment of RMB26.1 million, relating to renovation costs in respect of our new office in Shanghai and purchases of office equipment.

In 2018, we had net cash used in investing activities of RMB199.6 million, which was primarily attributable to: (i) purchase of intangible assets (including prepayments for intangible assets) of RMB140.2 million for new games such as Errant: Hunter's Soul (獵魂覺醒) and Identity V (第五人格), as we continued to enhance our game portfolio; (ii) purchase of property, plant and equipment of RMB32.7 million, relating to renovation costs in respect of our new office in Shanghai and purchases of office equipment; and (iii) net cash used on investment in wealth management products issued by banks of RMB31.8 million.

In 2017, we had net cash used in investing activities of RMB131.5 million, which was primarily attributable to: (i) net cash used on investment in wealth management products issued by banks of RMB68.1 million; and (ii) purchase of property, plant and equipment of RMB20.1 million, relating to purchases of office equipment, and renovation costs in respect of our office in Shanghai for TapTap.

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In 2016, we had net cash generated from investing activities of RMB74.2 million, which was primarily attributable to net cash collected from investment in wealth management products issued by banks of RMB193.6 million, partially offset by: (i) cash used for certain investments mainly in start-up TMT companies; (ii) purchase of intangible assets (including prepayments for intangible assets) of RMB20.5 million, as we continued to enhance our game portfolio; and (iii) purchase of property, plant and equipment of RMB13.8 million, mainly relating to purchases of office equipment.

Cash flows from financing activities

Our financing activities primarily include capital injections from and distribution of dividends to shareholders.

In the five months ended May 31, 2019, we had net cash used in financing activities of RMB158.3 million, which was primarily attributable to: (i) payments for share repurchase of RMB90.2 million, see “History, Reorganization and Corporate Structure—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—X.D. Network”; and (ii) payment for acquisition of additional interests in Yiwan of RMB60.0 million. See “History, Reorganization and Corporate Structure—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Yiwan.”

In 2018, we had net cash generated from financing activities of RMB1.3 million, which was primarily attributable to capital injections by non-controlling shareholders in Yiwan of RMB100.0 million, partially offset by (i) dividend paid to the then shareholders of X.D. Network of RMB50.1 million, and (ii) payment for acquisition of additional equity interests in Longcheng of RMB28.0 million, as set forth in “History, Reorganization and Corporate Structure—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Longcheng.”

In 2017, we had net cash generated from financing activities of RMB249.1 million, which was primarily attributable to (i) contributions from investors in X.D. Network of RMB196.7 million, and (ii) capital injections by non-controlling shareholders in Yiwan of RMB100.0 million, partially offset by dividend paid to the then shareholders of X.D. Network of RMB35.0 million.

In 2016, we had net cash used in financing activities of RMB10.6 million, attributable to lease payments that were required to be recorded in our cash flows pursuant to IFRS 16.

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CURRENT ASSETS AND LIABILITIES

The following table sets forth the components of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of May 31,	As of September 30,
	2016	2017	2018	2019	2019
	(RMB in thousands)				(Unaudited)
Current assets					
Trade receivables	59,964	215,975	449,070	385,328	484,465
Prepayments, deposits and other assets	87,398	62,649	97,381	111,559	120,250
Short-term investments	45,702	115,738	156,647	241,728	399,348
Cash and cash equivalents	178,127	577,972	573,233	646,300	617,150
Total current assets	371,191	972,334	1,276,331	1,384,915	1,621,213
Current liabilities					
Trade payables	23,833	124,696	101,275	115,486	189,438
Advances from customers	810	8,079	9,089	13,562	20,343
Other payables and accruals	69,838	59,579	83,872	84,645	47,502
Contract liabilities	57,982	105,206	90,921	100,545	116,763
Current income tax liability	50	15,018	34,338	57,578	62,379
Lease liability	12,201	13,149	22,892	21,744	18,626
Total current liabilities	164,714	325,727	342,387	393,560	455,051
Net current assets	206,477	646,607	933,944	991,355	1,166,162

Our net current assets increased by 17.6% to RMB1,166.2 million as of September 30, 2019 from RMB991.4 million as of May 31, 2019, primarily attributable to (i) an increase of RMB157.6 million in short-term investments in wealth management products issued by large reputable commercial banks, and (ii) an increase of RMB99.1 million in trade receivables, mainly in relation to Langrisser (夢幻模擬戰) launched in South Korea in June 2019 and Ulala (不休的烏拉拉) launched in overseas markets in September 2019, see “Summary—Recent Developments,” partially offset by (iii) an increase of RMB74.0 million in trade payables, mainly in relation to payables to advertisers for marketing activities of Langrisser (夢幻模擬戰) and Ulala (不休的烏拉拉) and newly incurred payables of sharing of proceeds to the game developer of Ulala (不休的烏拉拉).

Our net current assets increased by 6.1% to RMB991.4 million as of May 31, 2019 from RMB933.9 million as of December 31, 2018, primarily attributable to (i) an increase of RMB85.1 million in short-term investments in wealth management products issued by large reputable commercial banks, and (ii) an increase of RMB73.1 million in cash and cash equivalents, mainly as a result of an increase in our operating cash in line with our business growth, partially offset by (iii) a decrease of RMB63.7 million in trade receivables, mainly as a result of our settlement of the revenue accrued in 2018 related to Ragnarok M launched in Southeast Asia since October 2018.

Our net current assets increased by 44.4% to RMB933.9 million as of December 31, 2018 from RMB646.6 million as of December 31, 2017, primarily attributable to an increase of RMB233.1 million in trade receivables, which was generally in line with our revenue growth including that of our information services through TapTap, and the fact that part of our revenue related to Ragnarok M launched in Southeast Asia in October 2018 was not fully settled before the year end.

Our net current assets increased significantly to RMB646.6 million as of December 31, 2017 from RMB206.5 million as of December 31, 2016, primarily attributable to an increase of

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RMB399.8 million in cash and cash equivalents, mainly due to an increase in our operating cash and capital injections. See “—Liquidity and Capital Resources—Cash Flows.”

Trade Receivables

The following table sets forth details of our trade receivables as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Distribution platforms and game publishers	58,444	175,817	351,966	272,809
Online marketing service customers	—	40,584	98,166	113,801
Related parties ⁽¹⁾	1,980	823	503	505
Subtotal	60,424	217,224	450,635	387,115
Less: allowance for impairment	(460)	(1,249)	(1,565)	(1,787)
Trade receivables, net	59,964	215,975	449,070	385,328

(1) Related parties are companies in which we invested, mainly including Longcheng and an animation production company. See note 34 to the Accountant’s Report in Appendix I to this prospectus.

As of May 31, 2019, our trade receivables decreased by 14.2% to RMB385.3 million from RMB449.1 million as of December 31, 2018, primarily due to our settlement of the revenue accrued in 2018 related to Ragnarok M launched in Southeast Asia since October 2018. As of December 31, 2018, our trade receivables increased substantially to RMB449.1 million from RMB216.0 million as of December 31, 2017, which was generally in line with our revenue growth, while part of our revenue related to Ragnarok M launched in Southeast Asia in October 2018 was not fully settled before the year end. As of December 31, 2017, our trade receivables increased substantially to RMB216.0 million from RMB60.0 million as of December 31, 2016, primarily attributable to our business growth following our consolidation of Yiwan and Longcheng.

We made provisions for impairment on receivables from certain third-party distribution platforms and game publishers based on expected credit loss.

The following table sets forth an aging analysis of our trade receivables based on the recognition date of the gross trade receivables as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Within three months	57,679	195,779	428,533	347,596
Three to six months	1,677	16,868	19,581	37,315
Six months to one year	267	3,793	1,395	1,059
One to two years	550	342	591	429
Over two years	251	442	535	716
Total	60,424	217,224	450,635	387,115

During the Track Record Period, a substantial proportion of our trade receivables were outstanding for less than one year. Depending on the credit history of our customers and our relationships with them, we typically allow the flexibility by offering a credit period of 30 to 120 days. For our game operating business in particular, we generally offer a credit period of 30 to 90 days for third-party distribution platforms such as App Store, Google Play and other Android-based app stores, and of 90 to 120 days for game publishers.

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The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended December 31,			Five months ended May 31,
	2016	2017	2018	2019
			(days)	
Trade receivables turnover days ⁽¹⁾	24	37	63	61

(1) Trade receivables turnover days equals the average of the opening and closing balances of trade receivables divided by total revenue for the same year/period and multiplied by 360 days for 2016, 2017 and 2018 or 150 days for the five months ended May 31, 2019.

Our trade receivables turnover days remained relatively stable in the five months ended May 31, 2019 as compared to 2018. The increase in our trade receivables turnover days from 2017 to 2018 was mainly because part of the revenue related to Ragnarok M launched in Southeast Asia in October 2018 was not settled before the year end with Gravity, as we offered a credit period of 120 days to Gravity. The increase in our trade receivables turnover days from 2016 to 2017 was primarily due to our consolidation of Longcheng in July 2017, of which trade receivables were mainly concerning game operating revenue from overseas markets that involved a longer credit period than that from the PRC.

As of September 30, 2019, we had settled RMB378.9 million, or 97.9%, of our trade receivables outstanding as of May 31, 2019.

We apply the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. We consider the shared credit risk characteristics and the days past due of each type of the trade receivables to measure expected credit losses. During the Track Record Period, the expected credit loss rates are determined according to the provision matrix as follows:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
Distribution platforms and game publishers				
Within three months	0.05%	0.12%	0.09%	0.09%
Three months to six months	0.62%	1.80%	1.21%	1.21%
Six months to one year	2.57%	6.27%	8.70%	5.97%
One to two years	36.31%	62.37%	73.22%	47.90%
Over two years	100.00%	100.00%	100.00%	100.00%
Online marketing service customers			As of December 31, 2017 and 2018 and May 31, 2019	
Within three months				0%
Three months to six months				0%
Six months to one year				5%
One to two years				30%
Over two years				100%

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Prepayments, Deposits and Other Assets

The following table sets forth details of our current prepayments, deposits and other assets as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Prepayment for sharing of proceeds	71,738	34,615	67,341	83,615
Less: impairment charges	—	—	(9,434)	—
Prepayment for sharing of proceeds, net	71,738	34,615	57,907	83,615
Tax prepayments	7,429	16,760	18,537	4,711
Rental and other deposits	1,166	2,812	7,302	6,502
Prepayments for advertisements	4,988	144	6,650	4,589
Deferred listing expenses	—	—	384	2,583
Others	2,077	8,318	6,601	9,559
Total	87,398	62,649	97,381	111,559

Our current prepayments, deposits and other assets primarily consist of prepayments for sharing of proceeds to be earned from selling in-game virtual items to game developers. See “Business—Game licensing—Licensing agreement.”

As of May 31, 2019, our current prepayments, deposits and other assets increased by 14.6% to RMB111.6 million from RMB97.4 million as of December 31, 2018, primarily due to (i) deferred Listing expenses, and (ii) an increase in prepayments to game developers in relation to Langrisser (夢幻模擬戰) and Samurai Spirits Online (侍魂：隴月傳說). As of December 31, 2018, our current prepayments, deposits and other assets increased by 55.4% to RMB97.4 million from RMB62.6 million as of December 31, 2017, primarily due to an increase in prepayments to game developers in relation to Ulala (不休的烏拉拉) and Sausage Man (香腸派對) of RMB25.5 million. As of December 31, 2017, our current prepayments, deposits and other assets decreased by 28.3% to RMB62.6 million from RMB87.4 million as of December 31, 2016, primarily due to prepayments to Dream Network in relation to Ragnarok M of RMB52.7 million in 2016 while such prepayment did not recur in 2017.

The following is an aging analysis of our prepayment for sharing of proceeds as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Within one year	47,345	28,714	44,955	66,603
One to two years	24,393	5,901	12,087	16,276
Over two years	—	—	865	736
	71,738	34,615	57,907	83,615

We regularly perform impairment tests for such prepayments and will consider making impairment provisions if, among other things, it is unlikely that the relevant game will pass the development stage and be published, or the expected return of the relevant game cannot cover our prepayments, such as in a case where a comparable game did not perform well in other markets, implying that the relevant game under development might have similar results when published. As of

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September 30, 2019, 99.1%, 71.4%, 60.8%, and 48.8% respectively, of our prepayment for sharing of proceeds as of December 31, 2016, 2017, 2018 and May 31, 2019 had been subsequently recognized as our cost of revenue.

Short-term Investments

Our short-term investments primarily consist of wealth management products issued by large reputable commercial banks, such as China Merchants Bank, Bank of Communications and Shanghai Pudong Development Bank. These wealth management products invest principally in low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China, including, among others, treasury bonds, corporate bonds, medium-term notes, short-term commercial papers and interbank deposits. However, in general, neither the principal or return of any wealth management products is protected or guaranteed by the issuing bank. Our short-term investments had an effective rate of return of 2.00% to 6.14% and a maturity of seven to 270 days generally during the Track Record Period. We purchase such wealth management products to manage our short-term liquidity. As of December 31, 2016, 2017, 2018 and May 31, 2019, our short-term investments were RMB45.7 million, RMB115.7 million, RMB156.6 million and RMB241.7 million, respectively.

We actively purchase and redeem short-term wealth management products as part of our treasury function. In 2016, 2017, 2018 and the five months ended May 31, 2018 and 2019, we purchased RMB814.8 million, RMB992.5 million, RMB2,036.6 million, RMB615.0 million and RMB871.4 million of short-term investments, respectively, and obtained proceeds from disposal of short-term investments of RMB1,008.4 million, RMB924.4 million, RMB2,004.8 million, RMB469.1 million and RMB789.5 million, respectively. The overall increases in our short-term investments are primarily due to increases in our operating cash.

We formulate annual investment plans for wealth management products, which set forth an annual cap for our investments and are subject to the approval of our Board. Each transaction within the approved cap for our investments in the wealth management products is further subject to the approval of our financial controller. We generally prefer bank-issued wealth management products with a relatively low risk level assigned to them by relevant banks and as stipulated in the purchase agreements for such products. To ensure our liquidity, the wealth management products we purchased during the Track Record Period were redeemable within nine months. To further reduce potential risks, we have implemented an internal policy in relation to purchase and disposal of wealth management products. Our policy focuses on avoiding undue risks in the purchase of wealth management products and requires that such purchase be made only when there is a surplus of cash. The policy sets forth the approval process of the purchase of such products and the responsible department for the enforcement of the policy. The financial department is responsible for, among other things, conducting feasibility analysis before an investment is made and for the collection of principal and return. We plan to continue to purchase wealth management products based on the above policy and subject to market risks and availability of suitable alternatives.

The short-term investments are measured at fair value through profit or loss during the Track Record Period. The fair values of the short-term investments are based on discounted cash flow using the expected return based on management judgment and are within level 3 of the fair value hierarchy, and we recognize changes in such fair values through profit or loss.

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Trade Payables

Our trade payables primarily consist of: (i) licensing fees and shares of proceeds payable to game developers; and (ii) payables to server custody service providers.

As of May 31, 2019, our trade payables increased by 14.0% to RMB115.5 million from RMB101.3 million as of December 31, 2018, primarily due to (i) accrued Listing expense payables, and (ii) an increase in the payables for advertisement as we increased marketing activities. As of December 31, 2018, our trade payables decreased by 18.8% to RMB101.3 million from RMB124.7 million as of December 31, 2017, mainly due to a decrease in our game operating business for which revenue was recognized on a gross basis in 2018. As of December 31, 2017, our trade payables increased significantly to RMB124.7 million from RMB23.8 million as of December 31, 2016, mainly due to trade payables of Longcheng to game developers after our consolidation of Longcheng in July 2017.

During the Track Record Period, a substantial proportion of our trade payables were outstanding for less than three months. The credit terms of trade payables granted to us are usually zero to 90 days.

The following table sets forth the turnover days of our trade payables for the periods indicated:

	Year ended December 31,			Five months ended May 31,
	2016	2017	2018	2019
				(days)
Trade payables turnover days ⁽¹⁾	22	36	52	48

(1) Trade payables turnover days equals the average of the opening and closing balances of trade payables divided by cost of revenue for the same year/period and multiplied by 360 days for 2016, 2017 and 2018 or 150 days for the five months ended May 31, 2019.

Our trade payables turnover days remained relatively stable in the five months ended May 31, 2019 as compared to 2018. The increases in our trade payables turnover days from 2017 to 2018 and from 2016 to 2017 were mainly in line of the increases in our trade receivables turnover days, as we generally settle with our suppliers after receiving payments from our business partners or customers.

As of September 30, 2019, we had settled RMB108.3 million, or 93.8%, of our trade payables outstanding as of May 31, 2019.

Advance from Customers

Our advance from customers primarily consists of advances from game developers, game publishers and their advertising agents in relation to our online marketing services on TapTap.

Our advance from customers increased significantly from RMB0.8 million as of December 31, 2016 to RMB8.1 million as of December 31, 2017, and further increased by 12.5% from RMB8.1 million to RMB9.1 million as of December 31, 2018, primarily due to the expansion of our TapTap online marketing services following our consolidation of Yiwan in December 2016. Our advance from customers increased by 49.2% from RMB9.1 million as of December 31, 2018 to RMB13.6 million as of May 31, 2019, primarily due to the continued expansion of our TapTap online marketing services.

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Other Payables and Accruals

The following table sets forth details of our other payables and accruals as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Salaries and benefits payables	24,954	49,429	69,301	24,512
Other tax payables	9,675	10,108	14,546	16,132
Dividend payables	35,000	—	—	—
Payables for investments	—	—	—	36,923
Others	209	42	25	7,078
Total	69,838	59,579	83,872	84,645

Our other payables and accruals primarily consist of salaries and benefits accrued but not yet paid to our employees and taxes accrued but not yet paid.

Our other payables and accruals decreased slightly by 14.7% from RMB69.8 million as of December 31, 2016 to RMB59.6 million as of December 31, 2017, and increased by 40.8% from RMB59.6 million as of December 31, 2017 to RMB83.9 million as of December 31, 2018. The decrease from December 31, 2016 to December 31, 2017 was primarily due to a decrease in dividend payables which was one-off in nature, and the increase from December 31, 2017 to December 31, 2018 was primarily due to increases in salaries and benefits payables and tax payables, reflecting our business growth. Our other payables and accruals increased by 0.9% from RMB83.9 million as of December 31, 2018 to RMB84.6 million as of May 31, 2019, primarily due to (i) payables to a minority shareholder of Yiwan for our acquisition of additional shares of Yiwan from them, and (ii) an increase in payables for renovation services of our offices, partially offset by a decrease in salaries and benefits payables as bonus payments were made after the year end.

Contract Liabilities

The following table sets forth details of our current contract liabilities as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Game operating	54,785	104,491	90,921	100,545
Game licensing to game developers	3,197	715	—	—
Total	57,982	105,206	90,921	100,545

Our current contract liabilities primarily consist of: (i) deferred revenue from sales of in-game durable virtual items for online games, where there is still an implied obligation to be provided by us over time; and (ii) deferred revenue from licensing of game copyrights of games developed by us. Our contract liabilities from game operating are generally recognized as revenue within six months after each period end. As of December 31, 2016, 2017, 2018 and May 31, 2019, our current contract liabilities were RMB58.0 million, RMB105.2 million, RMB90.9 million and RMB100.5 million, respectively, mainly related to the deferred revenue from sales of virtual items for mobile games. As of June 30, 2019, all of the contract liabilities as of December 31, 2018 had been recognized as revenue according to the usage of virtual items or amortization of durable virtual items. As of September 30, 2019, 91.3% of our contract liabilities as of May 31, 2019 had been recognized as revenue.

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NON-CURRENT ASSETS AND LIABILITIES

The following table sets forth the components of our non-current assets and liabilities as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Non-current assets				
Property, plant and equipment	20,923	29,084	45,553	68,095
Right-of-use assets	44,109	32,437	59,290	50,271
Intangible assets	103,959	175,037	192,175	193,931
Deferred tax assets	18,337	8,007	8,393	8,310
Investments accounted for using the equity method	72,343	43,259	44,305	43,533
Long-term investments measured at fair value through profit or loss	50,038	36,451	33,687	38,114
Prepayments, deposits and other assets	29,116	13,972	64,966	73,460
Total non-current assets	338,825	338,247	448,369	475,714
Non-current liabilities				
Lease liabilities	33,269	21,757	37,859	32,855
Deferred tax liabilities	1,403	5,342	1,894	3,924
Contract liabilities	715	—	—	—
Total non-current liabilities	35,387	27,099	39,753	36,779

Intangible Assets

Our intangible assets primarily represent goodwill arising from the consolidations of Yiwan and Longcheng, game licenses and trade names. The following table sets forth a breakdown of our intangible assets as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Game license	24,510	45,232	67,681	71,679
Domain name	4,877	4,011	3,483	3,262
Software	4,263	2,762	1,716	1,253
Trade name	17,163	14,962	12,825	11,934
User list	8,000	6,400	4,800	4,133
Goodwill	45,146	101,670	101,670	101,670
Total	103,959	175,037	192,175	193,931

As of May 31, 2019, our intangible assets remained relatively stable at RMB193.9 million compared to RMB192.2 million as of December 31, 2018. As of December 31, 2018, our intangible assets increased by 9.8% to RMB192.2 million from RMB175.0 million as of December 31, 2017, primarily due to increased payment for game licenses such as Errant: Hunter's Soul (獵魂覺醒) and Identity V (第五人格). As of December 31, 2017, our intangible assets increased by 68.4% to RMB175.0 million from RMB104.0 million as of December 31, 2016, primarily due to goodwill and game licenses such as Girls' Frontline (少女前線) in relation to our consolidation of Longcheng.

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Property, Plant and Equipment

Our property, plant and equipment primarily represent servers and other equipment, leasehold improvements and furniture and appliances. Our property, plant and equipment increased by 49.5% to RMB68.1 million as of May 31, 2019 from RMB45.6 million as of December 31, 2018, and increased by 56.6% to RMB45.6 million as of December 31, 2018 from RMB29.1 million as of December 31, 2017, primarily reflecting our business expansion and increased purchase of furniture and appliances and leasehold improvements. As of December 31, 2017, our property, plant and equipment increased by 39.0% to RMB29.1 million from RMB20.9 million as of December 31, 2016, primarily due to our consolidation of the office and other equipment of Longcheng and Yiwan.

Right-of-use Assets

IFRS 16 introduces a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees on the statement of financial position except for short-term leases and leases of low-value assets. Our right-of-use assets primarily represent leases of certain office properties from third parties. Our right-of-use assets decreased by 15.2% to RMB50.3 million as of May 31, 2019 from RMB59.3 million as of December 31, 2018, and decreased by 26.5% to RMB32.4 million as of December 31, 2017 from RMB44.1 million as of December 31, 2016, primarily due to depreciation of such assets pursuant to IFRS 16. As of December 31, 2018, our right-of-use assets increased by 82.8% to RMB59.3 million from RMB32.4 million as of December 31, 2017, as we entered into new leases for expansion of our office space in 2018.

Investments Accounted for Using the Equity Method

Our investments accounted for using the equity method primarily represent our investments in associates. The following table sets forth certain information of our material associates as of the dates indicated:

Name	Principal business	As of December 31,						As of May 31,	
		2016		2017		2018		2019	
		Carrying amounts	Interest held by us	Carrying amounts	Interest held by us	Carrying amounts	Interest held by us	Carrying amounts	Interest held by us
		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)	
Mengxiang (Cayman) Inc.	Provision of television-related software, and internet cultural products and services in China	16,235	35.78%	18,109	35.78%	17,749	35.78%	17,139	35.78%
Xiamen So Funny Information Technology Co., Ltd. (廈門真有趣信息科技有限公司) ⁽¹⁾	Research and development of games, provision of internet cultural products and services	9,094	20.00%	8,391	20.00%	12,558	18.00%	12,790	18.00%

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Name	Principal business	As of December 31,						As of May 31,	
		2016		2017		2018		2019	
		Carrying amounts	Interest held by us	Carrying amounts	Interest held by us	Carrying amounts	Interest held by us	Carrying amounts	Interest held by us
		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)	
Shanghai Fantablade Network Science and Technology Co., Ltd. (上海幻刃網絡科技有限公司)	Research and development of games, provision of internet cultural products and services	1,338	25.00%	2,292	25.00%	5,976	25.00%	5,389	25.00%
Shanghai Bianyue Culture Communication Co., Ltd. (上海變月文化傳播有限公司) ⁽¹⁾ . .	Comic and animation design and production	3,720	19.80%	3,504	15.32%	3,631	15.32%	3,685	15.32%
Guangzhou MakeBestGame Co., Ltd. (廣州壕遊信息科技有限公司)	Research and development of games, provision of internet cultural products and services	1,845	20.00%	1,736	20.00%	2,509	20.00%	2,568	20.00%
Shanghai LinkedTune Culture Communication Co., Ltd. (上海領音文化傳播有限公司)	Research and development of games, provision of internet cultural products and services	2,347	20.00%	2,148	20.00%	1,882	20.00%	1,962	20.00%
Gamecores (Beijing) Culture Communication Co., Ltd. (機核(北京)文化傳媒有限公司)	Provision of game-related media services, provision of internet cultural products and services	2,369	20.00%	6,880	23.00%	—	19.55%	—	19.55%
Longcheng	Overseas online game operating and publishing business	34,930	28.00%	—	51.00%	—	65.00%	—	65.00%
Others		465		199		—		—	
Total		72,343		43,259		44,305		43,533	

(1) We retain significant influence over these companies by having representation on their respective board of directors.

Our investments accounted for using the equity method remained relatively stable at RMB43.5 million as of May 31, 2019, RMB44.3 million as of December 31, 2018 and RMB43.3 million as of December 31, 2017. As of December 31, 2017, our investments accounted for using the equity method decreased by 40.2% to RMB43.3 million from RMB72.3 million as of December 31, 2016, primarily due to our acquisition of Longcheng in 2017 after which it became our subsidiary.

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Long-term Investments Measured at Fair Value through Profit or Loss

Our long-term investments measured at fair value through profit or loss primarily represent our venture investments in start-up TMT companies mostly located in China, principally engaging in the game research and development business. The following table sets forth certain information of our material long-term investments measured at fair value through profit or loss as of the dates indicated:

Name	Principal business	As of December 31,						As of May 31,	
		2016		2017		2018		2019	
		Carrying amounts	Interest held by us	Carrying amounts	Interest held by us	Carrying amounts	Interest held by us	Carrying amounts	Interest held by us
		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)	
Gamecores (Beijing) Cultural Communication Co., Ltd. (機核(北京)文化傳播有限公司)	Provider of game-related media services, provision of internet cultural products and services	— ⁽¹⁾	20.00%	— ⁽¹⁾	23.00%	15,577	19.55%	19,451	19.55%
Shanghai Xinyu Animation Design Co., Ltd. (上海欣雨動畫設計有限公司)	Comic and animation design and production	22,069	27.86%	9,161	27.86%	3,190	27.86%	3,752	27.86%
Chengmai Youmu Technology Co., Ltd. (澄邁優目科技有限公可)	Advertising and Data Service, provision of internet cultural products and services	—	—	3,750	5.00%	5,525	3.46%	6,368	3.46%
NEXTIV Inc.	Music production and related services	3,509	10.64%	3,020	10.64%	3,020	10.64%	2,871	10.64%
90KM Network Science and Technology (Shanghai) Co., Ltd. (玖萬裏網絡科技(上海)有限公司)	Research and development of games	10,002	5.00%	9,847	5.00%	2,670	5.00%	2,285	5.00%
Shanghai Genai Information Science and Technology Co., Ltd. (上海格奈信息科技有限公司)	Overseas publication of games	1,269	10.00%	892	10.00%	892	10.00%	892	10.00%
Others		13,189		9,781		2,813		2,495	
Total		50,038		36,451		33,687		38,114	

(1) Being categorized as investment accounted for using the equity method.

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As of December 31, 2016, 2017, 2018 and May 31, 2019, our long-term investments measured at fair value through profit or loss was RMB50.0 million, RMB36.5 million, RMB33.7 million and RMB38.1 million, respectively.

We have instituted policies regulating our investments for a period of more than one year, including but not limited to, equity investments, such as establishing wholly-owned companies, setting up joint ventures and holding equity interests in other companies, and debt investments. By carrying out long-term investments compatible with our development strategies, we aim to facilitate the growth of our business and create more synergies between it and such investments.

Our Board formulates medium- and long-term development plans and annual investment plans for our Group. Our investment department should submit proposals to our investment committee for preliminary approval. Once approved, for an investment of less than RMB30 million, the proposed investment can be executed subject to the approval of our Chief Executive Officer; and for an investment of RMB30 million or more, the proposed investment shall be reported to our Board for consideration and approval. Our investment committee consists of five members, including Mr. Huang, Mr. Dai, Mr. Fan Shuyang, Mr. Shen Sheng and Mr. Gong Rui. For details on the members of our investment committee, see “Directors and Senior Management—Senior Management.” A general meeting shall be convened to consider and approve matters requiring shareholders’ approval if required under the Listing Rules and the Articles of Association.

Upon the approval of an investment project, our investment department appoints a project operator and a project supervisor. The project supervisor should be a member of our Board, our management team or investment department. The project supervisor is primarily responsible for monitoring the progress of a project, ensuring proper management of the project and capital by the project operator, identifying and reporting issues occurred in the course of the project in a timely manner, and proposing solutions and suggestions. The project operator should prepare written report on project progress for our Board and management team on a regular basis.

Prepayments, Deposits and Other Assets

The following table sets forth a breakdown of our non-current prepayments, deposits and other assets as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	May 31,
		(RMB in thousands)		2019
Prepayment for game licenses	25,790	38,716	91,701	66,781
Less: impairment charges	—	(28,100)	(32,130)	—
Prepayment for game licenses, net	25,790	10,616	59,571	66,781
Rental and other deposits	3,326	3,356	5,395	6,679
Total	29,116	13,972	64,966	73,460

Our non-current prepayments, deposits and other assets primarily consist of prepayments for game licenses to game developers. See “Business—Game licensing—Licensing agreement.”

As of May 31, 2019, our non-current prepayments, deposits and other assets increased by 13.1% to RMB73.5 million from RMB65.0 million as of December 31, 2018, primarily due to an

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increase in prepayments to game developers in relation to Langrisser (夢幻模擬戰) and Samurai Spirits Online (侍魂：隴月傳說). As of December 31, 2018, our non-current prepayments, deposits and other assets increased substantially to RMB65.0 million from RMB14.0 million as of December 31, 2017, primarily due to an increase in net prepayments to game developers for new games, such as Errant: Hunter's Soul (獵魂覺醒) and Identity V (第五人格). As of December 31, 2017, our non-current prepayments, deposits and other assets decreased by 52.0% to RMB14.0 million from RMB29.1 million as of December 31, 2016 primarily due to prepayments to game developers in relation to Ragnarok M in 2016 while such prepayment did not recur in 2017.

The following is an aging analysis of our prepayment for game licenses as of the dates indicated:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	(RMB in thousands)			
Within one year	8,268	10,616	51,674	59,811
One to two years	17,522	—	7,897	6,970
Over two years	—	—	—	—
	<u>25,790</u>	<u>10,616</u>	<u>59,571</u>	<u>66,781</u>

We perform impairment test for prepayment for game licenses regularly. As of September 30, 2019, all of our prepayment for game licenses as of December 31, 2016 had been refunded to the recipient of the prepayments or impaired, while 69.2%, 43.5% and 49.5%, respectively, of our prepayment for game licenses as of December 31, 2017, 2018 and May 31, 2019 had been subsequently recognized as our intangible assets.

INDEBTEDNESS

As of December 31, 2016, 2017, 2018 and May 31 and September 30, 2019, we did not have any borrowings or unutilized banking facilities.

IFRS 16 introduced a single lessee accounting model, whereby assets and liabilities are recognized for all leases on the balance sheet, subject to certain exceptions. As of December 31, 2016, 2017 and 2018 and May 31 and September 30, 2019, our current and non-current lease liabilities were RMB45.5 million, RMB34.9 million, RMB60.8 million, RMB54.6 million and RMB45.2 million, respectively. These lease liabilities mainly consisted of leases of certain office properties from third parties.

Apart from normal trade and other payables in the ordinary course of business, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of September 30, 2019.

CONTINGENT LIABILITIES

As of December 31, 2016, 2017, 2018 and May 31, 2019, we were not involved in any material legal, arbitration or administrative proceedings that were expected to materially and adversely affect our financial condition or results of operations, although there can be no assurance that this will not be the case in the future.

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Our Directors confirm that there has been no material change in our contingent liabilities since May 31, 2019 to the date of this prospectus.

KEY FINANCIAL RATIOS

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

	As of or for the year ended December 31,			As of or for the five months ended May 31,	
	2016	2017	2018	2018 (Unaudited)	2019
Net profit margin ⁽¹⁾	3.1%	9.0%	18.7%	20.7%	25.9%
Gross margin ⁽²⁾	44.5%	44.8%	58.9%	58.3%	67.0%
Return on equity ⁽³⁾	4.8%	16.4%	30.7%	15.4%	19.3%
Return on total assets ⁽⁴⁾	3.4%	11.9%	23.2%	11.4%	14.9%
Current ratio ⁽⁵⁾	2.25	2.99	3.73	3.26	3.52

(1) Net profit margin equals profit for the year/period divided by revenue for the respective period.

(2) Gross margin equals gross profit for the year/period divided by revenue for the respective period.

(3) Return on equity equals profit for the year/period divided by the average balance of total equity at the beginning and the end of the respective period.

(4) Return on total assets equals profit for the year/period divided by the average balance of total assets at the beginning and the end of the respective period.

(5) Current ratio equals current assets divided by current liabilities as of the respective dates.

During the Track Record Period, we experienced increases in our net profit margins, gross margins, return on equity, return on total assets and current ratio. The increases in our return on equity and return on total assets were mainly because: (i) our profit for the year/period grew rapidly during the Track Record Period, primarily due to the expansion of our game operating business for mobile games and that in overseas markets, and the growth of online marketing services on TapTap after our consolidation of Yiwan in December 2016; and (ii) our total equity or assets experienced moderate increases during the Track Record Period, but did not increase as fast as our profit for the year/period.

The increases in our current ratio were mainly because the increase in our current assets outpaced that in our current liabilities. The increase in our current ratio as of May 31, 2019 compared to December 31, 2018 was primarily due to increases in (i) our short-term investments, and (ii) our cash and cash equivalents, mainly as a result of an increase in our operating cash. The increase in our current ratio as of December 31, 2018 compared to December 31, 2017 was primarily due to an increase in our trade receivables, which was generally in line with our revenue growth. The increase in our current ratio as of December 31, 2017 compared to December 31, 2016 was primarily due to an increase in our cash and cash equivalents, mainly as a result of shareholder capital injections and an increase in our operating cash.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

In 2016, 2017, 2018 and the five months ended May 31, 2019, our capital expenditures were RMB13.8 million, RMB20.1 million, RMB32.7 million and RMB26.1 million, respectively, which were primarily attributable to our purchase of property, plant and equipment, mainly relating to renovation costs of our office area and purchase of office equipment. We funded these expenditures primarily with cash generated from our operations.

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Capital Commitments

We had commitments to make future installments under non-cancelable game purchase agreements for game licenses of RMB11.7 million, RMB4.7 million, RMB54.6 million and RMB46.8 million as of December 31, 2016, 2017, 2018 and May 31, 2019, respectively.

Operating Lease Commitments

We lease offices under non-cancelable operating lease agreements. Our future minimum lease payments payable under non-cancelable operating leases falling due as of December 31, 2016, 2017, 2018 and May 31, 2019 were RMB0.5 million, RMB0.6 million, RMB0.4 million and RMB3.1 million, respectively, all of which were due within one year as of the respective dates.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of related party transactions pursuant to which: (i) we provided comprehensive management services to certain of our related parties; (ii) we purchased internet server and telecommunication services from certain of our related parties; and (iii) we received game licenses from certain of our related parties. For details about our related party transactions, see note 34 to the Accountant's Report in Appendix I to this prospectus.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any outstanding off-balance sheet arrangements.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT FINANCIAL RISKS

We are exposed to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Market Risk

Foreign exchange risk

We operate internationally through overseas publishers and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. We do not hedge against any fluctuation in foreign currency during the Track Record Period.

For our PRC subsidiaries whose functional currency is Renminbi, if US dollars had strengthened/weakened by 5% against Renminbi with all other variables held constant, net profits would have been approximately RMB6.9 million, RMB16.6 million, RMB25.2 million, RMB15.9

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million and RMB11.8 million higher/lower in 2016, 2017, 2018 and the five months ended May 31, 2018 and 2019, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US dollars.

Price risk

We are exposed to price risk in respect of long-term and short-term investments measured at fair value through profit or loss held by us. We are not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management. See note 3.1 of the Accountant's Report in Appendix I to this prospectus.

Cash flow and fair value interest rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for cash and cash equivalents and short-term investments measured at amortized cost. See notes 24 and 23 of the Accountant's Report in Appendix I to this prospectus.

Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, short-term investments, trade receivables, deposits and other assets. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents and short-term investments, we only transact with state-owned or reputable financial institutions in and outside of China. There has been no recent history of default in relation to these financial institutions. The expected credit loss is immaterial.

Trade receivables at the end of each reporting period were due from distribution platforms and game publishers, online marketing service customers, as well as due from related parties. If the strategic relationship with distribution platforms and game publishers and online marketing service customers are terminated or scaled-back; or if distribution platforms and game publishers and online marketing service customers alter the co-operative arrangements; or if they experience financial difficulties in paying us, our corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, we maintain frequent communications with distribution platforms and game publishers and online marketing service customers to ensure effective credit control. In view of the history of cooperation with distribution platforms and game publishers and online marketing service customers 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 distribution platforms and game publishers and online marketing service customers is low.

For deposits and other assets, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other assets based on historical settlement records and past experiences. We consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, we compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. We consider available reasonable and supportive forwarding-looking information.

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We make periodic assessment on the credit risk of the deposits and other assets based on the history of cooperation with customers, settlement records and past experience. The Directors believe that the credit risk inherent in the outstanding deposits and other assets due from the debtors is not material.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

DIVIDEND

Our Company is a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries. PRC laws require a foreign-invested enterprise to make up for its accumulative losses out of its after-tax profits and allocate at least 10% of its remaining after-tax profits, if any, to fund its statutory reserves until the aggregate amount of its statutory reserves exceeds 50% of its registered capital.

Currently, we do not have a fixed dividend distribution ratio. We do not plan to determine any expected dividend distribution ratio after the Global Offering since our priority is to use our earnings for business development and expansion of our user base in the interest of our Shareholders as a whole. Any future declarations and payments of dividends will be at the absolute discretion of our Directors. No dividends have been paid or declared by our Company during the Track Record Period since our Company was incorporated on January 25, 2019, and there can be no assurance that dividends of any amount will be declared or be distributed in any year. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate.

As advised by Campbells, the Cayman Islands legal adviser to the Company, a Cayman Islands exempted company may pay dividends out of profits, retained earnings or share premium, subject to a solvency test, and the provisions, if any, of the company's memorandum and articles of association. 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. See "Appendix III—Summary of the Constitution of the Company and Cayman Companies Laws—Summary of the Constitution of the Company—2 Articles of Association—2.14 Dividends and other methods of distribution."

In 2016, 2017, 2018 and the five months ended May 31, 2019, X.D. Network, our primary operating entity, paid dividends of nil, RMB35.0 million, RMB50.1 million and nil, respectively. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

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DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on January 25, 2019 and has not carried out any business since the date of incorporation. As of the Latest Practicable Date, our Company did not have any distributable reserves.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We estimate that our listing expenses to be approximately RMB76.9 million (or HK\$85.8 million) (assuming an Offer Price of HK\$13.45 per Offer Share (being the mid-point of the indicative Offer Price range) and no exercise of the Over-allotment Option). In 2018 and the five months ended May 31, 2019, we incurred listing expenses of approximately RMB20.1 million, out of which RMB17.5 million was expensed and RMB2.6 million was recorded as prepayment and will be capitalized upon the completion of the Global Offering. We expect to further incur approximately RMB56.8 million of listing expenses after May 31, 2019 upon the completion of the Global Offering, of which approximately RMB26.8 million is expected to be expensed and the remaining RMB30.0 million is directly attributable to our issue of Offer Shares and will be capitalized. Our Directors do not expect such expenses to materially impact our results of operations in 2019.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on our combined net tangible assets attributable to the owners of the Company as of May 31, 2019 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our combined net tangible assets had the Global Offering been completed as of May 31, 2019 or at any future dates.

	Audited combined net tangible assets of the Group attributable to equity holders of the Company as of May 31, 2019 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets of the Group attributable to equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$15.80 per Share	956,986	835,988	1,792,974	4.23	4.72
Based on an Offer Price of HK\$11.10 per Share	956,986	577,602	1,534,588	3.62	4.04

(1) The audited combined net tangible assets of the Group attributable to the equity holders of the Company as of May 31, 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the equity holders of the Company as of May 31, 2019 of RMB1,100,481,000 with adjustments for the intangible assets as of May 31, 2019 of RMB143,495,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$15.80 and HK\$11.10 per share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB17,523,000 which have been accounted for during the Track Record Period) payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate, Buy-back Mandate and the extended mandate to purchase shares.

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- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 423,958,500 Shares were in issue assuming that the Global Offering have been completed on May 31, 2019 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate, Buy-back Mandate and the extended mandate to purchase shares.
- (4) Except as disclosed above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to May 31, 2019.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.8958.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that up to the date of this prospectus there has been no material adverse change in our financial or trading position or prospects since December 31, 2018 (being the date of our latest audited financial statements) and there has been no event since December 31, 2018 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

According to Rule 4.05A of the Listing Rules, the acquisitions of Longcheng and Yiwan would have been classified at the date of application for our listing as a major transaction under Chapter 14 of the Listing Rules. See “—Financial Information of Longcheng,” “—Financial Information of Yiwan,” and “Appendix I—Accountant's Report—III Addition Financial Information of Longcheng” and “Appendix I—Accountant's Report—IV Addition Financial Information of Yiwan.”

FINANCIAL INFORMATION OF LONGCHENG

Longcheng is an online game operator which focused on overseas markets. Before July 31, 2017, we had 28% equity interest in Longcheng through several transactions and Longcheng was accounted for as investment using the equity method. On July 31, 2017, we acquired additional 23% of the equity interests in Longcheng with a cash consideration of RMB46 million. We therefore effectively held 51% equity interests in Longcheng, and at that time obtained control over Longcheng. See “History, Reorganization and Corporate Structure—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Longcheng.”

Set out below is certain pre-acquisition financial information of Longcheng from January 1, 2016 to July 31, 2017.

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Principal Components of Statement of Comprehensive Income of Longcheng

The following table summarizes the statement of comprehensive income of Longcheng for the periods indicated:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	(RMB in thousands)	
Revenue	80,223	140,784
Cost of revenue	(51,118)	(89,913)
Gross profit	29,105	50,871
Selling and marketing expenses	(42,656)	(26,557)
Research and development expenses	(2,864)	(608)
General and administrative expenses	(2,767)	(1,122)
Net impairment losses on financial assets	(3)	(75)
Fair value changes on investments measured at fair value through profit or loss	195	—
Other losses, net	(20)	(13)
Operating (loss)/profit	(19,010)	22,496
Finance income	56	15
Finance costs	(268)	(22)
(Loss)/profit before income tax	(19,222)	22,489
Income tax expenses	—	(1,071)
(Loss)/profit for the period	(19,222)	21,418

Revenue

In 2016 and the seven months ended July 31, 2017, Longcheng's revenue was RMB80.2 million and RMB140.8 million, respectively, mainly representing revenue from mobile game operations in Hong Kong, Macau, Taiwan and South Korea.

In the seven months ended July 31, 2017, the top five online games of Longcheng were Girls' Frontline (少女前線), Heng Sao Qian Jun (橫掃千軍), Mei Ren Bao Jian (美人寶鑒), Shen Xian Dao (HD) (神仙道高清重製版) and OK, Zhe Hen Mao Xian (可以這很冒險), which in aggregate contributed more than 90% of Longcheng's total revenue in the same period, with Girls' Frontline (少女前線) as the largest revenue contributor.

In 2016, the top five online games of Longcheng were Heng Sao Qian Jun (橫掃千軍), Mao Xian Yu Wa Kuang (冒險與挖礦), Mei Ren Bao Jian (美人寶鑒), Helix Horizon (螺旋境界線) and Wo De San Guo Shi Dai (我的三國時代), which in aggregate contributed more than 70% of Longcheng's total revenue in the same year, with Heng Sao Qian Jun (橫掃千軍) as the largest revenue contributor.

Longcheng acted as the principal for all of the foregoing games and recognized revenue from these games on a gross basis in 2016 and the seven months ended July 31, 2017.

The general increase in Longcheng's revenue in the seven months ended July 31, 2017 was primarily due to solid performance of Girls' Frontline (少女前線) launched in January 2017 in Hong Kong, Taiwan and Macau.

FINANCIAL INFORMATION

Cost of revenue

The table below sets forth a breakdown of Longcheng's cost of revenue for the periods indicated:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	(RMB in thousands)	
Commissions charged by distribution platforms and payment channels	24,587	48,709
Sharing of proceeds to game developers	18,178	34,278
Bandwidth and servers custody fee	1,986	2,485
Amortization of intangible assets	2,619	3,026
Employee benefits expenses	3,748	1,416
Total	<u>51,118</u>	<u>89,913</u>

In 2016 and the seven months ended July 31, 2017, Longcheng's cost of revenue primarily consisted of (i) commissions charged by distribution platforms and payment channels relating to its game publishing and operating business, and (ii) sharing of proceeds to game developers relating to its revenue sharing arrangement with game developers. The general increase in Longcheng's cost of revenue in the seven months ended July 31, 2017 was primarily in line with the increase in its revenue.

Selling and marketing expenses

The table below sets forth a breakdown of Longcheng's selling and marketing expenses for the periods indicated:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	(RMB in thousands)	
Promotion and advertising expenses	42,187	26,382
Others	469	175
Total	<u>42,656</u>	<u>26,557</u>

In 2016 and the seven months ended July 31, 2017, Longcheng's selling and marketing expenses primarily consisted of promotion and advertising expenses relating to its game publishing and operating business. The general increase in Longcheng's selling and marketing expenses in the seven months ended July 31, 2017 was primarily because Longcheng was at an early stage of game publishing and operating business in 2016, and the promotion and advertising expenses were spent not as efficiently as compared to later when it gained experience in game publishing and operating.

Research and development expenses

The table below sets forth a breakdown of Longcheng's research and development expenses for the periods indicated:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	(RMB in thousands)	
Employee benefits expenses	1,399	426
Professional and technical services fee	1,384	105
Others	81	77
Total	<u>2,864</u>	<u>608</u>

FINANCIAL INFORMATION

General and administrative expenses

The table below sets forth a breakdown of Longcheng's general and administrative expenses for the periods indicated:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	(RMB in thousands)	
Professional and technical services fee	1,796	503
Employee benefits expenses	467	457
Others	504	162
Total	<u>2,767</u>	<u>1,122</u>

Income tax expenses

Longcheng's income tax provision was made on the estimated assessable profits of entities within Longcheng incorporated in China and was calculated at the statutory tax rate of 25% after considering the available tax benefits from refunds and allowances. Longcheng's subsidiaries operating in Hong Kong are subject to a 16.5% profit tax rate. Longcheng's income tax expenses is nil in 2016 due to the loss before tax for this year, while its income tax expenses were RMB1.1 million in the seven months ended July 31, 2017.

Liquidity and Capital Resources

In 2016 and the seven months ended July 31, 2017, Longcheng had funded its working capital primarily from cash generated from its business operations and equity contributions from its shareholders. As of December 31, 2016 and July 31, 2017, Longcheng's cash and cash equivalents were RMB17.7 million and RMB28.3 million, respectively.

Cash flows

The following table sets forth selected cash flow statement information of Longcheng for the periods indicated:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	(RMB in thousands)	
Net cash (used in) / generated from operating activities	(12,485)	14,282
Net cash generated from / (used in) investing activities	197	(3,236)
Net cash generated from financing activities	19,856	—
Net increase in cash and cash equivalents	<u>7,568</u>	<u>11,046</u>
Cash and cash equivalents at beginning of the period	<u>10,031</u>	<u>17,743</u>
Exchange gain/(loss) on cash and cash equivalents	144	(504)
Cash and cash equivalents at end of the period	<u>17,743</u>	<u>28,285</u>

Cash flows from operating activities

Cash flows from operating activities reflects: (i) Longcheng's profit/(loss) before income tax adjusted for non-cash and non-operating items (such as depreciation and amortization, impairment provisions, fair value changes on equity interests); and (ii) the effects of movements in working capital (such as trade and other receivables and trade and other payables).

FINANCIAL INFORMATION

In the seven months ended July 31, 2017, Longcheng had net cash generated from operating activities of RMB14.3 million, which was primarily attributable to its profit before income tax of RMB22.5 million for the same period, adjustments for non-cash and non-operating items, and negative movements in working capital. Its negative movements in working capital primarily reflected an increase of RMB64.2 million in trade receivables, mainly as a result of the newly launched games, such as Girls' Frontline (少女前線) in South Korea in June 2017. Such negative movements were partially offset by an increase of RMB29.6 million in trade payables, mainly as a result of an increase in shares of proceeds payables to game developers for games launched in 2017, such as Girls' Frontline (少女前線).

In 2016, Longcheng had net cash used in operating activities of RMB12.5 million, which was primarily attributable to its loss before income tax of RMB19.2 million for the same period, adjustments for non-cash and non-operating items, and positive movements in working capital. Its positive movements in working capital primarily reflected an increase of RMB8.3 million in trade payables, mainly in line with its business growth. Such positive movements were partially offset by an increase of RMB4.9 million in trade receivables, mainly in line with its business growth.

Cash flows from investing activities

Longcheng's cash inflows from investing activities primarily consist of proceeds from disposal of short-term investments and disposal of property, plant and equipment. Longcheng's cash outflows from investing activities primarily consist of purchases of short-term investments and intangible assets.

In the seven months ended July 31, 2017, Longcheng had net cash used in investing activities of RMB3.2 million, which was primarily attributable to the purchase of intangible assets of RMB3.1 million, relating to the licenses for newly launched games.

In 2016, Longcheng had net cash generated from investing activities of RMB0.2 million, which was primarily attributable to net cash collected from investment in wealth management products of RMB9.9 million. Such cashflows were partially offset by purchase of intangible assets of RMB9.4 million, relating to the licenses for newly launched games.

Cash flows from financing activities

Longcheng's financing activities primarily include capital injections and repayment of loan due to X.D. Network.

Longcheng did not have net cash generated from or used in financing activities in the seven months ended July 31, 2017.

In 2016, Longcheng had net cash generated from financing activities of RMB19.9 million, which was primarily attributable to contributions from the then shareholders of RMB39.9 million, offset by repayment of loan due to X.D. Network of RMB20.1 million.

FINANCIAL INFORMATION

Current Assets and Liabilities

The following table sets forth the components of Longcheng's current assets and liabilities as of the dates indicated:

	As of December 31, 2016	As of July 31, 2017
	(RMB in thousands)	
Current assets		
Trade receivables	5,135	69,265
Prepayments and other assets	3,130	3,252
Cash and cash equivalents	17,743	28,285
Total current assets	26,008	100,802
Current liabilities		
Trade payables	8,276	37,850
Other payables and accruals	705	5,661
Contract liabilities	3,765	27,808
Total current liabilities	12,746	71,319
Net current assets	13,262	29,483

Longcheng's net current assets increased to RMB29.5 million as of July 31, 2017 from RMB13.3 million as of December 31, 2016, primarily attributable to an increase of RMB64.1 million in trade receivables, mainly as a result of the newly launched games, such as Girls' Frontline (少女前線) in South Korea in June 2017, offset by an increase of RMB29.6 million in trade payables, mainly as a result of an increase in shares of proceeds payables to game developers for games launched in 2017, such as Girls' Frontline (少女前線).

Trade receivables

The following table sets forth details of Longcheng's trade receivables as of the dates indicated:

	As of December 31, 2016	As of July 31, 2017
	(RMB in thousands)	
Distribution platforms	5,138	69,341
Less: allowance for impairment	(3)	(76)
Total	5,135	69,265

Longcheng's trade receivables primarily consist of proceeds from sales of premium games and in-game virtual item purchases of online games through third-party distribution platforms which are not yet paid to us. The increase in its trade receivables as of July 31, 2017 compared to December 31, 2016 was mainly as a result of the newly launched games, such as Girls' Frontline (少女前線) in South Korea in June 2017, and in line with its business growth.

FINANCIAL INFORMATION

Prepayments and other assets

The following table sets forth details of Longcheng's current prepayments and other assets as of the dates indicated:

	As of December 31, 2016	As of July 31, 2017
	(RMB in thousands)	
Prepayment to game developers	2,494	2,589
Tax prepayments	468	618
Others	168	45
Total	<u>3,130</u>	<u>3,252</u>

Longcheng's current prepayments and other assets primarily consist of prepayments to game developers for games licensed from such game developers.

Cash and cash equivalents

Longcheng's cash and cash equivalents primarily consist of cash in hand and cash at bank as well as term deposits. As of December 31, 2016 and July 31, 2017, Longcheng's cash and cash equivalents were RMB17.7 million and RMB28.3 million, respectively.

Trade payables

Longcheng's trade payables primarily consist of: (i) payables to server custody service providers; (ii) promotion and advertising expenses payables; and (iii) shares of proceeds payables to game developers. The credit terms of trade payables granted to Longcheng are zero to 90 days. As of December 31, 2016 and July 31, 2017, Longcheng's trade payables were RMB8.3 million and RMB37.9 million, respectively. The increase was mainly as a result of an increase in shares of proceeds payable to game developers for games launched in 2017, such as Girls' Frontline (少女前線), and in line with its business growth.

Other payables and accruals

Longcheng's other payables and accruals primarily consist of salaries and benefits accrued but not yet paid to its employees and taxes accrued but not yet paid. As of December 31, 2016 and July 31, 2017, Longcheng's other payables and accruals were RMB0.7 million and RMB5.7 million, respectively. The increase was mainly as a result of an increase in tax payables.

Contract liabilities

Longcheng's contract liabilities primarily consist of unamortized revenue from sales of durable in-game virtual items for online games, where there is still an implied obligation to be provided by us over time. As of December 31, 2016 and July 31, 2017, Longcheng's contract liabilities were RMB3.8 million and RMB27.8 million, respectively. The increase was mainly in line with its business growth.

FINANCIAL INFORMATION OF YIWAN

Yiwan was founded on March 28, 2016, and is principally engaged in operating the game community and platform, TapTap. Before December 20, 2016, we had 45.41% equity interest in

FINANCIAL INFORMATION

Yiwan through several transactions and Yiwan was accounted for as investment in associate using the equity method. On December 20, 2016, we obtained control over Yiwan through additional capital injection of RMB20 million in Yiwan, and we had 55.05% equity interest in Yiwan after this capital injection. See “History, Reorganization and Corporate Structure—Our Major Subsidiaries and PRC Consolidated Affiliated Entities—Yiwan.”

Set out below is certain pre-acquisition financial information of Yiwan from March 28, 2016 to December 20, 2016.

Principal Components of Statement of Comprehensive Income of Yiwan

The following table summarizes the statement of comprehensive income of Yiwan for the period indicated:

	Period from March 28, 2016 to December 20, 2016
	(RMB in thousands)
Revenue	227
Cost of revenue	(3,978)
Gross loss	(3,751)
Selling and marketing expenses	(20,034)
Research and development expenses	(3,544)
General and administrative expenses	(3,795)
Operating loss	(31,124)
Finance income	10
Finance costs	(3)
Loss before income tax	(31,117)
Income tax	5,847
Loss for the period	(25,270)

Revenue

For the period from March 28 to December 20, 2016, Yiwan’s revenue consists of the information service revenue for online marketing service on TapTap.

Cost of revenue

The table below sets forth a breakdown of Yiwan’s cost of revenue for the period indicated:

	Period from March 28, 2016 to December 20, 2016
	(RMB in thousands)
Bandwidth and servers custody fee	2,964
Others	1,014
Total	3,978

FINANCIAL INFORMATION

Selling and marketing expenses

The table below sets forth a breakdown of Yiwan's selling and marketing expenses, primarily comprising promotion and advertising expenses relating to promotion and marketing of TapTap, for the period indicated:

	Period from March 28, 2016 to December 20, 2016
	(RMB in thousands)
Promotion and advertising expenses	19,956
Employee benefits expenses	78
Total	<u>20,034</u>

Research and development expenses

The table below sets forth a breakdown of Yiwan's research and development expenses for the period indicated:

	Period from March 28, 2016 to December 20, 2016
	(RMB in thousands)
Employee benefits expenses	3,523
Others	21
Total	<u>3,544</u>

General and administrative expenses

The table below sets forth a breakdown of Yiwan's general and administrative expenses for the period indicated:

	Period from March 28, 2016 to December 20, 2016
	(RMB in thousands)
Employee benefits expenses	2,977
Others	818
Total	<u>3,795</u>

Income tax

Yiwan had income tax benefits of RMB5.8 million in the period from March 28 to December 20, 2016, in relation to the recognition of deferred tax assets.

Liquidity and Capital Resources

For the period from March 28 to December 20, 2016, Yiwan had funded its working capital primarily from equity contributions from its shareholders. As of December 20, 2016, Yiwan's cash and cash equivalents were RMB1.4 million.

FINANCIAL INFORMATION

Cash flows

The following table sets forth selected cash flow statement information of Yiwan for the period indicated:

	Period from March 28, 2016 to December 20, 2016
	(RMB in thousands)
Net cash used in operating activities	(9,345)
Net cash used in investing activities	(287)
Net cash generated from financing activities	11,000
Net increase in cash and cash equivalents	1,368
Cash and cash equivalents at beginning of the period	—
Exchange gain/(loss) on cash and cash equivalents	—
Cash and cash equivalents at end of the period	1,368

Cash flows from operating activities

Cash flows from operating activities reflects: (i) Yiwan's loss before income tax adjusted for non-cash and non-operating items (such as depreciation and amortization); and (ii) the effects of movements in working capital (such as prepayments and trade and other payables).

For the period from March 28 to December 20, 2016, Yiwan had net cash used in operating activities of RMB9.3 million, which was primarily attributable to its loss before income tax of RMB31.1 million for the same period, adjustments for non-cash and non-operating items, and positive movements in working capital: (i) an increase of RMB15.0 million in other payables and accruals, mainly in relation to payables to related parties; and (ii) an increase of RMB9.7 million in trade payables, mainly as a result of an increase of marketing expenses.

Cash flows from investing activities

For the period from March 28 to December 20, 2016, Yiwan had net cash used in investing activities of RMB0.3 million, which was primarily attributable to purchase of property, plant and equipment of RMB0.3 million.

Cash flows from financing activities

For the period from March 28 to December 20, 2016, Yiwan had net cash generated from financing activities of RMB11.0 million, which was primarily attributable to its issuance of ordinary shares.

FINANCIAL INFORMATION

Current Assets and Liabilities

The following table sets forth the components of Yiwan's current assets and liabilities as of the date indicated:

	As of December 20, 2016 (RMB in thousands)
Current assets	
Prepayments and other assets	2,881
Cash and cash equivalents	1,368
Total current assets	4,249
Current liabilities	
Trade payables	9,672
Other payables and accruals	14,959
Total current liabilities	24,631
Net current assets	(20,382)

Prepayments and other assets

The following table sets forth details of Yiwan's prepayments and other assets as of the date indicated:

	As of December 20, 2016 (RMB in thousands)
Prepayments for advertisements	1,630
Tax prepayments	1,251
Total	2,881

Cash and cash equivalents

Yiwan's cash and cash equivalents primarily consist of cash in hand and cash at bank.

Trade payables

Yiwan's trade payables are primarily related to the purchase of services for server custody and advertising. The credit terms of trade payables granted to Yiwan are usually zero to 90 days.

Other payables and accruals

The following table sets forth details of Yiwan's other payables and accruals as of the date indicated:

	As of December 20, 2016 (RMB in thousands)
Due to related parties ⁽¹⁾	13,000
Salaries and benefits payables	1,911
Tax payables	48
Total	14,959

(1) Related party is Yiwan's then shareholder, Xin Mengxiang (Shanghai) Information Technology Co., Ltd.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business—Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$13.45 per Share (being the mid-point of the Offer Price Range of between HK\$11.10 and HK\$15.80 per Share), we estimate that we will receive net proceeds of approximately HK\$769.6 million from the Global Offering after deducting the underwriting commissions and other estimated expenses paid and payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- approximately 35% of the net proceeds, or HK\$269.4 million, for developing our games and game-related technology. In particular, we intend to allocate:
 - (i) approximately 20% of the net proceeds, or HK\$153.9 million, in improving our game design and development capabilities in the next three years through: (a) recruiting and retaining talents specialized in game development to develop new games or upgrade our existing games by providing competitive compensation and equity incentives to them; (b) cooperating with third-party game developers for commissioned development of online games; and (c) purchasing relevant software and hardware, and renting additional office space;
 - (ii) approximately 10% of the net proceeds, or HK\$77.0 million, in enhancing our information technology infrastructure in the next two years through: (a) recruiting skilled personnel to upgrade our existing server infrastructure to better support our global operations; and (b) improving our data analytics system, information security system and anti-cheating system; and
 - (iii) approximately 5% of the net proceeds, or HK\$38.5 million, in acquiring adaption rights of well-known games and contents that fit our game development strategy and have wide international influence for game development in the next two years;
- approximately 30% of the net proceeds, or HK\$230.9 million, for developing TapTap. In particular, we intend to allocate:
 - (i) approximately 15% of the net proceeds, or HK\$115.4 million, in acquiring users and improving user engagement in the next two years through: (a) marketing our TapTap on well-known social media, portal websites and search engines; and (b) organizing game events and attending cultural exhibitions; and
 - (ii) approximately 15% of the net proceeds, or HK\$115.4 million, in enhancing the technology, content and products of TapTap in the next three years through: (a) recruiting and retaining the talents specialized in internet community and technologies to strengthen our research and development of recommendation algorithms and user data statistical analysis; (b) cooperating with quality independent game developers or key opinion leaders with capabilities in producing quality content, in order to enrich the content of TapTap community; and (c) developing and optimizing overseas versions of TapTap;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 15% of the net proceeds, or HK\$115.4 million, for expanding our game publishing and operating business. In particular, we intend to allocate:
 - (i) approximately 10% of the net proceeds, or HK\$77.0 million, in obtaining publishing rights of third-party developed games in the next two years through: (a) cooperating with quality game developers in China for publishing their games in overseas markets; and (b) cooperating with overseas game developers, especially those in Japan and South Korea, for publishing their games in China and overseas markets; and
 - (ii) approximately 5% of the net proceeds, or HK\$38.5 million, in establishing and developing regional headquarters outside of China in the next three years to support our overseas expansion;
- approximately 10% of the net proceeds, or HK\$77.0 million, for selective and strategic investments in, and acquisition of, (i) quality game developers in China and overseas, (ii) companies with advanced technology and services solutions along the value chain of the game industry in China and overseas, (iii) companies with online and offline user traffic in China and overseas, or (iv) quality regional partners in overseas markets in the next one to three years, for purposes of creating synergies with our existing business; as of the Latest Practicable Date, we have no definitive commitments or agreements for investment or acquisition; and
- approximately 10% of the net proceeds, or HK\$77.0 million, for working capital and general corporate uses.

In the event that the Offer Price is set at the Maximum Offer Price or the Minimum Offer Price of the indicative Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$144.2 million, respectively.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) approximately HK\$145.5 million (assuming an Offer Price of HK\$15.80 per Share, being the Maximum Offer Price), (ii) approximately HK\$123.8 million (assuming an Offer Price of HK\$13.45 per Share, being the mid-point of the Offer Price Range) and (iii) approximately HK\$102.2 million (assuming an Offer Price of HK\$11.10 per Share, being the Minimum Offer Price).

To the extent that the net proceeds from the Global Offering (including the net proceeds from the exercise of the Over-allotment Option) are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes or if we are unable to put into effect any part of our plan as intended, and to the extent permitted by the relevant laws and regulations, we may place such proceeds in short-term interest-bearing instruments, such as liquid fixed-income securities, short-term bank deposits or money market instruments with licensed banks or financial institutions in Hong Kong or China so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

OUR CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the cornerstone investors (the “**Cornerstone Investors**”) who have agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 200 Shares) which may be purchased with an aggregate amount of approximately HK\$180.0 million.

Assuming an Offer Price of HK\$11.10 (being at the low end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors would be approximately 16,215,800 Shares, representing approximately (i) 25.50% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 3.82% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 3.79% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$13.45 (being at the approximate mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors would be approximately 13,382,400 Shares, representing approximately (i) 21.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 3.16% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 3.13% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$15.80 (being at the high end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors would be approximately 11,392,200 Shares, representing approximately (i) 17.91% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 2.69% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 2.66% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and is not a connected person of our Company and its close associate (as defined in the Listing Rules). The Cornerstone Investors will acquire the Offer Shares pursuant to, and as part of, the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company. None of the Cornerstone Investors will have any representation on the Board or becomes a substantial Shareholder of our Company upon completion of the Global Offering and will not subscribe for any Offer Shares under the Global Offering other than pursuant to the cornerstone investment agreements referred to below.

No preferential treatment has been granted by our Company to the Cornerstone Investors other than the preferential treatment of assured entitlement to the Cornerstone Investors following the principles as set out in the Guidance Letter GL-51-13. The Offer Shares to be subscribed by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering—The Hong Kong Public Offering—Reallocation” in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around December 11, 2019.

OUR CORNERSTONE INVESTORS

OUR CORNERSTONE INVESTORS

Based on the Offer Price of HK\$11.10 (being the low-end of the indicative Offer Price range)						
Cornerstone Investor	Investment Amount (US\$ in million)	Number of Offer Shares to be subscribed (rounded down to nearest whole board lot of 200 Shares)	Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Bytedance (HK) Limited ⁽¹⁾	10	7,050,400	11.09%	9.64%	1.66%	1.65%
miHoYo Limited ⁽¹⁾ . . .	5	3,525,200	5.54%	4.82%	0.83%	0.82%
Lilith Mobile Company Limited ⁽¹⁾	5	3,525,200	5.54%	4.82%	0.83%	0.82%
Nikkigames HK Limited ⁽¹⁾	3	2,115,000	3.33%	2.89%	0.50%	0.49%
Total	23	16,215,800	25.50%	22.17%	3.82%	3.79%

Based on the Offer Price of HK\$13.45 (being the mid-point of the indicative Offer Price Range)						
Cornerstone Investor	Investment Amount (US\$ in million)	Number of Offer Shares to be subscribed (rounded down to nearest whole board lot of 200 Shares)	Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Bytedance (HK) Limited ⁽¹⁾	10	5,818,600	9.15%	7.96%	1.37%	1.36%
miHoYo Limited ⁽¹⁾ . . .	5	2,909,200	4.57%	3.98%	0.69%	0.68%
Lilith Mobile Company Limited ⁽¹⁾	5	2,909,200	4.57%	3.98%	0.69%	0.68%
Nikkigames HK Limited ⁽¹⁾	3	1,745,400	2.74%	2.39%	0.41%	0.41%
Total	23	13,382,400	21.04%	18.30%	3.16%	3.13%

OUR CORNERSTONE INVESTORS

Based on the Offer Price of HK\$15.80 (being the high-end of the indicative Offer Price range)						
Cornerstone Investor	Investment Amount (US\$ in million)	Number of Offer Shares to be subscribed (rounded down to nearest whole board lot of 200 Shares)	Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Bytedance (HK) Limited ⁽¹⁾	10	4,953,200	7.79%	6.77%	1.17%	1.16%
miHoYo Limited ⁽¹⁾	5	2,476,600	3.89%	3.39%	0.58%	0.58%
Lilith Mobile Company Limited ⁽¹⁾	5	2,476,600	3.89%	3.39%	0.58%	0.58%
Nikkigames HK Limited ⁽¹⁾	3	1,485,800	2.34%	2.03%	0.35%	0.35%
Total	23	11,392,200	17.91%	15.58%	2.69%	2.66%

Notes:

- (1) The number of shares shall be equal to (i) the Hong Kong dollar equivalent of the US dollar denominated investment amount (calculated using the foreign exchange rate stipulated in this prospectus (excluding brokerage and the levies which the investor will pay in respect of such shares) divided by (ii) the Offer Price, rounded down to the nearest whole board lot of 200 Shares.

Through business cooperation with us (provision of advertising services to us or placing mobile games on our TapTap platform), the Cornerstone Investors are confident in the future growth and business prospects of our Group and decided to participate in the Global Offering as Cornerstone Investors.

The following information on the Cornerstone Investors was provided to the Company by the Cornerstone Investors.

Bytedance (HK) Limited

Bytedance (HK) Limited (字節跳動(香港)有限公司) was incorporated under the laws of Hong Kong SAR with limited liability and is an investment holding company wholly-owned by Bytedance Ltd., a company incorporated under the laws of the Cayman Islands with limited liability. According to the website of Bytedance Ltd. (“ByteDance”), ByteDance was founded by Zhang Yiming and is a technology company operating a range of content platforms globally, such as TikTok.

miHoYo Limited

miHoYo Limited (米哈遊有限公司) was incorporated under the laws of Hong Kong and it is principally engaged in game development and operation. miHoYo Limited is wholly owned by miHoYo Co., Ltd. (上海米哈遊網絡科技股份有限公司) which was established in the PRC and its principal business is game development and operation and the ultimate beneficial owner of which is an individual, Cai Haoyu.

Lilith Mobile Company Limited

Lilith Mobile Company Limited was incorporated under the laws of the British Virgin Islands with limited liability and is wholly owned by Shanghai Lilith Technology Corporation (上海莉莉絲科技股份有限公司) (“Lilith Games”), a limited liability company established under the laws of the PRC in May 2013. Lilith Games is primarily engaged in developing, distributing and operating mobile games and online games and the ultimate beneficial owner of which is an individual, Wang Xinwen.

OUR CORNERSTONE INVESTORS

Nikkigames HK Limited

Nikkigames HK Limited (疊紙香港有限公司) was incorporated under the laws of Hong Kong in October 2015 with limited liability and is principally engaged in mobile game distribution and operation. Nikkigames HK Limited is wholly-owned by Suzhou Nikki Co., Ltd. (蘇州疊紙網路科技股份有限公司) (“Suzhou Nikki”), a limited liability company established under the laws of the PRC in August 2013. Suzhou Nikki is primarily engaged in developing, distributing and operating mobile games and the ultimate beneficial owner of which is an individual, Yao Runhao.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements, and neither of the aforesaid underwriting agreements having been terminated;
- (b) the Offer Price having been agreed upon between the Company and the Sole Global Coordinator (on behalf of the Underwriters);
- (c) the Listing Committee having granted the listing of, and permission to deal in, the Shares (including the Shares to be subscribed by the Cornerstone Investors as well as other applicable waivers and approvals) and that such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or in the cornerstone investment agreements, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (e) the respective representations, warranties, undertakings and confirmations of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are accurate and true in all respects and not misleading and that there is no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Shares they have purchased pursuant to the relevant cornerstone investment agreements, save for the circumstances that the transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

OUR CORNERSTONE INVESTORS

OTHER CIRCUMSTANCES

Pursuant to the cornerstone investment agreements, each Cornerstone Investor has agreed that our Company and the Sole Global Coordinator may in their sole discretion determine that delivery of all or any part of the Offer Shares it has subscribed for should be made on a date later than the Listing Date. The deferred delivery arrangement was in place to facilitate the over-allocation in the International Offering. Notwithstanding the deferred delivery arrangement, each Cornerstone Investor has agreed that it shall nevertheless pay for the relevant Offer Shares on the Listing Date.

UNDERWRITING

HONG KONG UNDERWRITERS

CLSA Limited

BOCI Asia Limited

ICBC International Securities Limited

Zhongtai International Securities Limited

Futu Securities International (Hong Kong) Limited

Aristo Securities Limited

China Galaxy International Securities (Hong Kong) Co., Limited

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters.

The Global Offering comprises the Hong Kong Public Offering of initially 6,360,000 Hong Kong Offer Shares and the International Offering of initially 57,240,000 International Offer Shares, subject, in each case, to adjustment on the basis as described in the section headed “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING AGREEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 6,360,000 Hong Kong Offer Shares (subject to reallocation) for subscription by way of the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (i) the Listing Committee granting approval for the listing of, and permission to deal in the Shares; (ii) the International Underwriting Agreement having been signed and becoming unconditional; and (iii) certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally and not jointly agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for their respective proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

Grounds for Termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor shall be entitled by notice (in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
 - (i) any event of circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international

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emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious diseases, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the Cayman Islands, the British Virgin Islands, Korea, Taiwan, Japan, Macau, any countries in Europe, Southeast Asia, North America, South America and Australia (collectively, the “**Relevant Jurisdictions**”); or

- (ii) any change, or any development involving a prospective change (whether or not permanent), or any event or circumstance likely to result in any change or development involving a prospective change in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), the PRC, or any other Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or
- (v) any new laws, or any change any or development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in, or in the interpretation or application by any court or other competent authorities of, existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, Euro, Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (viii) any proceedings of any third party being threatened or instigated against any member of the Group or the Controlling Shareholders in connection with the Global Offering; or
- (ix) an authority or a political body or organization in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to

UNDERWRITING

investigate or take other action, against any member of the Group or any Director or any director of any Subsidiary or the Controlling Shareholders in connection with the Global Offering; or

- (x) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xi) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xii) an order or petition for the winding up of any major subsidiary of the Group as set out in the section headed “History, Reorganization and Corporate Structure—Our Major Subsidiaries and PRC Consolidated Affiliated Entities” in this prospectus (“Major Subsidiary”) or any composition or arrangement made by any Major Subsidiary with its creditors or a scheme of arrangement entered into by any Major Subsidiary or any resolution for the winding-up of Major Subsidiary or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any Major Subsidiary or anything analogous thereto occurring in respect of any Major Subsidiary;

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator and the Sole Sponsor:

- (A) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or
 - (B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
 - (C) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
 - (D) has or will 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 or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Sole Global Coordinator and the Sole Sponsor that:
- (i) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
 - (ii) the chairman or chief executive officer of our Company vacating his office; or

UNDERWRITING

- (iii) a prohibition on our Company or the Over-allotment Option Grantor for whatever reason from offering, allotting, issuing, selling or delivering any of the Offer Shares (including the Option Shares) pursuant to the terms of the Global Offering; or
- (iv) any statement contained in any of the prospectus and the Application Forms (the “**Hong Kong Public Offering Documents**”) (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents is not fair and honest and based on reasonable assumptions; or
- (v) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitutes a material omission from any of the Hong Kong Public Offering Documents; or
- (vi) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Sole Sponsor, the Hong Kong Underwriters or the International Underwriters); or
- (vii) any event, act or omission which gives or is likely to give rise to any liability of our Company, the Controlling Shareholders or Mr. Dai Yunjie pursuant to the Hong Kong Underwriting Agreement; or
- (viii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares in issue and to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) the Company withdraws this prospectus or the Global Offering; or
- (x) any of the Reporting Accountants, the Industry Consultant or any of the counsels of the Company has withdrawn its respective consent (to the extent that such consent is required for the issue of this prospectus by the applicable laws) to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (xi) a material portion of the orders in the book-building process or of the investment commitments by any cornerstone investors after signing of the Cornerstone Investment Agreements, have been withdrawn, terminated or cancelled.

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertakings by our Company

In accordance with Rule 10.08 of the Listing Rule, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) except for in circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, except pursuant to the Global Offering, it/he shall not and shall procure that the registered holder(s) controlled by it/he shall not:

- (i) in the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is six months from the Listing Date (“Six-Month Period”), 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 Shares directly or indirectly beneficially owned by it/him; and
- (ii) in the period of six months commencing from the expiry of the period referred to in paragraph (i) above, 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 Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a Controlling Shareholder of our Company.

Nothing in the above shall prevent our Controlling Shareholders from pledging or charging any Shares as security for a bona fide commercial loan in accordance with Note 2 to Rule 10.07(2) or the share lending arrangement to be entered into by the Controlling Shareholders pursuant to Rule 10.07(3) of the Listing Rules.

In accordance with Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and to our Company that during the period referred to in paragraphs (i) and (ii) above:

- (i) if it/he pledges or charges the Shares beneficially owned by it/him in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), it/he will immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) if it/he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, it/he will immediately inform our Company of such indications.

We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and 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 PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT AND DEED OF LOCK-UP UNDERTAKINGS

Undertakings by our Company

Except for the offer, allotment and issue of the Offer Shares pursuant to the Global Offering (including pursuant to any exercise of the Over-allotment Option, at any time), during the period after the date of the Hong Kong Underwriting Agreement and up to and including, the date falling six months after the Listing Date (the “First Six-Month Period”), our Company undertakes to each of the

UNDERWRITING

Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers and the Hong Kong Underwriters not to, and to procure each other member of the Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, 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 contract or agree to transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any share capital or other equity securities of our Company); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or other equity securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any share capital or other equity securities of our Company); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above; or
- (iv) offer to or agree to announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of share capital or such other equity securities of our Company, or in cash or otherwise (whether or not the issue of such share capital or other equity securities of our Company will be completed within the First Six-month Period).

In the event that, at any time during the period of six months commencing on the date on which the First Six-month Period expires (the “Second Six-Month Period”), our Company enters into any of the transactions specified in sub-paragraph (i), (ii) or (iii) 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 any such transaction, offer, agreement or announcement will not, and no other act of our Company will, create a disorderly or false market in the securities of our Company. The Controlling Shareholders jointly and severally undertake to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers and the Hong Kong Underwriters to use its best endeavors to procure our Company to comply with the undertakings in this sub-section.

UNDERWRITING

Undertakings by our Controlling Shareholders

Each of the Controlling Shareholders agrees and undertakes to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Co-managers and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, it/he will not, and will procure that none of its/his associates will, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless otherwise in compliance with the Listing Rules:

- (a) he/it will not, during the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any Shares directly or indirectly beneficially owned by him/it as stated in this prospectus; and
- (b) he/it will not during the Second Six-Month Period, 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 Shares referred to in sub-paragraph (a) if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Each of the Controlling Shareholders has further undertaken to each of the Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-managers and the Hong Kong Underwriters that, within a period commencing on the date of the Hong Kong Underwriting Agreement and ending on a date which is 12 months from the Listing Date, he/it will:

- (i) when he/it pledges or charges any Shares beneficially owned by him/it referred to in sub-paragraph (a) above in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, to the extent permitted by applicable law, immediately inform our Company of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and
- (ii) when he/it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares referred to in sub-paragraph (a) above will be disposed of, to the extent permitted by applicable law, immediately inform our Company of such indications.

INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that our Company, our Controlling Shareholders, Mr. Dai and Dynasty Vision Limited will enter into the International Underwriting Agreement with the Sole Sponsor, the Sole Global Coordinator and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for, or to purchase, their respective proportions of the International Offer Shares being offered under the International Offering.

UNDERWRITING

Our Company and the Over-allotment Option Grantor are expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time within 30 days from the last date for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell the Option Existing Shares and the Company to issue the Option New Shares, up to a total of 9,540,000 Option Shares, representing 15% of the number of Offer Shares initially available under the Global Offering in aggregate, at the Offer Price, to cover over-allocations (if any) in the International Offering. To the extent that the Over-allotment Option is exercised in part, the Sole Global Coordinator shall require the Over-allotment Option Guarantor to sell the Option Existing Share in full prior to requiring the Company to issue any Option New Shares.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as those in the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Our Company has agreed to indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

UNDERWRITING COMMISSIONS AND LISTING EXPENSES

The Underwriters will receive an underwriting commission per Offer Share of 3% of the Offer Price from our Company (including Offer Shares sold and/or issued pursuant to the Over-allotment Option). Our Company may pay the Underwriters an incentive fee up to 0.5% of the Offer Price per Offer Share to be awarded at our Company's discretion. For any unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, we will pay the underwriting commission for such Shares to the International Underwriters (but not the Hong Kong Underwriters).

The aggregate amount of sponsor fee payable by our Company to the Sole Sponsor is US\$700,000.

The aggregate underwriting commissions and fees (including the incentive fees and assuming full payment), together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, sponsor fee, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to be approximately HK\$85.8 million in aggregate (based on an Offer Price of HK\$13.45 per Share, being the mid-point of the Offer Price range stated in this prospectus and the assumption that the Over-allotment Option is not exercised) and are to be borne by us.

ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that each of the Underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "Syndicate Members", may individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for the Stabilizing Manager or its designated affiliate as the stabilizing manager) must not make bids or purchases or effect any other transactions (including but not limited to issuing any option

UNDERWRITING

or derivative or structured product which has, as its underlying asset, any Offer Shares), whether in the open market or otherwise, for the purpose of or with a view to creating actual, or apparent, active trading in the Offer Shares or raising, stabilizing or maintaining the price of the Offer Shares to or at levels other than those which might otherwise prevail in the open market; and

- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the accounts of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving directly or indirectly, buying and selling the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering—Stabilization” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares’ share price, and the extent to which this occurs from day to day cannot be estimated.

UNDERWRITERS’ INTEREST IN OUR GROUP

Except for the obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, none of the Underwriters has any shareholding interest in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

SOLE SPONSOR’S INDEPENDENCE

CLSA Capital Markets Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

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:

- (i) the Hong Kong Public Offering of 6,360,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in “—The Hong Kong Public Offering” below; and
- (ii) the International Offering of 57,240,000 Offer Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States in offshore transactions in reliance on Regulation S, or other available exemption from the registration requirements of the U.S. Securities Act, as described below in “—the International Offering”.

In connection with the Global Offering, it is expected that the Over-allotment Option Grantor and our Company will grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, at any time within 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell the Option Existing Shares and the Company to issue the Option New Shares, up to a total of 9,540,000 Option Shares, representing 15.0% of the number of Offer Shares initially available under the Global Offering in aggregate at the Offer Price to cover over-allocations, if any, in the International Offering. To the extent that the Over-allotment Option is exercised in part, the Sole Global Coordinator shall require the Over-allotment Option Guarantor to sell the Option Existing Share in full prior to requiring the Company to issue any Option New Shares.

Investors may either

- (1) apply for the Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (2) apply for or indicate an interest for the International Offer Shares under the International Offering,

but may not do both.

The 63,600,000 Offer Shares in the Global Offering will represent approximately 15.0% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 17.09% of our enlarged share capital immediately following the completion of the Global Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in “—The Hong Kong Public Offering—Reallocation” below.

References to applications, Application Forms, application or subscription monies, or procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 6,360,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 1.5% of our Company's enlarged share capital immediately after completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in "— Conditions of the Global Offering" below.

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 the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools (subject to adjustment at odd lot size): Pool A and Pool B, both of which are available on an equitable basis to successful applicants:

- | | |
|---------|--|
| Pool A: | the Offer Shares will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of HK\$5.0 million or less (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee); and |
| Pool B: | the Offer Shares will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of more than HK\$5.0 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee). |

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus 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 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 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 3,180,000 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 reallocation under the Listing Rules. In accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance

STRUCTURE OF THE GLOBAL OFFERING

Letter HKEX-GL91-18 issued by the Stock Exchange, if the Offer Shares under the International Offering are fully subscribed or over-subscribed and the number of Offer Shares validly applied for under 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 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Hong Kong Offer Shares will be increased to 19,080,000 Offer Shares (in the case of (i)), 25,440,000 Offer Shares (in the case of (ii)) and 31,800,000 Offer Shares (in the case of (iii)), representing 30.0%, 40.0% and 50.0% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), respectively. In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate.

If (i) the Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100%, but less than 15 times, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering; or (ii) the Offer Shares under the International Offering are not fully subscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100% of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the Sole Global Coordinator may, at its discretion, reallocate the Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering shall not be increased to more than 12,720,000 Offer Shares, representing two times the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the low end of the Offer Price range (that is, HK\$11.10 per Offer Share) stated in this prospectus in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

Subject to the above, the Sole Global Coordinator shall have the discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustment of the number of Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or

STRUCTURE OF THE GLOBAL OFFERING

indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$15.80 per Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "—Pricing and Allocation" below, is less than the maximum price of HK\$15.80 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for Hong Kong Offer Shares."

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Our Company will be initially offering for subscription under the International Offering 57,240,000 Offer Shares, representing 90.0% of the Offer Shares under the Global Offering and approximately 13.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other 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 particular price. This process, known as "book-building", is expected to continue up to the Price Determination Date.

Allocation of Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant application under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL 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 described in “—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, our Company and the Over-allotment Option Grantor are expected to grant an Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time during the 30-day period from the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell the Option Existing Shares and the Company to issue the Option New Shares, up to a total of 9,540,000 Option Shares, representing 15.0% of the total number of the Offer Shares initially available under the Global Offering in aggregate, at the same price per Offer Share under the International Offering to cover over-allocation in the International Offering, if any. To the extent that the Over-allotment Option is exercised in part, the Sole Global Coordinator shall require the Over-allotment Option Grantor to sell the Option Existing Shares in full prior to requiring the Company to issue any Option New Shares.

If the Over-allotment Option is exercised in full, the additional Shares to be sold and issued pursuant thereto will represent approximately 2.2% of our issued share capital immediately following the completion of the Global Offering. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. 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 and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if taken, will be conducted at the absolute discretion of the Stabilizing 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 of the last day for the lodging applications under the Hong Kong Public Offering. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our

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Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing 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 minimizing 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 paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time period for which the Stabilizing Manager will maintain such a long position;
- liquidation of any such long position by the Stabilizing 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 stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on Saturday, January 4, 2020, being the 30th day after the last day of closing of the Application Lists under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected 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 stabilization period.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing 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, by using Shares purchased by the Stabilizing 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 Arrangement

To facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 9,540,000 Shares, representing 15.0% of the Offer Shares (being the maximum number of Offer Shares which may be sold and issued upon exercise of the Over-allotment Option) from Dynasty

STRUCTURE OF THE GLOBAL OFFERING

Vision Limited, one of our Shareholders, pursuant to the Stock Borrowing Agreement which is expected to be entered into between the Stabilizing Manager and Dynasty Vision Limited. Such stock borrowing arrangement under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with.

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 same number of Offer Shares so borrowed must be returned to Dynasty Vision Limited or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option having been sold by the Over-allotment Option Grantor and issued by our Company, or (c) such earlier time as the Stabilizing Manager and Dynasty Vision Limited may agree in writing. No payment will be made to Dynasty Vision Limited by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) 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 Thursday, December 5, 2019 (Hong Kong time), and in any event, no later than Monday, December 9, 2019 (Hong Kong time). 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 Offer Price range stated in this prospectus.

The Offer Price will not be more than HK\$15.80 and is expected to be not less than HK\$11.10, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum offer price of HK\$15.80 per Offer Share, plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$11.10, we will refund the respective difference, including the brokerage fee, the Stock Exchange trading fee and the SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. See the section headed “How to Apply for Hong Kong Offer Shares”.

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 Global Coordinator (for itself and on behalf of the Hong Kong 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 our Company, reduce the number of Offer Shares and/or

STRUCTURE OF THE GLOBAL OFFERING

the indicative 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 situation, our Company will, as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of the reduction and posted on the website of the Stock Exchange (www.hkexnews.hk) and our Company's website (www.xd.com) (the contents of the website do not form a part of this prospectus).

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 and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), 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 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", and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) will under no circumstances be set outside the Offer Price range 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.

The Offer Price, an indication of the level 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—14. Dispatch/Collection of Share Certificates and Refund Monies".

UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Hong Kong 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. The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting".

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CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on, among others:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued by us pursuant to the exercise of the Over-allotment Option);
- (ii) the Offer Price being duly determined;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) 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 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) on or before Monday, December 9, 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, among other things, 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 Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange (www.hkexnews.hk) and on our website (www.xd.com) on the next day following such lapse. In such situation, all application monies will be returned, without interest, on the terms set forth in the section headed “How to Apply for Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued by us pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option).

No part of our Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

STRUCTURE OF THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, our Shares and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, December 12, 2019, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, December 12, 2019.

Our Shares will be traded in board lots of 200 Shares each and the stock code of the Shares is 2400.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest in International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website www.eipo.com.hk of the **White Form eIPO** service; or
- give electronic application instructions to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares 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 Global Coordinator, the **White Form eIPO 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 not a U.S. person (as defined in Regulation S under the U.S. Securities Act);
- are outside the United States, and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S under the U.S. Securities Act);
- are not a PRC legal or natural person (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO** 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 authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- are a Director, or chief executive officer of our Company and/or any of its subsidiaries;
- are a close associate (as defined in the Listing Rules) of any of the above;
- are a core connected person (as defined in the Listing Rules) of our Company (or any of its subsidiaries) or will become a connected person of our Company (or any of its subsidiaries) immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Our Company, the Sole Global Coordinator and the designated **White Form eIPO** Service Provider (where applicable) or their respective agents have full discretion to reject or accept any application, in full or in part, without giving any reason.

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 White Form eIPO service www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Friday, November 29, 2019 until 12:00 noon on Thursday, December 5, 2019 from:

- (i) any of the following offices of the Hong Kong Underwriters:

CLSA Limited

18/F, One Pacific Place,
88 Queensway,
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

ICBC International Securities Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Zhongtai International Securities Limited

19 Floor, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F, United Centre

No.95 Queensway

Hong Kong

Aristo Securities Limited

Room 101, 1st Floor, On Hong Commercial Building

145 Hennessy Road, Wanchai

Hong Kong

China Galaxy International Securities (Hong Kong) Co., Limited

20/F, Wing On Centre

111 Connaught Road Central

Hong Kong

- (ii) any of the designated branches of the following receiving bank, Bank of China (Hong Kong) Limited:

<u>District</u>	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong
Kowloon	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong, Kowloon
	Tsim Sha Tsui East Branch	Shop 3, LG/F, Hilton Towers, 96 Granville Road, Tsim Sha Tsui East, Kowloon
New Territories	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories
	Castle Peak Road (Tsuen Wan) Branch	G/F-1/F, Sin Ching Building, 201-207 Castle Peak Road (Tsuen Wan), Tsuen Wan, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Friday, November 29, 2019 until 12:00 noon on Thursday, December 5, 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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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—XD 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:

- Friday, November 29, 2019—9:00 a.m. to 5:00 p.m.
- Saturday, November 30, 2019—9:00 a.m. to 1:00 p.m.
- Monday, December 2, 2019—9:00 a.m. to 5:00 p.m.
- Tuesday, December 3, 2019—9:00 a.m. to 5:00 p.m.
- Wednesday, December 4, 2019—9:00 a.m. to 5:00 p.m.
- Thursday, December 5, 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 Thursday, December 5, 2019, the last application day or such later time as described in "—10. Effect of Bad Weather 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 **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Sole Global Coordinator (or its 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;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Cayman Companies Law and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form(s) and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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);

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- (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 Share Registrar, receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors 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 Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors 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(s);
- (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; (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) and are not a U.S. person (as defined in Regulation S); and (iii) the purchaser is not an “affiliate” (within the meaning of Regulation S) of our Company or a person acting on the behalf of our Company or an affiliate of the Company;
- (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) authorize 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 deposit Share certificate(s) into CCASS and to send any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

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- (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 **White Form eIPO** 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 Terms and Conditions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE **WHITE FORM eIPO** SERVICE

General

Individuals who meet the criteria in “—2. Who can apply” in this section may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** 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 authorize the **White Form eIPO Service Provider** to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the **White Form eIPO** service

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, November 29, 2019 until 11:30 a.m. on Thursday, December 5, 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, December 5, 2019 or such later time under the “—10. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** 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 **White Form eIPO** service more than once and obtaining different application 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 **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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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).

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “XD Inc.” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

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 Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

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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 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;
 - (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 authorized to give those instructions as their agent;
 - confirm that you understand that our Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize 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;
 - 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 Sponsors, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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 Share Registrar, the receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and/ or their respective advisors and agents;

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- 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 Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each Shareholder, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the 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 authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

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- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized 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 number of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Friday, November 29, 2019—9:00 a.m. to 8:30 p.m.
- Monday, December 2, 2019—8:00 a.m. to 8:30 p.m.
- Tuesday, December 3, 2019—8:00 a.m. to 8:30 p.m.
- Wednesday, December 4, 2019—8:00 a.m. to 8:30 p.m.
- Thursday, December 5, 2019—8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, November 29, 2019 until 12:00 noon on Thursday, December 5, 2019 (24 hours daily, except on December 5, 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, December 5, 2019, the last application day or such later time as described in “—10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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.

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Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors 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 **White Form eIPO** service is also only a facility provided by the **White Form eIPO 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, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, December 5, 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.

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All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- 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 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 **White Form eIPO** service in respect of a minimum number of 200 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 200 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.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure the Global Offering—Pricing and Allocation.”

10. EFFECT OF BAD WEATHER 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

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- a “black” rainstorm warning,
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, December 5, 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 or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the Application Lists do not open and close on Thursday, December 5, 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in 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 Wednesday, December 11, 2019 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on our Company’s website at www.xd.com and the website of the 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.xd.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Wednesday, December 11, 2019;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, December 11, 2019 to 12:00 midnight on Tuesday, December 17, 2019;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, December 11, 2019 to Saturday, December 14, 2019;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, December 11, 2019 to Friday, December 13, 2019 at all the designated branches of the receiving bank.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in 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.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **White Form eIPO 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 its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO 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 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.

(iv) If:

- you make multiple applications or are suspected of making multiple applications;

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- 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 **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it/they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares 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\$15.80 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering—Conditions of the Global 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 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 Wednesday, December 11, 2019.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

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

HOW TO APPLY FOR HONG KONG OFFER SHARES

- refund cheque(s) crossed “Account Payee Only” in favor 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 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 before Wednesday, December 11, 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 Thursday, December 12, 2019 provided that the Global Offering has become unconditional and the right of termination described in the section headed “*Underwriting*” 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 Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 11, 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 authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, December 11, 2019, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, December 11, 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 Wednesday, December 11, 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 "—11. 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 Wednesday, December 11, 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 White Form eIPO Service

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, December 11, 2019, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, December 11, 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 dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be

HOW TO APPLY FOR HONG KONG OFFER SHARES

dispatched to the address as specified in your application instructions in the form of refund cheque(s) on or before Wednesday, December 11, 2019, 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 Wednesday, December 11, 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 "—11. Publication of Results" above on Wednesday, December 11, 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, December 11, 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 Wednesday, December 11, 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the 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 Wednesday, December 11, 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date 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 advisors for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF XD INC. AND CLSA CAPITAL MARKETS LIMITED

Introduction

We report on the historical financial information of XD Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-119, which comprises the combined statements of financial position as at December 31, 2016, 2017 and 2018 and May 31, 2019, the Company's statement of financial position as at May 31, 2019, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-119 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 29, 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 the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical

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Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at May 31, 2019 and the combined financial position of the Group as at December 31, 2016, 2017 and 2018 and May 31, 2019, and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statements of comprehensive income, changes in equity and cash flows for the five months ended May 31, 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board ("IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING RULES”) AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 32 to the Historical Financial Information which contains information about the dividends paid by the Group in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, November 29, 2019

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended December 31,			Five months ended May 31,	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenues	5	765,521	1,344,399	1,887,108	758,604	1,033,032
Cost of revenues	6	(424,797)	(741,651)	(776,309)	(316,114)	(341,265)
Gross profit		340,724	602,748	1,110,799	442,490	691,767
Selling and marketing expenses	6	(186,289)	(244,358)	(447,989)	(160,146)	(240,031)
Research and development expenses	6	(79,434)	(117,443)	(197,780)	(59,763)	(92,508)
General and administrative expenses ...	6	(66,693)	(83,840)	(107,315)	(36,452)	(79,275)
Net impairment losses on financial assets	6	(654)	(960)	(299)	(303)	(222)
Fair value changes on investments measured at fair value through profit or loss	8	(15,605)	(21,069)	(3,351)	(6,516)	7,714
Other income	9	6,386	958	8,141	383	8,260
Other gains/(losses), net	10	44,203	(2,091)	24,232	(1,395)	(559)
Operating profit		42,638	133,945	386,438	178,298	295,146
Finance income	11	1,183	3,024	4,993	1,833	4,164
Finance costs	11	(1,987)	(2,085)	(2,320)	(809)	(1,273)
Finance income/(costs), net		(804)	939	2,673	1,024	2,891
Share of results of investments accounted for using equity method	18	(18,509)	7,587	285	56	(841)
Profit before income tax		23,325	142,471	389,396	179,378	297,196
Income tax expenses	12	45	(21,934)	(36,675)	(21,953)	(29,674)
Profit for the year/period		23,370	120,537	352,721	157,425	267,522
Profit for the year/period attributable to:						
Equity holders of the Company		25,181	116,630	285,028	128,559	184,808
Non-controlling interests		(1,811)	3,907	67,693	28,866	82,714
		23,370	120,537	352,721	157,425	267,522
Other comprehensive income:						
<i>Items that may be reclassified to profit or loss</i>						
—Currency translation differences		1,822	(3,710)	12,980	(2,361)	3,297
Other comprehensive income/(loss) for the year/period, net of tax		1,822	(3,710)	12,980	(2,361)	3,297
Total comprehensive income for the year/period		25,192	116,827	365,701	155,064	270,819
Total comprehensive income for the year/period attributable to:						
Equity holders of the Company		27,003	113,600	294,874	126,652	186,767
Non-controlling interests		(1,811)	3,227	70,827	28,412	84,052
		25,192	116,827	365,701	155,064	270,819
Earning per share for profit for the year/period attributable to the equity holders for the Company						
Basic and diluted earning per share (RMB)	13	N/A	N/A	N/A	N/A	N/A

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

COMBINED STATEMENTS OF FINANCIAL POSITION

		As of December 31,			As of May 31,
		2016	2017	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	20,923	29,084	45,553	68,095
Right-of-use assets	15	44,109	32,437	59,290	50,271
Intangible assets	16	103,959	175,037	192,175	193,931
Deferred tax assets	17	18,337	8,007	8,393	8,310
Investments accounted for using the equity method	18	72,343	43,259	44,305	43,533
Long term investments measured at fair value through profit or loss	20	50,038	36,451	33,687	38,114
Prepayments, deposits and other assets	21	29,116	13,972	64,966	73,460
		338,825	338,247	448,369	475,714
Current assets					
Trade receivables	22	59,964	215,975	449,070	385,328
Prepayments and other assets	21	87,398	62,649	97,381	111,559
Short-term investments	23	45,702	115,738	156,647	241,728
Cash and cash equivalents	24	178,127	577,972	573,233	646,300
		371,191	972,334	1,276,331	1,384,915
Total assets		710,016	1,310,581	1,724,700	1,860,629
EQUITY					
Combined capital	25	289,600	360,359	360,359	352,161
Other reserves	26	204,184	367,078	395,098	241,055
Retained earnings		6,032	110,523	322,457	507,265
Equity attributable to equity holders of the Company		499,816	837,960	1,077,914	1,100,481
Non-controlling interests	18	10,099	119,795	264,646	329,809
Total equity		509,915	957,755	1,342,560	1,430,290
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	17	1,403	5,342	1,894	3,924
Lease liabilities	28	33,269	21,757	37,859	32,855
Contract liabilities	27	715	—	—	—
		35,387	27,099	39,753	36,779
Current liabilities					
Trade payables	29	23,833	124,696	101,275	115,486
Advance from customers	30	810	8,079	9,089	13,562
Other payables and accruals	31	69,838	59,579	83,872	84,645
Contract liabilities	27	57,982	105,206	90,921	100,545
Current income tax liabilities		50	15,018	34,338	57,578
Lease liabilities	28	12,201	13,149	22,892	21,744
		164,714	325,727	342,387	393,560
Total liabilities		200,101	352,826	382,140	430,339
Total equity and liabilities		710,016	1,310,581	1,724,700	1,860,629

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	As of May 31, 2019 RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries		—
Current assets		
Prepayments and other assets		2,583
Cash and cash equivalents		2
		2,585
Total assets		2,585
EQUITY		
Share capital	25	240
Other reserves		(465)
Accumulated losses		(16,904)
Total equity		(17,129)
LIABILITIES		
Current liabilities		
Trade payables		14,044
Other payables and accruals		5,670
Total liabilities		19,714
Total equity and liabilities		2,585

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company				Non-controlling interests	Total
		Combined capital	Other reserves	Retained earnings	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2016		57,920	431,114	(16,221)	472,813	(443)	472,370
Comprehensive income							
Profit/(loss) for the year		–	–	25,181	25,181	(1,811)	23,370
Other comprehensive income							
- Currency translation differences		–	1,822	–	1,822	–	1,822
Total comprehensive income/(loss) for the year		–	1,822	25,181	27,003	(1,811)	25,192
Transaction with owners in their capacity as owners							
Reclassification from other reserves	25	231,680	(231,680)	–	–	–	–
Appropriation to statutory reserves	26	–	2,928	(2,928)	–	–	–
Business combination	33	–	–	–	–	12,353	12,353
Total transactions with owners in their capacity as owners for the year		231,680	(228,752)	(2,928)	–	12,353	12,353
As of December 31, 2016		289,600	204,184	6,032	499,816	10,099	509,915

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY

Notes	Attributable to equity holders of the Company					Non-controlling interests	Total
	Combined capital	Other reserves	Retained earnings	Sub-total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
As of January 1, 2017	289,600	204,184	6,032	499,816	10,099	509,915	
Comprehensive income							
Profit for the year	—	—	116,630	116,630	3,907	120,537	
Other comprehensive income							
- Currency translation differences	—	(3,030)	—	(3,030)	(680)	(3,710)	
Total comprehensive (loss)/income for the year	—	(3,030)	116,630	113,600	3,227	116,827	
Transaction with owners in their capacity as owners							
Capital contributions from the then shareholders	25	14,500	182,159	—	—	196,659	
Reclassification from other reserves	25	56,259	(56,259)	—	—	—	
Appropriation to statutory reserves	26	—	12,139	(12,139)	—	—	
Business combination	33	—	—	—	34,354	34,354	
Capital injections from non-controlling shareholders	18	—	27,885	—	72,115	100,000	
Total transactions with owners in their capacity as owners for the year		70,759	165,924	(12,139)	106,469	331,013	
As of December 31, 2017		360,359	367,078	110,523	119,795	957,755	

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company					Non-controlling interests	Total
		Combined capital	Other reserves	Retained earnings	Sub-total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
As of January 1, 2018		360,359	367,078	110,523	837,960		119,795	957,755
Comprehensive income								
Profit for the year		—	—	285,028	285,028		67,693	352,721
Other comprehensive income		—	9,846	—	9,846		3,134	12,980
- Currency translation differences		—	9,846	—	9,846		3,134	12,980
Total comprehensive income for the year		—	9,846	285,028	294,874		70,827	365,701
Transaction with owners in their capacity as owners								
Appropriation to statutory reserves	26	—	23,004	(23,004)	—		—	—
Dividend distribution	32	—	—	(50,090)	(50,090)		(2,806)	(52,896)
Capital injections from non-controlling shareholders	18	—	3,474	—	3,474		96,526	100,000
Acquisition of additional equity interests in a subsidiary	18	—	(8,304)	—	(8,304)		(19,696)	(28,000)
Total transactions with owners in their capacity as owners for the year		—	18,174	(73,094)	(54,920)		74,024	19,104
As of December 31, 2018		360,359	395,098	322,457	1,077,914		264,646	1,342,560

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company				Non-controlling interests	Total
		Combined capital	Other reserves	Retained earnings	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)							
As of January 1, 2018		360,359	367,078	110,523	837,960	119,795	957,755
Comprehensive income							
Profit for the period		–	–	128,559	128,559	28,866	157,425
Other comprehensive income							
- Currency translation differences		–	(1,907)	–	(1,907)	(454)	(2,361)
Total comprehensive (loss)/income for the period		–	(1,907)	128,559	126,652	28,412	155,064
Transaction with owners in their capacity as owners							
Dividend distribution	32	–	–	–	–	(2,745)	(2,745)
Acquisition of additional equity interests in a subsidiary	18	–	(8,304)	–	(8,304)	(19,696)	(28,000)
Total transactions with owners in their capacity as owners for the period		–	(8,304)	–	(8,304)	(22,441)	(30,745)
As of May 31, 2018		360,359	356,867	239,082	956,308	125,766	1,082,074

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP
COMBINED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company					Non-controlling interests	Total
		Combined capital	Other reserves	Retained earnings	Sub-total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
As of January 1, 2019		360,359	395,098	322,457	1,077,914	264,646	1,342,560	
Comprehensive income								
Profit for the period		—	—	184,808	184,808	82,714	267,522	
Other comprehensive income								
-Currency translation differences		—	1,959	—	1,959	1,338	3,297	
Total comprehensive income for the period		—	1,959	184,808	186,767	84,052	270,819	
Transaction with owners in their capacity as owners								
Share repurchase of a subsidiary	25	(8,438)	(77,968)	—	(86,406)	—	(86,406)	
Acquisition of additional equity interests in a subsidiary	18	—	(78,034)	—	(78,034)	(18,889)	(96,923)	
Issuance of shares	25	240	—	—	240	—	240	
Total transactions with owners in their capacity as owners for the period		(8,198)	(156,002)	—	(164,200)	(18,889)	(183,089)	
As of May 31, 2019		352,161	241,055	507,265	1,100,481	329,809	1,430,290	

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Year ended December 31,			Five months ended May 31,	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities						
Cash (used in)/generated from operations	34	(1,364)	305,524	198,704	102,554	359,341
Income tax (paid)/refunded		(7,287)	(9,793)	(25,150)	(9,381)	9,799
Net cash (used in)/generated from operating activities		(8,651)	295,731	173,554	93,173	369,140
Cash flows from investing activities						
Purchase of property, plant and equipment	14	(13,752)	(20,066)	(32,733)	(5,272)	(26,094)
Proceeds from disposals of property, plant and equipment		39	693	121	121	37
Purchase of intangible assets (including prepayments for intangible assets)		(20,514)	(14,755)	(140,233)	(63,534)	(33,261)
Net cash acquired/(paid) for business combinations	33	1,368	(17,715)	—	—	—
Acquisition of investments accounted for using the equity method	18(c)	(52,533)	(4,000)	(1,000)	(1,000)	—
Proceeds from disposal of investments accounted for using the equity method	18(c)	—	1,665	—	—	—
Acquisition of long term investments measured at fair value through profit or loss	20	(34,034)	(9,222)	—	—	—
Proceeds from disposal of long term investments measured at fair value through profit or loss		10	—	6,075	6,075	—
Purchase of short-term investments		(814,780)	(992,543)	(2,036,631)	(614,981)	(871,400)
Proceeds from disposals of short-term investments		1,008,402	924,401	2,004,833	469,137	789,461
Net cash generated from/(used in) investing activities		74,206	(131,542)	(199,568)	(209,454)	(141,257)
Cash flows from financing activities						
Capital contributions from the then shareholders	25	—	196,659	—	—	—
Payments for share repurchase of a subsidiary	25	—	—	—	—	(90,176)
Capital injections from non-controlling shareholders	18(b)	—	100,000	100,000	—	—
Payment for acquisition of additional equity interests in a subsidiary	18(b)	—	—	(28,000)	—	(60,000)
Dividend paid to the then shareholders of subsidiaries	32	—	(35,000)	(52,896)	(2,745)	—
Payment for lease liabilities (including interests)		(10,567)	(12,519)	(17,849)	(6,247)	(7,294)
Listing expense payment		—	—	—	—	(870)
Net cash (used in)/generated from financing activities		(10,567)	249,140	1,255	(8,992)	(158,340)
Net increase/(decrease) in cash and cash equivalents		54,988	413,329	(24,759)	(125,273)	69,543
Cash and cash equivalents at the beginning of the year/period		114,529	178,127	577,972	577,972	573,233
Effects of exchange rate changes on cash and cash equivalents		8,610	(13,484)	20,020	(8,232)	3,524
Cash and cash equivalents at the end of the year/period	24	178,127	577,972	573,233	444,467	646,300

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information, reorganization and basis of presentation****1.1 General information**

XD Inc. (the “Company”) is an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 25, 2019.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”) are principally engaged in the development, operation, publishing and distribution of mobile and web games and provision of information services (the “Listing Business”) in the People’s Republic of China (the “PRC”) and other countries and regions.

1.2 History and reorganization of the Group

Prior to the incorporation of the Company and the completion of the reorganization (the “Reorganization”) as described below, the Listing Business was mainly carried out by X.D. Network Inc. and its subsidiaries (the “X.D. Network Group”).

In preparing for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization, pursuant to which the beneficial interests in the companies engaged in the Listing Business were transferred to the Company. Details of the Reorganization are set out below:

1.2.1 Incorporation of the Company and the offshore holding structure

On January 25, 2019, the Company was incorporated in the Cayman Islands and allotted and issued one share to the initial subscriber at par value of United States Dollar (“USD”) 0.0001, which was transferred to Happy Today Holding Limited, the holding vehicle of Mr. Huang Yimeng. The Company further allotted and issued 157,604,999 shares at par value to Happy Today Holding Limited on April 10, 2019.

On February 11, 2019, XD Holdings Limited was incorporated in the British Virgin Islands (“BVI”) as a wholly owned subsidiary of the Company.

On February 28, 2019, XD (HK) Limited was incorporated in Hong Kong as a wholly owned subsidiary of the XD Holdings Limited.

1.2.2 Offshore shareholding restructuring

From April 10, 2019 to June 17, 2019, to reflect the onshore shareholding structure of X.D. Network Group, 67,545,000, 10,961,250, 37,598,680, 8,437,540 and 78,211,030 shares were allotted and issued to Aiks Dnager Inc., Dynasty Vision Limited, Jiexin Management Limited, Heart Assets Limited and other 15 offshore holders, respectively.

1.2.3 Acquisition of X.D. Network Group with restricted operation

On June 6, 2019, XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司, the “WFOE”) was incorporated in the PRC as a wholly owned subsidiary of XD (HK) Limited.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information, reorganization and basis of presentation****1.2.3 Acquisition of X.D. Network Group with restricted operation**

On June 16, 2019, the WFOE entered into a series of contractual agreements (collectively the “Contractual Arrangements”) with, among others, X.D. Network Inc.. Pursuant to the Contractual Arrangements, the WFOE is able to effectively control the operating and financing decisions of X.D Network Inc. and its PRC subsidiaries with restricted operation (collectively the “PRC Consolidated Affiliated Entities”) and receive substantially all the economic benefits generated by the PRC Consolidated Affiliated Entities. Accordingly, the PRC Consolidated Affiliated Entities are treated as controlled structured entities of the Company and consolidated by the Company. Further details of the Contractual Arrangements are set out in Note 2.2.1.

1.2.4 Restructuring of the non-restricted and/or non-prohibited operation

To ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange of Hong Kong Limited, companies carrying operations which are not subject to any foreign investment restrictions or prohibition were transferred to and controlled by the Company directly or indirectly.

On March 27, 2019, Xinxuan Network was incorporated in the PRC by X.D Network Inc. and Hyunki Shim with 99% and 1% equity interests, respectively. On May 15, 2019, XD (HK) Limited, X.D Network Inc. and Hyunki Shim entered into a share transfer agreement, pursuant to which XD (HK) Limited acquired the 100% equity interests in Xinxuan Network, and Xinxuan Network became a wholly owned subsidiary of XD (HK) Limited.

On March 28, 2019, X.D Network Inc., Hyunki Shim and Xinxuan Network entered into a share transfer agreement, pursuant to which, Xinxuan Network acquired the 65% equity interests in Shanghai Longcheng Network Technology Co., Ltd. from X.D Network Inc..

The 100% equity interests of Xindong Korea Co. Ltd. and Xindong (Hongkong) Company Limited were also transferred from X.D. Network Inc. to XD Holdings Limited.

Upon completion of the Reorganization, the Company became the holding company of the companies now comprising the Group.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information, reorganization and basis of presentation

Upon the completion of the Reorganization and as at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held				Principal activities and place of operation	Notes
				As of 2016	2017	December 31, 2018	As of May 31, 2019		
Subsidiaries									
Directly held:									
XDD Holdings Limited	British Virgin Islands	February 2019	USD 1	N/A	N/A	N/A	100%	100%	Investment holding (v)
EWAN Holding Limited	British Virgin Islands	January 2019	USD 1	N/A	N/A	N/A	100%	100%	Investment holding (v)
XDDG Holding Limited . . .	British Virgin Islands	January 2019	USD 1	N/A	N/A	N/A	100%	100%	Investment holding (v)
Indirectly held:									
XDD (HK) Limited	Hong Kong	February 2019	HKD 10,000	N/A	N/A	N/A	100%	100%	Investment holding (v)
XDD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司, the “WFOE”)	Shanghai, China	June 2019	RMB100,000,000	N/A	N/A	N/A	N/A	100%	Investment holding (v)
X.D. Global (HK) Limited	Hong Kong	January 2019	HKD 10,000	N/A	N/A	N/A	65%	65%	Investment holding (v)
Xinxuan (Beijing) Network Technology Co., Ltd. (心瑗 (北京) 網絡科技有限公司, “Xinxuan Network”) . . .	Beijing, China	March 2019	RMB50,000	N/A	N/A	N/A	100%	100%	Investment holding (v)
EWAN Global (HK) Limited	Hong Kong	February 2019	HKD 10,000	N/A	N/A	N/A	55.77%	55.77%	Investment holding (v)
Shanghai Longcheng Network Technology Co., Ltd. (上海龍成網絡科技有限公司, “Longcheng”)	Shanghai, China	September 2015	RMB1,000,000	28%	51%	65%	65%	65%	Game operation (i), 18(b), 33

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information, reorganization and basis of presentation

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held				Principal activities and place of operation	Notes
				As of December 31,		As of May 31, 2019	As the date of this report		
				2016	2017				
X.D. Global Limited	Hong Kong	October 2015	HKD 12,213,000	28%	51%	65%	65%	Game operation	(ii), 18(b), 33 (ii)
XXindong (Hong Kong) Company Limited	Hong Kong	August 2014	HKD 1,000,000	100%	100%	100%	100%	Game operation	
XXindong Limited	British Virgin Islands	May 2011	USD 50,000	100%	100%	100%	100%	Investment holding	(v)
XXindong Korea Co., Ltd.	Korea	July 2016	Korea Won (“KRW”) 1,142,000,000	100%	100%	100%	100%	Game operation	(v)
Structured entities controlled via the Contractual Arrangements									
X.D. Network Inc. (心動網絡股份有限公司)	Shanghai, China	July 2011	RMB360,358,500	100%	100%	100%	100%	Game operation	(iii)
Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司, “Yiwan”)	Shanghai, China	March 2016	RMB1,819,549	55.05%	52.09%	51.90%	55.77%	Game platform and information services	(i), 18(b), 33
Shanghai Mingdong Network Co., Ltd. (上海鳴動網絡科技有限公司, “Mingdong”)	Shanghai, China	August 2012	RMB100,000	100%	100%	N/A	N/A	Game development	(iv)
XX.D. Investment Management Co., Ltd. (上海心動投資管理有限公司)	Shanghai, China	August 2014	RMB81,100,000	100%	100%	100%	100%	Investment in game development entities	(v)
XXindong Entertainment Co., Ltd. (心動娛樂有限公司)	Shanghai, China	January 2015	RMB50,000,000	100%	100%	100%	100%	Entertainment	(v)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information, reorganization and basis of presentation

The English names of certain subsidiaries referred herein represent the directors' best effort at translating the Chinese names of these companies as no English names have been registered.

- (i) The statutory financial statements of Longcheng and Yiwun were audited by Shanghai Changhao Certified Public Accountants (上海長浩會計師事務所) for the years ended December 31, 2016, 2017 and 2018.
- (ii) The statutory financial statements of X.D. Global Limited and Xindong (Hong Kong) Company Limited were audited by WONG Ka Chung Certified Public Accountant (Practising) (黃嘉聰執業會計師) for the years ended December 31, 2016 and 2017, and were audited by BDO Limited (香港立信德豪會計師事務所有限公司) for the year ended December 31, 2018.
- (iii) The statutory financial statements of X.D. Network Inc. were audited by BDO China Shu Lun Pan Certified Public Accountant LLP. (立信會計師事務所 (特殊普通合夥)) for the years ended December 31, 2016 and 2017. The statutory financial statements for the year ended December 31, 2018 were audited by Shanghai Changhao Certified Public Accountants (上海長浩會計師事務所).
- (iv) The statutory financial statements of Mingdong were audited by Shanghai Changhao Certified Public Accountants (上海長浩會計師事務所) for the years ended December 31, 2016 and 2017. The statutory financial statements for the year ended December 31, 2018 was not issued because Mingdong dissolved in November 2018.
- (v) No audited financial statements were issued for these subsidiaries because they were either newly incorporated in 2019 or not required to issue audited financial statements under the statutory requirements of its place of incorporation.

All companies comprising the Group have adopted December 31 as their financial year end date.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information, reorganization and basis of presentation****1.3 Basis of presentation**

Immediately prior to and after the Reorganization, the Listing Business was carried out by X.D. Network Group. Pursuant to the Reorganization, the Listing Business is ultimately under effective control of the Company through direct equity holding or through Contractual Arrangements. The Company and those companies newly set up during the Reorganization have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of the Listing Business and does not result in any changes in business substance, nor in any management or the ultimate owners of the Listing Business. The Historical Financial Information of the companies comprising the Group is presented using the carrying value of Listing Business for all years presented.

For companies acquired from or disposed of to a third party, their financial information is included in or excluded from the Historical Financial Information from the respective dates of the acquisitions or disposals.

Inter-company transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated on consolidation.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the International Financial Reporting Standards ("IFRSs"). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on January 1, 2019, are consistently applied to the Group for the Track Record Period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.1 Basis of preparation**

The following new standards and amendments to existing standards, which are relevant to the Group, have been issued and are effective for future reporting periods and have not been early adopted by the Group.

		Effective for accounting year beginning on or after
IFRS 17	Insurance contracts	January 1, 2021
Amendment to IAS 1 and IAS 8	Definition of material	January 1, 2020
Amendment to IFRS 3	Definition of a business	January 1, 2020
Conceptual Framework for Financial Reporting 2018		January 1, 2020
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associates or joint venture	No mandatory effective date yet determined but available for early adoption

The Group has already commenced an assessment of the impact of these new or revised standard and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement (including structured entities) with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully combined from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the combined income statements, combined statements of comprehensive income, combined statement of changes in equity and combined statements of financial position respectively.

2.2.1 Subsidiaries controlled through Contractual Arrangements

The wholly-owned subsidiary of the Company, the WFOE, has entered into the Contractual Arrangements with among others, X.D. Network Inc., which enable the WFOE and the Group to:

- exercise effective control over the PRC Consolidated Affiliated Entities;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.2 Subsidiaries****2.2.1 Subsidiaries controlled through Contractual Arrangements**

- exercise equity holders' voting rights of the PRC Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the PRC Consolidated Affiliated Entities, in consideration for the business support by the WFOE, at the WFOE's discretion;
- obtain an irrevocable and exclusive right to purchase all equity interests in X.D. Network Inc. from its registered equity holders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the registered equity holders of X.D. Network Inc. shall return the amount of purchase consideration they have received to the WFOE. At the WFOE's request, the registered equity holders of X.D. Network Inc. will promptly and unconditionally transfer their respective equity interests in X.D. Network Inc. to the WFOE (or its designee within the Group) after the WFOE exercises its purchase right; and
- obtain a pledge over the entire ownership interests of X.D. Network Inc. from its registered equity holders to secure performance of their obligations under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Company has rights to exercise power over the PRC Consolidated Affiliated Entities, receive variable returns from its involvement with the PRC Consolidated Affiliated Entities, and has the ability to affect those returns through its power over the PRC Consolidated Affiliated Entities. Therefore, the Company is considered to control the PRC Consolidated Affiliated Entities. Consequently, the Company regards the PRC Consolidated Affiliated Entities as controlled structured entities and consolidates the financial positions and results of operations of these entities in the combined financial statements of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Consolidated Affiliated Entities and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Consolidated Affiliated Entities. The directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

2.2.2 Business combination

The Group applies the acquisition method to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.2 Subsidiaries****2.2.2 Business combination**

- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss. Amounts classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in profit or loss.

2.2.3 Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

2.2.4 Disposal of subsidiaries

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.3 Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. The Group's investments in associates in the form of redeemable instruments are designated as financial assets at fair value through profit or loss. All investments in associates in the form of ordinary shares with significant influence are accounted for using the equity method of accounting, after initially being recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an investment accounted for using the equity method equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount in "Other (losses)/gains, net" in the combined income statements.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The chief operating decision-maker, who is responsible

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.5 Segment reporting**

for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company.

2.6 Foreign currency translation**2.6.1 Functional and presentation currency**

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its subsidiaries outside mainland China are USD, while the functional currencies of the Company's subsidiaries in the mainland China are RMB. As the major operations of the Group during the Track Record Period are within the mainland China, the Group determined to present its Financial Information in RMB (unless otherwise stated).

2.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in combined statements of comprehensive income on a net basis within "Other (losses)/gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in combined statements of comprehensive income as part of the "Fair value changes on investments measured at fair value through profit or loss".

2.6.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.6 Foreign currency translation****2.6.3 Group companies**

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

Depreciation on Property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Servers and other equipment 3 years
- Furniture and appliances 5 years
- Vehicles 4 years
- Leasehold improvements Estimated useful lives or remaining lease terms, whichever is shorter

Property, plant and equipment arising from business acquisition is depreciated over the remaining useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other gains/(losses), net' in the statements of comprehensive income.

2.8 Intangible assets**2.8.1 Goodwill**

Goodwill arises on the acquisition of subsidiaries represents the excess of the aggregate purchase consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.8 Intangible assets****2.8.1 Goodwill**

identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes at the operating segment.

2.8.2 Other intangible assets

Other intangible assets mainly include software, game license, domain name and trade name. They are initially recognized and measured at cost if they are separately acquired or at fair value if they are acquired in business combinations. Other intangible assets are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

- | | |
|----------------|-----------|
| ● Software | 2-5 years |
| ● Game license | 2-5 years |
| ● Domain name | 10 years |
| ● Trade name | 2-8 years |
| ● User list | 5 years |

When determining the length of useful life of an intangible asset, the management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

The management determined that the domain name related to one of the Group's major games, Ragnarok M, has a useful life of 10 years based on the estimated lifespan of such game, during which it could bring economic benefits to the Group.

The management determined that the trade name related to Yiwan (note 33) has a useful life of 8 years based on the platform's popularity and great user base in local market.

2.8.3 Research and development

Research expenditures are recognized as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.8 Intangible assets****2.8.3 Research and development**

(a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2016, 2017 and 2018, and May 31, 2019.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Financial assets**2.10.1 Classification**

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.10 Financial assets****2.10.2 Recognition and derecognition**

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (a) the contractual rights to receive the cash flows from the financial asset expire; or (b) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (c) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other (losses)/gains together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statements of comprehensive income.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.10 Financial assets****2.10.3 Measurement***Debt instruments*

loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other (losses)/gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains and impairment expenses are presented as separate line item in the statements of comprehensive income.

FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within "Other (losses)/gains, net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets measured at FVPL are recognized in other (losses)/gains in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10.4 Impairment

The Group has 2 types of financial assets subject to IFRS 9's new expected credit loss model:

- trade receivables; and
- other receivables.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at a amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Group uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.10 Financial assets****2.10.4 Impairment**

since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

2.13 Cash and cash equivalents

In the combined statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.16 Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.16.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.16.2 Deferred income tax inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.16.3 Deferred income tax outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.16 Current and deferred income tax****2.16.4 Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits**2.17.1 Pension and social obligations**

The Group companies operate various defined contribution plan in accordance with the local conditions and practices in which they operate. Defined contribution plans are pensions and the other social benefit plans under which the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as labor costs when they are due.

2.17.2 Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2.17.3 Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.17.4 Share-based payments

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("RSUs") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense in the combined statements of comprehensive income with a corresponding increase in equity.

In terms of the shares, RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- Including any market performance conditions;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.17 Employee benefits****2.17.4 Share-based payments**

- Excluding the impact of any service and non-market performance vesting conditions; and
- Including the impact of any non-vesting conditions.

Non-marketing performance and service conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statements, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium. Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period.

On June 17, 2019, in order to incentive the employees for their contribution, the Group allotted an aggregate of 8,437,540 shares to Heart Assets Limited, which hold shares on trust for and on behalf of the grantees or the Company (as the case may be). For the years ended December 31, 2016, 2017 and 2018, and five months ended May 31, 2019, except for the share-based payment related to share repurchase transaction (Note 25(c)), there is no other equity instruments granted.

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.19 Revenue recognition**

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. The following is a description of the accounting policy for our principal revenue streams:

2.19.1 Game operating revenue

The Group is a publisher of online games developed by third party game developers or itself. The Group licenses online games from game developers and earns game publishing service revenue by making a localized version of the licensed games and publishing them to the game players through distribution channels, e.g. online application stores (such as Apple Inc.'s App Store ("Apple App") and Google LLC's Google Play ("Google App")), as well as web-based and mobile game portals (collectively referred to as "Distribution Channels"), including the Group's own websites.

The games licensed to the Group, or developed by the Group are operated under i) free-to-play model whereby game players can play the games free of charge and are charged for the purchase of in-game virtual items (the "Online Game") via payment channels, such as the third-party internet payment systems (the "Payment Channels"); or ii) pay-to-play model whereby game players are charged for a fixed amount when downloading the games (the "Premium Game"). Upon the completion of download and installation of the games to the game players' devices, all functionalities of the games have been fully delivered. Players can then play the games on their device without real time connection to the internet.

Proceeds earned from selling in-game virtual items, are shared between the Group and the game developers, with the amount paid to the developers generally calculated based on amounts paid by players, after deducting the fees paid to Payment Channels and Distribution Channels, multiplied by a predetermined percentage for each game.

The Group evaluates agreements with the game players, game developers, Distribution Channels and Payment Channels in order to determine whether or not the Group acts as the principal or as an agent in the arrangement with each party respectively, which it considers in determining if relevant revenues should be reported gross or net of the predetermined amount of the proceeds shared with the other parties. The determination of whether to record the revenues gross or net is based on an assessment of various factors, including but not limited to whether the Group (i) is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibilities for acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specification); (ii) has inventory risk before the specified good or service has been transferred to a customer, or after transferring the control to the customer (for example, if the customer has a right of return); (iii) has discretion in establishing the prices for the specified goods or services.

(a) The Group acts as principal

During the Track Record Period, the Group self-developed mobile games or entered into game license arrangements with game developers, under which the Group takes primary responsibilities of

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.19 Revenue recognition****2.19.1 Game operating revenue****(a) The Group acts as principal**

game operation. The Group considered itself as a principal in these arrangements and recorded revenues on a gross basis.

Under the arrangements that the Group takes primary responsibilities, the Group considered that the (i) the Group is generally the initiator who raise ideas and plans for providing specification, modification or update of the game products or services desired by the game players; (ii) for certain licensed games that the Group made a localized version, the Group's costs incurred during developing the games are more than the game developer. The game developer is merely providing intellectual properties of character image and figures, the Group is providing game services and products relating to gaming experience to game players; (iii) besides publishing, providing payment solution and marketing promotion, the Group has the right to determine the pricing of in-game virtual items or downloading the pay-to-play games, as well as the selection of Distribution Channels and the Payment Channels. Thus, the Group views game players to be its customers and considers itself as the principal. Accordingly, the Group records the online game revenue under such arrangements on a gross basis. Commission fees paid to Distribution Channels and Payment Channels and license fees paid to third party game developer are recorded as cost of revenues.

Where the Group is acting as a principal under the free-to-play model, the Group has determined that it is obligated to provide on-going services to game players, who purchased virtual items to gain an enhanced game-playing experience, and accordingly, the Group recognizes the revenues derive from sale of virtual items as below:

Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognized (as a release from deferred revenue) when the items are consumed and the related services are rendered.

Durable virtual items represent items that are accessible and beneficial to paying players over an extended period of time. Revenue is recognized ratably over the average life of durable virtual items for the applicable game, which the Group makes best estimates to be the average playing period of paying players ("Player Relationship Period").

The Group estimates the Player Relationship Period on a game-by-game basis. 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 or by third-party developers until the new game establishes its own patterns and history. The Group considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. While the Group believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future as the games' operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of paying players of the games

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.19 Revenue recognition****2.19.1 Game operating revenue****(a) The Group acts as principal**

change. Any adjustments arising from changes in Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns.

Where the Group is acting as a principal under the pay-to-play model, the Group has determined all revenue recognition criteria are met upon players' confirmation of the purchase request and completion of download of the games. The Group has no additional performance obligations to the game players after the completion of the corresponding game purchase and downloading. Therefore, the Group recognizes revenue from game players upon the purchases and completion of downloading for this type of arrangement. Commission fees paid to Distribution Channels and Payment Channels and license fees paid to third party game developers are recorded.

(b) The Group acts as agents of game developer

Under those arrangements that the developer take primary responsibilities mentioned above, the Group considers that the (i) game developers are responsible for providing the game products desired by the game players; (ii) the costs incurred by the developers to develop the games are more than the licensing costs and game localizations costs incurred by the Group; (iii) the hosting and maintenance of game servers for running the online mobile games is the responsibility of the developers, the developers have the right to review and approve the pricing of in-game virtual items and the specification, modification or update of the game made by the Group. The Group's responsibilities are publishing, providing payment solution and market promotion service for the license game, and thus the Group views the game developers to be its customers and considers itself as the agent of the game developers in the arrangements with game players. The Group considers it provides a series of distinct services that are substantially the same and that have the same pattern of transfer to the game developers, and allocated the variable consideration based on certain percentage of sales of in-game virtual items to each day of distinct services and recognizes revenues in the month when related sales occur.

As the Group is responsible for identifying, contracting with and maintaining the relationships of the Distribution Channels and Payment Channels, commission fees paid to the Distribution Channels and Payment Channels are presented on a gross basis and included in cost of revenues. The Group considers it provides services to the game developers for the reasons identified above as it has been given latitude by the game developers in selecting Distribution Channels and Payment Channels for its service to the game developers.

Different from the above analysis, for games cooperated with Apple/Google App, the game developers are fully aware of Apple/Google App's roles and responsibilities. The Group considered that Apple/Google App and itself provide services to the game developers together, as the Group does not have the latitude in selecting and negotiating with Apple/Google App and does not have the primary responsibility to game developers for the service provided by them. Commissions charged by Apple/Google App are deducted from revenue.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.19 Revenue recognition****2.19.1 Game operating revenue****(c) The Group acts as agents of game publishers**

The Group also engaged in providing game maintenance and game operation services to game publishers, including game promotion services, customer services, technical support services and game localization services. The Group considers it provides a series of distinct services that are substantially the same and that have the same pattern of transfer to the game publisher, and allocated the variable consideration based on certain percentage of sales of in-game virtual items to each day of distinct services and recognizes game maintenance and game operation services to the game publisher in the month when related sales occur.

2.19.2 Information service revenue

Information service revenue mainly represents revenue generated from information services, which mainly comprise revenues derived from performance based online marketing service provided to game developers, game publishers and their agencies.

Revenue from performance-based online marketing service is recognized when relevant specific performance measures (such as delivery of pay-for-click, pay-for-download etc.) are fulfilled.

2.19.3 Other revenues

Group's other revenues are primarily derived from licensing copyrights of game contents to other game publishing companies for agreed periods and other game publishers pay license fees for the right to operate the Group's games in specified geographic areas. The license fees normally comprise of a fixed lump sum and variable fees calculated based on a predetermined rate on the cash paid by game players 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 and determined that the Group's promise to grant a game license is the predominant item to which the license fees related. The game licenses granted by the Group are right to access licenses. Therefore, the fixed lump sum license fees are initially recorded as contract liability and then recognized as revenue ratably over contractual periods from the date the game is launched. The sales based license fees which are contingent upon future events (future cash paid by game players collected by the Publishers related to the licensed game title) are recognized when the subsequent sales occurs.

The Group also generates revenue from miscellaneous services provided by the Group to its customers. Revenue is recognized when the service is rendered.

2.19.4 Practical expedients applied

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been 1 year or less. Accordingly, the Group does not capitalize any incremental costs to obtain a contract.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.19 Revenue recognition****2.19.4 Practical expedients applied**

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of 1 year or less.

2.20 Contract liabilities

Contract liabilities primarily consists of i) the unamortized revenue from sales of virtual items for mobile games, where there is still obligation to be provided by the Group to game players, and ii) the unamortized balance of the initial license fee paid by licensees.

2.21 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income from wealth management products and term deposit above 3 months and within 1 year is included in "Other income".

2.22 Government subsidies

Subsidies from government are recognized at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

Government subsidies relating to costs are deferred and recognized in the combined statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government subsidies relating to the purchase of property, plant and equipment, and other non-current assets are included in non-current liabilities as deferred income and are credited to the combined statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.23 Leases

The Group leases properties as lessee. Rental contracts are typically made for fixed periods of 1 to 6 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**2 Summary of significant accounting policies****2.23 Leases**

and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received any initial direct costs, and
- restoration costs.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in combined statements of comprehensive income. Short-term leases are leases with a lease term of 12 months or less and leases with a remaining term of 12 months or less as of the date of initial adoption of IFRS 16.

The right-of-use assets and lease liabilities are presented separately on the combined statement of financial position.

The Group applies the practical expedient by electing not to separate the non-lease components, such as maintenance services provided by the landlord from lease components for the property rental contracts, and instead account for each lease component and any associated non-lease components as a single lease component.

2.24 Dividends distribution

Dividend distribution to the Company's or its subsidiaries' shareholders is recognized as a liability in the Group's combined financial statements in the period in which the distribution is approved by the Company's or its subsidiaries' shareholders or directors, where appropriate.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**3 Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

3.1 Financial risk factors**(a) Market risk***Foreign exchange risk*

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. The Group does not hedge against any fluctuation in foreign currency during the Track Record Period.

For the Group's subsidiaries in mainland China whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, net profits would have been approximately RMB6.9 million, RMB16.6 million, RMB25.2 million, RMB15.9 million and RMB11.8 million, higher/lower for the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019 respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD.

Price risk

The Group is exposed to price risk in respect of long-term and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents and short-term investments measured at amortized cost, and details of which have been disclosed in Note 24 and Note 23, respectively.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term investments, trade receivables, deposits and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**3 Financial risk management****3.1 Financial risk factors****(b) Credit risk****(i) Credit risk of cash and cash equivalents and short-term investment measured**

To manage risk arising from cash and cash equivalents and short-term investments, the Group only transacts with state-owned or reputable financial institutions in mainland China. There has been no recent history of default in relation to these financial institutions. The expected credit loss is immaterial.

(ii) Credit risk of trade receivables

Trade receivables at the end of each reporting period were due from Distribution Channels and game publishers, online marketing service customers, as well as due from related parties. If the strategic relationship with Distribution Channels and game publishers and online marketing service customers are terminated or scaled-back; or if Distribution Channels and game publishers and online marketing service customers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with Distribution Channels and game publishers and online marketing service customers to ensure the effective credit control. In view of the history of cooperation with Distribution Channels and game publishers and online marketing service customers and the sound collection history of receivables due from them, the directors of the Group believe that the credit risk inherent in the Group's outstanding trade receivable balances due from Distribution Channels and game publishers and online marketing service customers is low.

During the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019 the Group analyzed the credit risk related to amount due from related parties are performing and applied the expected credit loss rate at 0% to estimate the impairment provision for the 12 month expected credit loss of the amount due from related parties.

(iii) Credit risk of deposits and other assets

For deposits and other assets, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other assets based on historical settlement records and past experiences.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**3 Financial risk management****3.1 Financial risk factors****(b) Credit risk****(iii) Credit risk of deposits and other assets**

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counter party;
- significant increases in credit risk on other financial instruments of the same counter party;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behavior of the counter party, including changes in the payment status of debtor in the Group and changes in the operating results of the counter party.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 90 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 360 days of when they fall due.

The Group makes periodic assessment on the credit risk of the deposits and other assets based on the history of cooperation with customers, settlement records and past experience, the directors believe that the credit risk inherent in the outstanding deposits and other assets due from the debtors is not material.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories deposits and other assets for write off when a debtor fails to make contractual payments/repayable demanded greater than 720 days past due. Where deposits and other assets have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

3 Financial risk management

3.1 Financial risk factors

(c) Liquidity risk

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2016					
Trade payables	23,833	—	—	—	23,833
Advance from customers	810	—	—	—	810
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	35,209	—	—	—	35,209
Lease liabilities	12,518	13,494	22,564	1,673	50,249
	72,370	13,494	22,564	1,673	110,101
As of December 31, 2017					
Trade payables	124,696	—	—	—	124,696
Advance from customers	8,079	—	—	—	8,079
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	42	—	—	—	42
Lease liabilities	13,494	13,494	10,744	—	37,732
	146,311	13,494	10,744	—	170,549
As of December 31, 2018					
Trade payables	101,275	—	—	—	101,275
Advance from customers	9,089	—	—	—	9,089
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	25	—	—	—	25
Lease liabilities	23,692	17,035	24,988	—	65,715
	134,081	17,035	24,988	—	176,104
As of May 31, 2019					
Trade payables	115,486	—	—	—	115,486
Advance from customers	13,562	—	—	—	13,562
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	44,001	—	—	—	44,001
Lease liabilities	22,213	16,624	19,584	—	58,421
	195,262	16,624	19,584	—	231,470

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

3 Financial risk management

3.2 Capital management

issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements.

(a) Fair value hierarchy

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2016, 2017 and 2018, and May 31, 2019, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at December 31, 2016, 2017 and 2018, and May 31, 2019, none of the Group's financial liabilities are measured at fair value, and none of the Group's financial assets are measured at fair value using level 1 or level 2 inputs. The following table presents the Group's financial assets that are measured at fair value using level 3 inputs:

	Notes	As of December 31,			As of May 31,
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term investments measured at fair value through profit or loss	23	45,702	115,738	156,647	241,728
Long-term investments measured at fair value through profit or loss	20	50,038	36,451	33,687	38,114
		<u>95,740</u>	<u>152,189</u>	<u>190,334</u>	<u>279,842</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

3 Financial risk management

3.3 Fair value estimation

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including investments in unlisted companies and wealth management products issued by commercial banks for the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019.

(i) Investments in unlisted companies

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	12,336	50,038	36,451	36,451	33,687
Addition	34,034	9,222	—	—	—
Reclassify from investments accounted for using the equity method (Note 18(c))	22,069	—	15,577	—	—
Changes in fair value	(18,391)	(22,963)	(12,462)	(9,025)	4,572
Disposal	(10)	—	(5,911)	(5,911)	—
Currency translation differences	—	154	32	(110)	(145)
At the end of the year/period	50,038	36,451	33,687	21,405	38,114
Net unrealized (losses)/gains	(18,391)	(22,963)	(12,462)	(9,025)	4,572

(ii) Wealth management products issued by commercial banks

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	236,538	45,702	115,738	115,738	156,647
Addition	814,780	992,543	2,036,631	614,981	871,400
Changes in fair value	2,786	1,894	9,111	2,509	3,142
Disposal	(1,008,402)	(924,401)	(2,004,833)	(469,137)	(789,461)
At the end of the year/period	45,702	115,738	156,647	264,091	241,728
Net unrealized gains	82	162	207	392	558

(c) Valuation process and techniques

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team uses valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

- the use of quoted market prices or dealer quotes for similar instruments;
- the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**3 Financial risk management****3.3 Fair value estimation****(c) Valuation process and techniques**

- the latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- a combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc..

There were no change to valuation techniques during the Track Record Period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

3 Financial risk management

3.3 Fair value estimation

(d) Valuation inputs and relationship to fair value

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value at December 31,			Unobservable inputs	Range of inputs at December 31,			Relationship of unobservable inputs to fair value
	2016	2017	2018		2016	2017	2018	
	RMB'000	RMB'000	RMB'000		2016	2017	2018	
Investments in unlisted companies	50,038	36,451	33,687	Expected volatility	44.71%-63.16%	40.46%-57.68%	39.35%-50.4%	The higher the expected volatility, the higher the fair value
			38,114					
				Discount for lack of marketability ("DLOM")	25%-30%	25%-31%	25%-26%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	45,702	115,738	156,647	Expected rate of return	2.7%-5.6%	3.25%-6.14%	3.88%-3.98%	The higher the expected rate of return, the higher the fair value
			241,728					

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**3 Financial risk management****3.3 Fair value estimation****(d) Valuation inputs and relationship to fair value**

If expected volatility is 10% higher, the fair value of investments in unlisted companies will be RMB0.25 million, RMB0.17 million, RMB1.63 million and RMB0.19 million higher for the years ended December 31, 2016, 2017 and 2018, and five months ended May 31, 2019 respectively, and the profit before tax will be RMB0.25 million, RMB0.17 million, RMB1.63 million and RMB0.19 million higher respectively;

If expected volatility is 10% lower, the fair value of investments in unlisted companies will be RMB0.27 million, RMB0.17 million, RMB1.18 million and RMB0.18 million lower for the years ended December 31, 2016, 2017 and 2018, and five months ended May 31, 2019 respectively, and the profit before tax will be RMB0.27 million, RMB0.17 million, RMB1.18 million and RMB0.18 million lower respectively.

If discount for lack of marketability ("DLOM") is 10% higher/lower, the fair value of investments in unlisted companies will be RMB0.36 million, RMB0.82 million, RMB0.20 million and RMB0.20 million lower/higher for the years ended December 31, 2016, 2017 and 2018, and five months ended May 31, 2019 respectively, and the profit before tax will be RMB0.36 million, RMB0.82 million, RMB0.20 million and RMB0.20 million lower/higher respectively.

If expected rate of return is 10% higher/lower, the fair value of wealth management products issued by commercial banks will be RMB0.01 million, RMB0.02 million, RMB0.02 million and RMB0.06 million higher/lower for the years ended December 31, 2016, 2017 and 2018, and five months ended May 31, 2019 respectively, and the profit before tax will be RMB0.01 million, RMB0.02 million, RMB0.02 million and RMB0.06 million higher/lower respectively.

4 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Estimates of Player Relationship Period in the Group's online game services

As described in Note 2.19, the Group recognizes certain revenue from sale of virtual items in online game services ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**4 Critical accounting estimates and judgements****4.2 Determination of fair value of long-term and short-term investments**

The fair value of long-term and short-term investments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

4.3 Principal versus agent considerations

Pursuant to game publishing and operation arrangements signed between the Group and the third party game developers or Distribution Channels, the Group's responsibilities in publishing and operating the licensed games vary for each game. The determination of whether to record these revenues using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine Distribution Channels and Payment Channels.

4.4 Expected credit loss for receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b) and Note 22. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the combined statements of comprehensive income.

4.5 Income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**4 Critical accounting estimates and judgements****4.6 Recoverability of non-financial assets**

The Group tests whether goodwill has suffered any impairment on an annual basis. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period.

Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated in Note 16. The growth rate is consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 16.

5 Segment information and revenue

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

Game segment

The game segment offers game publishing and operating services on its own and via other Distribution Channels. Revenues from the game segment are primarily derived from game publishing and operating services.

Information service segment

The information service segment offers online marketing services to game developers, game publishers or their agents. Revenues from the information service segment are primarily derived from performance-based online marketing services.

The CODM assesses the performance of the operating segments mainly based on segment revenues and cost of revenues of each operating segment. Thus, segment result would present revenues, cost of revenues and gross profit for each segment, which is in line with CODM's performance review.

The Group's cost of revenues for the game segment primarily consists of (a) commission paid to Payment Channels and Distribution Channels; (b) sharing of proceeds to game developers; (c) bandwidth and server custody fees; (d) amortization of intangible assets; and (e) employee benefit expenses.

The Group's cost of revenues for the information service segment primarily consists of (a) bandwidth and server custody fees; (b) employee benefits expenses; and (c) amortization of intangible assets.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

5 Segment information and revenue

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

As at December 31, 2016, 2017 and 2018, and May 31, 2019, substantially all of the non-current assets of the Group were located in the PRC.

The segment information provided to the Group's CODM for the reportable segments is as follows:

	Year ended December 31, 2016		
	Game segment	Information service segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
—Online Games (free-to-play)	748,931	—	748,931
—Premium Games (pay-to-play)	5,523	—	5,523
Subtotal	754,454	—	754,454
Information service revenue	—	—	—
Others	11,067	—	11,067
Total revenues	765,521	—	765,521
Cost of revenues	(424,797)	—	(424,797)
Gross profit	340,724	—	340,724
Gross margin	45%	N/A	45%

	Year ended December 31, 2017		
	Game segment	Information service segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
—Online Games (free-to-play)	1,216,094	—	1,216,094
—Premium Games (pay-to-play)	37,523	—	37,523
Subtotal	1,253,617	—	1,253,617
Information service revenue	—	80,944	80,944
Others	9,791	47	9,838
Total revenues	1,263,408	80,991	1,344,399
Cost of revenues	(709,207)	(32,444)	(741,651)
Gross profit	554,201	48,547	602,748
Gross margin	44%	60%	45%

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

5 Segment information and revenue

	Year ended December 31, 2018		
	Game segment	Information service segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
—Online Games (free-to-play)	1,544,485	—	1,544,485
—Premium Games (pay-to-play)	43,630	—	43,630
Subtotal	1,588,115	—	1,588,115
Information service revenue	—	294,502	294,502
Others	4,232	259	4,491
Total revenues	1,592,347	294,761	1,887,108
Cost of revenues	(740,911)	(35,398)	(776,309)
Gross profit	851,436	259,363	1,110,799
Gross margin	53%	88%	59%
Five months ended May 31, 2018 (Unaudited)			
	Game segment	Information service segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
—Online Games (free-to-play)	635,701	—	635,701
—Premium Games (pay-to-play)	8,287	—	8,287
Subtotal	643,988	—	643,988
Information service revenue	—	111,868	111,868
Others	2,741	7	2,748
Total revenues	646,729	111,875	758,604
Cost of revenues	(303,939)	(12,175)	(316,114)
Gross profit	342,790	99,700	442,490
Gross margin	53%	89%	58%
Five months ended May 31, 2019			
	Game segment	Information service segment	Total
	RMB'000	RMB'000	RMB'000
Game operating revenues			
—Online Games (free-to-play)	840,177	—	840,177
—Premium Games (pay-to-play)	13,671	—	13,671
Subtotal	853,848	—	853,848
Information service revenue	—	176,633	176,633
Others	2,491	60	2,551
Total revenues	856,339	176,693	1,033,032
Cost of revenues	(324,833)	(16,432)	(341,265)
Gross profit	531,506	160,261	691,767
Gross margin	62%	91%	67%

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

5 Segment information and revenue

Revenues of approximately RMB18 million, RMB174 million and RMB758 million, RMB243 million and RMB606 million for the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, respectively, were from five largest single external customers.

The following table summarizes the percentage of revenue from two single customers individually exceeding 10% of the Group's revenue during the year ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, respectively.

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018 (Unaudited)	2019
Game operating revenues					
Customer A	*	*	22%	14%	38%
Information service revenue					
Customer B	*	*	13%	13%	14%

* The amounts of revenue from corresponding customers were less than 10% of the total revenue for the relevant years.

Timing of revenue recognition	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Service transferred overtime	405,185	448,584	933,311	339,240	613,237
Service transferred at a point of time	360,336	895,815	953,797	419,364	419,795
	<u>765,521</u>	<u>1,344,399</u>	<u>1,887,108</u>	<u>758,604</u>	<u>1,033,032</u>

The table below sets forth a breakdown of the Group's game operating revenue in mainland China and overseas markets for the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, respectively:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Mainland China	738,804	856,007	611,418	276,680	275,176
Overseas	15,650	397,610	976,697	367,308	578,672
Total	<u>754,454</u>	<u>1,253,617</u>	<u>1,588,115</u>	<u>643,988</u>	<u>853,848</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

5 Segment information and revenue

The table below sets forth a breakdown of the Group's game operating revenue from overseas markets by local versions solely offered for each of such geographical areas for the year ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, respectively.

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Local version solely offered for Southeast Asia ⁽¹⁾ . .	777	222	232,544	395	300,876
Local version solely offered for Hong Kong, Macau and Taiwan	8,737	159,348	374,336	182,571	120,686
Local version solely offered for South Korea	837	220,952	324,793	181,615	73,363
Others ⁽²⁾	5,299	17,088	45,024	2,727	83,747
Total	15,650	397,610	976,697	367,308	578,672

(1) Local version solely offered for Southeast Asia mainly includes local versions solely offered for Thailand, Vietnam, Malaysia and Philippines.

(2) Others include revenue from local versions operated in at least two of the three geographical areas listed above and/or in geographical areas other than those listed above.

6 Expenses by nature

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Promotion and advertising expenses	172,269	228,711	426,189	148,458	219,041
Employee benefits expenses (Note 7)	116,126	184,655	273,312	83,343	127,256
Commissions charged by Payment Channels and Distribution Channels	288,278	348,927	331,081	154,309	122,579
Bandwidth and servers custody fee	23,048	69,426	86,128	25,271	76,679
Sharing of proceeds to game developers	63,964	204,836	193,694	85,388	73,979
Professional and technical services fee	22,366	32,066	54,180	21,732	46,337
Amortization of intangible assets (Note 16)	17,166	32,205	43,514	14,190	24,319
Depreciation of property, plant and equipment (Note 14) and right-of-use assets (Note 15)	18,356	23,663	30,953	10,732	17,432
Listing expenses	—	—	2,415	—	15,108
VAT input transfer out and tax surcharges	10,922	20,467	24,462	10,714	13,532
Office expenses	8,864	8,934	15,953	5,998	7,807
Share based payments (Note 25)	—	—	—	—	5,890
Rental expenses and utilities	4,023	3,798	4,897	2,358	2,467
Net impairment losses on financial assets	654	960	299	303	222
Impairment of non-financial assets	8,222	28,503	41,564	9,434	—
Others	3,609	1,101	1,051	548	653
Total	757,867	1,188,252	1,529,692	572,778	753,301

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

7 Employee benefits expenses

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	89,671	142,541	211,377	61,847	93,612
Pension and other social security costs	18,827	26,552	40,894	14,166	22,356
Other benefits	7,628	15,562	21,041	7,330	11,288
Total	116,126	184,655	273,312	83,343	127,256

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

	Year ended December 31, 2016			
	Wages, salaries and bonuses	Pension and other social security costs	Other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Chairman				
Huang Yimeng	569	83	—	652
Executive directors				
Dai Yunjie	570	83	—	653
Shen Sheng	495	—	—	495
Fan Shuyang	464	83	—	547
Total	2,098	249	—	2,347
	Year ended December 31, 2017			
	Wages, salaries and bonuses	Pension and other social security costs	Other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Chairman				
Huang Yimeng	1,520	88	—	1,608
Executive directors				
Dai Yunjie	1,818	88	—	1,906
Shen Sheng	550	—	—	550
Fan Shuyang	566	88	—	654
Independent directors				
Gao Shaoxing	13	—	—	13
Xin Quandong	13	—	—	13
Pei Dapeng	13	—	—	13
Total	4,493	264	—	4,757

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

7 Employee benefits expenses

(a) Directors' and chief executive's emoluments

	Year ended December 31, 2018			
	Wages, salaries and bonuses	Pension and other social security costs	Other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Chairman				
Huang Yimeng	1,409	95	—	1,504
Executive directors				
Dai Yunjie	1,400	95	—	1,495
Shen Sheng	1,116	16	—	1,132
Fan Shuyang	842	95	—	937
Independent directors				
Gao Shaoxing	80	—	—	80
Xin Quandong	80	—	—	80
Pei Dapeng	80	—	—	80
Total	5,007	301	—	5,308

	Five months ended May 31, 2018 (Unaudited)			
	Wages, salaries and bonuses	Pension and other social security costs	Other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Chairman				
Huang Yimeng	560	38	—	598
Executive directors				
Dai Yunjie	393	38	—	431
Shen Sheng	312	—	—	312
Fan Shuyang	262	38	—	300
Independent directors				
Gao Shaoxing	33	—	—	33
Xin Quandong	33	—	—	33
Pei Dapeng	33	—	—	33
Total	1,626	114	—	1,740

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

7 Employee benefits expenses

(a) Directors' and chief executive's emoluments

	Five months ended May 31, 2019			
	Wages, salaries and bonuses	Pension and other social security costs	Other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Chairman				
Huang Yimeng	492	42	—	534
Executive directors				
Dai Yunjie	444	42	—	486
Shen Sheng	238	42	—	280
Fan Shuyang	274	42	—	316
Independent directors				
Gao Shaoxing	33	—	—	33
Xin Quandong	33	—	—	33
Pei Dapeng	33	—	—	33
Total	1,547	168	—	1,715

(i) Benefits and interests of directors

Except for directors disclosed above, there is no other benefit offered to the other directors.

(ii) Directors' retirement and termination benefits

No director's retirement or termination benefit subsisted at the end of each year disclosed or at any time during the Track Record Period.

(iii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the each year disclosed or at any time during the Track Record Period.

(iv) Information about borrowings, quasi-borrowings and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors.

No borrowings, quasi-borrowings and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of each year disclosed or at any time during the Track Record Period.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of each year disclosed or at any time during the Track Record Period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**7 Employee benefits expenses****(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, include 0, 1, 0, 1 and 0 directors, respectively, whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments for the remaining 5, 4, 5, 4 and 5 individuals for each of the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, are set out below:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	4,205	10,300	18,794	3,250	5,069
Pension and other social security costs . .	416	379	477	154	209
Other benefits	—	—	559	260	—
Total	4,621	10,679	19,830	3,664	5,278

	Number of individuals				
	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
				(Unaudited)	
Emolument bands (in HKD)					
HKD0 - HKD1,000,000	2	—	—	3	2
HKD1,000,001 - HKD2,000,000	3	—	—	—	3
HKD2,000,001 - HKD5,000,000	—	3	4	1	—
HKD5,000,001 - HKD10,000,000	—	1	—	—	—
HKD10,000,001 - HKD15,000,000	—	—	1	—	—
Total	5	4	5	4	5

8 Fair value changes on investments measured at fair value through profit or loss

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fair value changes in long-term investments measured at fair value through profit or loss	(18,391)	(22,963)	(12,462)	(9,025)	4,572
Fair value changes in short-term investments measured at fair value through profit or loss	2,786	1,894	9,111	2,509	3,142
	(15,605)	(21,069)	(3,351)	(6,516)	7,714

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**9 Other income**

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government subsidies	6,386	958	8,141	383	8,260

There are no unfilled conditions or contingencies related to the above government subsidies.

10 Other gains/(losses), net

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fair value changes on previous held equity interests in step acquisition (Note 33)	36,494	5,353	—	—	—
Re-measurement gain (Note 18(c)(i)) . . .	—	—	9,446	—	—
Dilution gain (Note 18(c)(ii))	155	1,806	5,127	5,127	—
Gain from the disposal of investments (Note 18(c)(iii))	—	1,026	—	—	—
Foreign exchange gain/(loss), net	7,717	(10,622)	9,518	(6,113)	(959)
(Losses)/gains on disposal of property, plant and equipment	(70)	420	—	—	(7)
Others	(93)	(74)	141	(409)	407
Total	44,203	(2,091)	24,232	(1,395)	(559)

11 Finance income/(costs), net

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income					
Interest income from bank deposits	1,183	3,024	4,993	1,833	4,164
Finance costs					
Interest expenses on lease liabilities	(1,940)	(1,955)	(2,031)	(713)	(1,142)
Bank charges	(47)	(130)	(289)	(96)	(131)
Finance income/(costs), net	(804)	939	2,673	1,024	2,891

12 Income Tax*Cayman Islands*

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**12 Income Tax***British Virgin Islands*

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

Hong Kong profits tax rate is 16.5%.

PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the Track Record Period.

Certain subsidiary of the Group in the PRC, accordingly, is qualified as "high and new technology enterprise" and entitled to a preferential income tax rate of 15% during the Track Record Period.

Certain subsidiary is accredited as a "software enterprise" under the relevant PRC Laws and regulations. They 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 (the "tax holiday").

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% in 2016 and 2017, and 175% in 2018 and onwards of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the Track Record Period.

PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

12 Income Tax

PRC Withholding Tax ("WHT")

Since the Group intends to permanently reinvest earnings to further expand its businesses in PRC, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period. Cumulative undistributed earnings of the Company's PRC subsidiaries intended to be permanently reinvested were RMB432 million as of May 31, 2019.

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax	9,602	12,712	40,315	17,452	27,542
Deferred income tax (Note 17)	(9,647)	9,222	(3,640)	4,501	2,132
Total income tax expenses/(credits) . . .	(45)	21,934	36,675	21,953	29,674

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, being the tax rate of the major subsidiaries of the Group.

The difference is analyzed as follows:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	23,325	142,471	389,396	179,378	297,196
Tax calculated at statutory income tax rate of 25% in mainland China	5,831	35,618	97,349	44,845	74,299
Tax effects of:					
Effect of different tax rates available to different jurisdictions	136	(5,685)	(7,463)	(2,333)	(8,400)
Preferential income tax rates applicable to subsidiaries	(6,228)	(12,301)	(60,202)	(17,938)	(29,392)
Expenses not deductible for income tax purposes	202	1,172	703	840	1,646
Super Deduction for research and development expenses	(4,361)	(7,228)	(15,613)	(5,263)	(8,572)
Utilization of previously unrecognized tax losses and temporary differences	(5,683)	(186)	(682)	—	—
Tax losses for which no deferred income tax assets were recognized . .	3,562	2,809	572	408	11
Temporary differences for which no deferred income tax assets were recognized, net	6,496	7,735	22,011	1,394	82
Total income tax expenses/(credits)	(45)	21,934	36,675	21,953	29,674

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

13 Earning per share

No earnings per share information is presented because its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Reorganization and the presentation of the Group's financial result for the Track Record Period on a combined basis as disclosed in Notes 1.2 and 1.3.

14 Property, plant and equipment

	<u>Servers and other equipment</u>	<u>Furniture and appliances</u>	<u>Assets under construction</u>	<u>Leasehold improvements</u>	<u>Total</u>	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At January 1, 2016						
Cost	31,007	8,978	—	15,137	55,122	
Accumulated depreciation	(20,667)	(4,871)	—	(14,362)	(39,900)	
Net book amount	10,340	4,107	—	775	15,222	
Year ended December 31, 2016						
Opening net book amount	10,340	4,107	—	775	15,222	
Additions	8,964	407	4,381	—	13,752	
Business combinations (Note 33)	261	—	—	—	261	
Depreciation	(6,005)	(1,752)	—	(446)	(8,203)	
Disposal	—	(109)	—	—	(109)	
Closing net book amount	13,560	2,653	4,381	329	20,923	
At December 31, 2016						
Cost	40,232	9,249	4,381	15,137	68,999	
Accumulated depreciation	(26,672)	(6,596)	—	(14,808)	(48,076)	
Net book amount	13,560	2,653	4,381	329	20,923	
	<u>Servers and other equipment</u>	<u>Furniture and appliances</u>	<u>Vehicles</u>	<u>Assets under construction</u>	<u>Leasehold improvements</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017						
Cost	40,232	9,249	—	4,381	15,137	68,999
Accumulated depreciation ...	(26,672)	(6,596)	—	—	(14,808)	(48,076)
Net book amount	13,560	2,653	—	4,381	329	20,923
Year ended December 31, 2017						
Opening net book amount ...	13,560	2,653	—	4,381	329	20,923
Additions	14,904	1,409	607	2,941	205	20,066
Business combinations (Note 33)	357	2	—	—	—	359
Depreciation	(9,024)	(1,451)	(13)	—	(1,503)	(11,991)
Transfers	—	—	—	(7,322)	7,322	—
Disposal	(259)	(14)	—	—	—	(273)
Closing net book amount	19,538	2,599	594	—	6,353	29,084
At December 31, 2017						
Cost	49,070	10,635	607	—	22,664	82,976
Accumulated depreciation ...	(29,532)	(8,036)	(13)	—	(16,311)	(53,892)
Net book amount	19,538	2,599	594	—	6,353	29,084

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

14 Property, plant and equipment

	Servers and other equipment	Furniture and appliances	Vehicles	Assets under construction	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018						
Cost	49,070	10,635	607	–	22,664	82,976
Accumulated depreciation ...	(29,532)	(8,036)	(13)	–	(16,311)	(53,892)
Net book amount	19,538	2,599	594	–	6,353	29,084
Year ended December 31, 2018						
Opening net book amount ...	19,538	2,599	594	–	6,353	29,084
Additions	11,419	7,963	–	13,351	–	32,733
Depreciation	(11,950)	(1,253)	(152)	–	(2,788)	(16,143)
Transfers	–	–	–	(9,014)	9,014	–
Disposal	(48)	(73)	–	–	–	(121)
Closing net book amount	18,959	9,236	442	4,337	12,579	45,553
At December 31, 2018						
Cost	57,832	18,478	607	4,337	31,677	112,931
Accumulated depreciation ...	(38,873)	(9,242)	(165)	–	(19,098)	(67,378)
Net book amount	18,959	9,236	442	4,337	12,579	45,553
(Unaudited)						
	Servers and other equipment	Furniture and appliances	Vehicles	Assets under construction	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018						
Cost	49,070	10,635	607	–	22,664	82,976
Accumulated depreciation ...	(29,532)	(8,036)	(13)	–	(16,311)	(53,892)
Net book amount	19,538	2,599	594	–	6,353	29,084
Five months ended May 31, 2018						
Opening net book amount ...	19,538	2,599	594	–	6,353	29,084
Additions	4,467	91	–	714	–	5,272
Depreciation	(4,717)	(323)	(63)	–	(603)	(5,706)
Disposal	(48)	(73)	–	–	–	(121)
Closing net book amount	19,240	2,294	531	714	5,750	28,529
At May 31, 2018						
Cost	51,535	10,615	607	714	22,664	86,135
Accumulated depreciation ...	(32,295)	(8,321)	(76)	–	(16,914)	(57,606)
Net book amount	19,240	2,294	531	714	5,750	28,529

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

14 Property, plant and equipment

	Servers and other equipment	Furniture and appliances	Vehicles	Assets under construction	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019						
Cost	57,832	18,478	607	4,337	31,677	112,931
Accumulated depreciation ...	(38,873)	(9,242)	(165)	—	(19,098)	(67,378)
Net book amount	18,959	9,236	442	4,337	12,579	45,553
Five months ended May 31, 2019						
Opening net book amount ...	18,959	9,236	442	4,337	12,579	45,553
Additions	2,891	2,626	711	23,358	1,413	30,999
Depreciation	(4,994)	(832)	(92)	—	(2,495)	(8,413)
Transfers	—	—	—	(27,695)	27,695	—
Disposal	(33)	(11)	—	—	—	(44)
Closing net book amount	16,823	11,019	1,061	—	39,192	68,095
At May 31, 2019						
Cost	60,551	21,018	1,318	—	60,785	143,672
Accumulated depreciation ...	(43,728)	(9,999)	(257)	—	(21,593)	(75,577)
Net book amount	16,823	11,019	1,061	—	39,192	68,095

Depreciation expenses have been charged to the combined statements of comprehensive income as follows:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of revenues	4,017	7,443	8,859	3,692	4,417
Research and development expenses	315	415	1,074	496	1,100
General and administrative expenses	3,871	4,133	6,210	1,518	2,896
	8,203	11,991	16,143	5,706	8,413

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

15 Right-of-use assets

	<u>Properties</u> RMB'000
At January 1, 2016	
Cost	41,734
Accumulated depreciation	(7,513)
Net book amount	34,221
Year ended December 31, 2016	
Opening net book amount	34,221
Additions	20,041
Depreciation (Note 6)	(10,153)
Closing net book amount	44,109
At December 31, 2016	
Cost	61,775
Accumulated depreciation	(17,666)
Net book amount	44,109
	<u>Properties</u> RMB'000
At January 1, 2017	
Cost	61,775
Accumulated depreciation	(17,666)
Net book amount	44,109
Year ended December 31, 2017	
Opening net book amount	44,109
Depreciation (Note 6)	(11,672)
Closing net book amount	32,437
At December 31, 2017	
Cost	60,880
Accumulated depreciation	(28,443)
Net book amount	32,437
	<u>Properties</u> RMB'000
At January 1, 2018	
Cost	60,880
Accumulated depreciation	(28,443)
Net book amount	32,437
Year ended December 31, 2018	
Opening net book amount	32,437
Additions	41,663
Depreciation (Note 6)	(14,810)
Closing net book amount	59,290
At December 31, 2018	
Cost	102,543
Accumulated depreciation	(43,253)
Net book amount	59,290

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

15 Right-of-use assets

(Unaudited)	Properties RMB'000
At January 1, 2018	
Cost	60,880
Accumulated depreciation	(28,443)
Net book amount	32,437
Five months Ended May 31, 2018	
Opening net book amount	32,437
Additions	14,377
Depreciation (Note 6)	(5,026)
Closing net book amount	41,788
At May 31, 2018	
Cost	75,257
Accumulated depreciation	(33,469)
Net book amount	41,788
	Properties RMB'000
At January 1, 2019	
Cost	102,543
Accumulated depreciation	(43,253)
Net book amount	59,290
Five months ended May 31, 2019	
Opening net book amount	59,290
Depreciation (Note 6)	(9,019)
Closing net book amount	50,271
At May 31, 2019	
Cost	102,543
Accumulated depreciation	(52,272)
Net book amount	50,271

The combined statements of comprehensive income and the combined statements of cash flows contain the following amounts relating to leases:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Depreciation charge of right-of-use assets	10,153	11,672	14,810	5,026	9,019
Interest expenses	1,940	1,955	2,031	713	1,142
Expenses relating to short-term leases	1,107	796	578	321	293
The cash outflow for leases payment related to short-term lease as operating activities	1,005	914	763	364	293
The cash outflow for leases as financing activities	10,567	12,519	17,849	6,247	7,294

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

At January 1, 2016

	Game license RMB'000	Domain name RMB'000	Software RMB'000	Trade name RMB'000	User list RMB'000	Goodwill RMB'000	Total RMB'000
Cost	49,494	5,678	1,461	—	—	—	56,633
Accumulated amortization	(17,784)	(233)	(887)	—	—	—	(18,904)
Net book amount	31,710	5,445	574	—	—	—	37,729

Year ended December 31, 2016

Opening net book amount	31,710	5,445	574	—	—	—	37,729
Additions	11,892	—	275	79	—	—	12,246
Business combinations (Note 33)	—	—	3,904	17,100	8,000	45,146	74,150
Amortization	(16,092)	(568)	(490)	(16)	—	—	(17,166)
Impairment (Note a)	(3,000)	—	—	—	—	—	(3,000)
Closing net book amount	24,510	4,877	4,263	17,163	8,000	45,146	103,959

At December 31, 2016

Cost	61,386	5,678	5,640	17,179	8,000	45,146	143,029
Accumulated amortization	(33,876)	(801)	(1,377)	(16)	—	—	(36,070)
Impairment	(3,000)	—	—	—	—	—	(3,000)
Net book amount	24,510	4,877	4,263	17,163	8,000	45,146	103,959

- (a) The Group stopped the game operation of one of its online game in April 2016 and the carrying amount of RMB3 million of the related game license was fully impaired in 2016 and written off in 2017.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

At January 1, 2017

	Game license RMB'000	Domain name RMB'000	Software RMB'000	Trade name RMB'000	User list RMB'000	Goodwill RMB'000	Total RMB'000
Cost	61,386	5,678	5,640	17,179	8,000	45,146	143,029
Accumulated amortization	(33,876)	(801)	(1,377)	(16)	—	—	(36,070)
Impairment	(3,000)	—	—	—	—	—	(3,000)
Net book amount	24,510	4,877	4,263	17,163	8,000	45,146	103,959

Year ended December 31, 2017

Opening net book amount	24,510	4,877	4,263	17,163	8,000	45,146	103,959
Additions	4,760	—	311	9	—	—	5,080
Business combinations (Note 33)	42,176	—	—	—	—	56,524	98,700
Amortization	(26,052)	(568)	(1,812)	(2,173)	(1,600)	—	(32,205)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Currency translation differences	(95)	—	—	—	—	—	(95)
Closing net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037

At December 31, 2017

Cost	100,067	5,678	5,951	17,188	8,000	101,670	238,554
Accumulated amortization	(54,768)	(1,369)	(3,189)	(2,189)	(1,600)	—	(63,115)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

At January 1, 2018

	Game license RMB'000	Domain name RMB'000	Software RMB'000	Trade name RMB'000	User list RMB'000	Goodwill RMB'000	Total RMB'000
Cost	100,067	5,678	5,951	17,188	8,000	101,670	238,554
Accumulated amortization	(54,768)	(1,369)	(3,189)	(2,189)	(1,600)	—	(63,115)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037

Year ended December 31, 2018

Opening net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037
Additions	58,451	—	697	—	—	—	59,148
Amortization	(37,506)	(528)	(1,743)	(2,137)	(1,600)	—	(43,514)
Currency translation differences	1,504	—	—	—	—	—	1,504
Closing net book amount	67,681	3,483	1,716	12,825	4,800	101,670	192,175

At December 31, 2018

Cost	160,506	5,678	6,648	17,188	8,000	101,670	299,690
Accumulated amortization	(92,758)	(1,897)	(4,932)	(4,326)	(3,200)	—	(107,113)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	67,681	3,483	1,716	12,825	4,800	101,670	192,175

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

(Unaudited)

At January 1, 2018

	Game license RMB'000	Domain name RMB'000	Software RMB'000	Trade name RMB'000	User list RMB'000	Goodwill RMB'000	Total RMB'000
Cost	100,067	5,678	5,951	17,188	8,000	101,670	238,554
Accumulated amortization	(54,768)	(1,369)	(3,189)	(2,189)	(1,600)	—	(63,115)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037

Five months ended May 31, 2018

Opening net book amount	45,232	4,011	2,762	14,962	6,400	101,670	175,037
Additions	15,794	—	20	10	—	—	15,824
Amortization	(11,796)	(220)	(616)	(891)	(667)	—	(14,190)
Currency translation differences	(71)	—	—	—	—	—	(71)
Closing net book amount	49,159	3,791	2,166	14,081	5,733	101,670	176,600

At May 31, 2018

Cost	115,851	5,678	5,971	17,198	8,000	101,670	254,368
Accumulated amortization	(66,625)	(1,589)	(3,805)	(3,080)	(2,267)	—	(77,366)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	49,159	3,791	2,166	14,081	5,733	101,670	176,600

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

At January 1, 2019

	Game license RMB'000	Domain name RMB'000	Software RMB'000	Trade name RMB'000	User list RMB'000	Goodwill RMB'000	Total RMB'000
Cost	160,506	5,678	6,648	17,188	8,000	101,670	299,690
Accumulated amortization	(92,758)	(1,897)	(4,932)	(4,326)	(3,200)	—	(107,113)
Impairment	(67)	(298)	—	(37)	—	—	(402)
Net book amount	67,681	3,483	1,716	12,825	4,800	101,670	192,175

Five months ended May 31, 2019

Opening net book amount	67,681	3,483	1,716	12,825	4,800	101,670	192,175
Additions	25,637	—	414	—	—	—	26,051
Amortization	(21,663)	(221)	(877)	(891)	(667)	—	(24,319)
Currency translation differences	24	—	—	—	—	—	24
Closing net book amount	71,679	3,262	1,253	11,934	4,133	101,670	193,931

At May 31, 2019

Cost	185,620	5,678	7,057	17,188	8,000	101,670	325,213
Accumulated amortization	(113,941)	(2,118)	(5,804)	(5,217)	(3,867)	—	(130,947)
Impairment	—	(298)	—	(37)	—	—	(335)
Net book amount	71,679	3,262	1,253	11,934	4,133	101,670	193,931

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

Amortization expenses have been charged to the combined statements of comprehensive income as follows:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of revenues	16,621	31,598	42,540	13,894	23,762
General and administrative expenses	545	607	974	296	557
	<u>17,166</u>	<u>32,205</u>	<u>43,514</u>	<u>14,190</u>	<u>24,319</u>

The addition of the goodwill arose from acquisition of Yiwan in 2016, and acquisition of Longcheng in 2017 (Note 33).

Impairment of goodwill

The Group carries out its annual impairment test on goodwill by comparing the recoverable amounts of CGU to the carrying amounts. The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period with a terminal value related to the future cash flows extrapolated using the estimated growth rates stated below beyond the 5-year period. The Group believes that it is appropriate to cover a 5-year period in its cash flow projection, because it captures the development stage of the Group's businesses during which the Group expects to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

Management reviews the business performance based on type of business and monitors the goodwill at the operating segment level. The following is a summary of goodwill allocation for each operating segments:

	Game Segment	Information Service Segment
	RMB'000	RMB'000
Year ended December 31, 2016		
Opening net book amount	—	—
Additions	—	45,146
Closing net book amount	—	<u>45,146</u>
Year ended December 31, 2017		
Opening net book amount	—	45,146
Additions	56,524	—
Closing net book amount	<u>56,524</u>	<u>45,146</u>
Year ended December 31, 2018		
Opening net book amount	56,524	45,146
Additions	—	—
Closing net book amount	<u>56,524</u>	<u>45,146</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

	Game Segment	Information Service Segment
	RMB'000	RMB'000
(Unaudited)		
Five months ended May 31, 2018		
Opening net book amount	56,524	45,146
Additions	—	—
Closing net book amount	56,524	45,146
Five months ended May 31, 2019		
Opening net book amount	56,524	45,146
Additions	—	—
Closing net book amount	56,524	45,146

Impairment review on the goodwill of the Group has been conducted by the management as at December 31, 2016, 2017 and 2018, and May 31, 2019 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a 5-year period. The key assumptions used in the significant CGU value-in-use calculations are as follows:

	As of December 31,		As of May 31,
	2017	2018	2019
Game Segment			
Annual revenue growth rate for the 5-year period (%)	4.4%~6.5%	3.0%~21.6%	3.0%~32.5%
Gross profit rate (%)	43.0%~43.5%	52.2%~63.0%	51.7%~59.9%
Terminal revenue growth rate (%)	3.0%	3.0%	3.0%
Pre-tax discount rate (%)	19.7%	19.7%	19.0%
Information Service Segment			
Annual revenue growth rate for the 5-year period (%)	10.0%~92.5%	5.0%~39.9%	3.0%~57.9%
Gross profit rate (%)	87.7%~88.7%	89.9%~91.4%	90.6%~91.6%
Terminal revenue growth rate (%)	3.0%	3.0%	3.0%
Pre-tax discount rate (%)	23.9%	21.6%	22.0%

As at December 31, 2016, given the short period of time after Yiwan acquisition, the Group is not aware of any impairment indicator or significant changes in the key assumptions and parameters used in the purchase price allocation of Yiwan.

The budgeted gross margins used in the goodwill impairment testing, were determined by the management based on past performance and its expectation for market development. The expected revenue growth rate and gross profit rates are following the business plan approved by the Company. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

Impairment of goodwill

The headroom of the Game and Information Service CGUs are shown as below:

	As of December 31,		As of May 31,
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Game Segment	1,185,580	2,320,423	3,277,781
Information Service Segment	158,742	642,321	1,325,696

The Group performs the sensitivity analysis based on the assumption that revenue amount or the discount rate has been changed. Had the estimated key assumption during the forecast period been changed as below the headroom would be decreased to as below:

	As of December 31,		As of May 31,
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Game Segment			
Revenue growth rate decreased by 10%	1,131,451	2,153,367	2,978,562
Gross profit rate decreased by 10%	767,444	1,532,884	2,326,168
Terminal value decrease by 10%	1,100,637	2,167,989	3,080,215
Discount rate increased by 10%	1,023,411	2,025,207	2,869,711
	As of December 31,		As of May 31,
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Information Service Segment			
Revenue growth rate decreased by 10%	112,632	580,190	1,186,247
Gross profit rate decreased by 10%	16,322	337,201	941,229
Terminal value decrease by 10%	140,740	595,226	1,249,677
Discount rate increased by 10%	121,561	547,656	1,155,805

As at December 31, 2017, a 278% decrease in estimated revenue growth rate, a 28% decrease in estimated gross profit rate, a 327% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment.

As at December 31, 2018, a 172% decrease in estimated revenue growth rate, a 29% decrease in estimated gross profit rate, a 429% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment.

As at May 31, 2019, a 140% decrease in estimated revenue growth rate, a 34% decrease in estimated gross profit rate, a 568% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment.

As at December 31, 2017, a 36% decrease in estimated revenue growth rate, a 11% decrease in estimated gross profit rate, a 65% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment.

As at December 31, 2018, a 143% decrease in estimated revenue growth rate, a 21% decrease in estimated gross profit rate, a 240% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

16 Intangible assets

Impairment of goodwill

As at May 31, 2019, a 131% decrease in estimated revenue growth rate, a 34% decrease in estimated gross profit rate, a 439% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment.

Reasonable possible changes in key assumptions would not lead to impairment as of December 31, 2016, 2017 and 2018 and as of May 31, 2019, respectively.

17 Deferred income taxes

The following amounts, determined after appropriate offsetting, are shown in the combined statements of financial position:

Deferred tax assets

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
The balance comprises temporary differences attributable to:				
—Lease liabilities	7,021	5,431	8,767	7,797
—Tax losses	10,904	10,885	9,141	5,436
—Long term investments measured at fair value through profit or loss	—	1,418	2,404	2,319
—Bad debt provision	122	242	294	368
—Impairment of intangible assets	450	10	10	—
—Contract liabilities and advance from customers	328	2,002	—	—
—Advertising and promotional expenses	12,813	1,488	—	—
Total gross deferred tax assets	31,638	21,476	20,616	15,920
Set-off of deferred tax liabilities pursuant to set-off provisions	(13,301)	(13,469)	(12,223)	(7,610)
Net deferred tax assets	18,337	8,007	8,393	8,310
	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
—to be recovered within 12 months	16,670	6,100	5,306	5,304
—to be recovered after 12 months	1,667	1,907	3,087	3,006
	18,337	8,007	8,393	8,310

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

17 Deferred income taxes

Deferred tax liabilities

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
The balance comprises temporary differences attributable to:				
—Right-of-use assets	6,616	4,865	8,160	7,023
—Intangible assets arising from business combinations . . .	7,250	13,946	5,513	3,856
—Long term investments measured at fair value through profit or loss	838	—	444	655
Total gross deferred tax liabilities	14,704	18,811	14,117	11,534
Set-off of deferred tax assets pursuant to set-off provisions	(13,301)	(13,469)	(12,223)	(7,610)
Net deferred tax liabilities	1,403	5,342	1,894	3,924
	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities:				
—to be recovered within 12 months	—	1,365	—	1,819
—to be recovered after 12 months	1,403	3,977	1,894	2,105
	1,403	5,342	1,894	3,924

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

17 Deferred income taxes

Deferred tax assets

The movement on the gross deferred income tax assets is as follows:

	Lease liabilities RMB'000	Tax losses RMB'000	Long term investments measured at fair value through profit or loss RMB'000	Bad debt provision RMB'000	Impairment of intangible assets RMB'000	Contract liabilities and advance from customers RMB'000	Advertising and promotional expenses RMB'000	Total RMB'000
At January 1, 2016	5,250	6,097	1,622	133	—	721	—	13,823
Business combinations (Note 33)	—	5,847	—	—	—	—	—	5,847
Credited/(charged) to combined income statement	1,771	(1,040)	(1,622)	(11)	450	(393)	12,813	11,968
At December 31, 2016	7,021	10,904	—	122	450	328	12,813	31,638
At January 1, 2017	7,021	10,904	—	122	450	328	12,813	31,638
Business combinations (Note 33)	—	4,553	—	12	—	—	—	4,565
(Charged)/credited to combined income statement	(1,590)	(4,572)	1,418	108	(440)	1,674	(11,325)	(14,727)
At December 31, 2017	5,431	10,885	1,418	242	10	2,002	1,488	21,476
At January 1, 2018	5,431	10,885	1,418	242	10	2,002	1,488	21,476
Credited/(charged) to combined income statement	3,336	(1,935)	986	49	—	(2,002)	(1,488)	(1,054)
Currency translation differences	—	191	—	3	—	—	—	194
At December 31, 2018	8,767	9,141	2,404	294	10	—	—	20,616
(Unaudited)								
At January 1, 2018	5,431	10,885	1,418	242	10	2,002	1,488	21,476
Credited/(charged) to combined income statement	276	(7,381)	721	105	—	(2,002)	(1,488)	(9,769)
Currency translation differences	—	7	—	—	—	—	—	7
At May 31, 2018	5,707	3,511	2,139	347	10	—	—	11,714
At January 1, 2019	8,767	9,141	2,404	294	10	—	—	20,616
(Charged)/credited to combined income statement	(970)	(3,724)	(85)	74	(10)	—	—	(4,715)
Currency translation differences	—	19	—	—	—	—	—	19
At May 31, 2019	7,797	5,436	2,319	368	—	—	—	15,920

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

17 Deferred income taxes

Deferred tax liabilities

The movement on the gross deferred income tax liabilities is as follows:

	Right-of-use assets	Intangible assets	Long term investments measured at fair value through profit or loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	5,133	—	—	5,133
Business combinations (Note 33)	—	7,250	—	7,250
Charged to combined income statement	1,483	—	838	2,321
At December 31, 2016	6,616	7,250	838	14,704
At January 1, 2017	6,616	7,250	838	14,704
Business combinations (Note 33)	—	9,612	—	9,612
(Credited) to combined income statement	(1,751)	(2,916)	(838)	(5,505)
At December 31, 2017	4,865	13,946	—	18,811
At January 1, 2018	4,865	13,946	—	18,811
Charged/(credited) to combined income statement	3,295	(8,433)	444	(4,694)
At December 31, 2018	8,160	5,513	444	14,117
(Unaudited)				
At January 1, 2018	4,865	13,946	—	18,811
Charged/(credited) to combined income statement	368	(6,112)	476	(5,268)
At May 31, 2018	5,233	7,834	476	13,543
At January 1, 2019	8,160	5,513	444	14,117
(Credited)/charged to combined income statement	(1,137)	(1,657)	211	(2,583)
At May 31, 2019	7,023	3,856	655	11,534

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at December 31, 2016, 2017 and 2018, and May 31, 2019, the Group did not recognize deferred income tax assets of RMB4.80 million, RMB6.86 million, RMB6.95 million and RMB6.96 million, in respect of cumulative tax losses amounting to RMB19.20 million, RMB27.45 million, RMB27.81 million and RMB27.86 million. These tax losses will expire from 2017 to 2024.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

18 Interests in other entities

(a) Non-controlling interests

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

(i) Yiwan

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	4,249	139,775	403,169	478,529
Non-current assets	29,264	29,585	32,845	48,838
Current liabilities	(4,630)	(38,149)	(30,748)	(30,388)
Non-current liabilities	(1,403)	—	(1,980)	(9,668)
Net assets	27,480	131,211	403,286	487,311
Accumulated non-controlling interests	12,353	62,869	193,999	215,564
	Year ended December 31,		Five months ended May 31,	
	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	86,580	299,963	114,512	178,094
(Loss)/profit for the year/period	(46,269)	72,075	39,383	84,922
(Loss)/profit and total comprehensive income for the year/period allocated to non-controlling interests	(21,599)	34,603	18,870	40,454
Cash flows from operating activities	(61,660)	(1,363)	(10,864)	68,267
Cash flows from investing activities	(9,188)	(110,827)	(36,730)	(5,160)
Cash flows from financing activities	150,000	150,000	—	(66)
Net increase/(decrease) in cash and cash equivalents	79,152	37,810	(47,594)	63,041

The Group acquired Yiwan at December 20, 2016. Yiwan's comprehensive income and cash flow in the combined financial statements for the period from December 20, 2016 to December 31, 2016 was immaterial.

(ii) Longcheng

	As of December 31,		As of May 31,
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Current assets	203,287	353,796	480,509
Non-current assets	38,837	79,736	108,077
Current liabilities	(126,691)	(231,683)	(260,408)
Non-current liabilities	(5,325)	—	(1,764)
Net assets	110,108	201,849	326,414
Accumulated non-controlling interests	53,953	70,647	114,245

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

18 Interests in other entities

(a) Non-controlling interests

(ii) Longcheng

	Five months ended December 31, 2017	Year ended December 31, 2018	Five months ended May 31, 2018 (Unaudited)	Five months ended May 31, 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	277,252	752,338	251,076	512,363
Profit for the year/period	41,385	83,841	21,685	120,743
Other comprehensive (loss)/income	(1,388)	7,900	(980)	3,823
Total comprehensive income	39,997	91,741	20,705	124,566
Profit allocated to non-controlling interests	20,279	33,257	10,018	42,260
Total comprehensive income allocated to non-controlling interests	19,599	36,391	9,566	43,598
Cash flows from operating activities	117,223	(17,295)	7,689	199,936
Cash flows from investing activities	(7,718)	(34,436)	(46,587)	(54,881)
Exchange (loss)/gain on cash and cash equivalents	—	—	(1,214)	2,804
Net increase/(decrease) in cash and cash equivalents	109,505	(51,731)	(40,112)	147,859

(b) Transactions with non-controlling interests

- (i) In May 2017, X.D Network Inc. and non-controlling shareholders consummated additional capital injection in Yiwan for RMB50 million and RMB100 million, respectively. Immediately prior to the transaction, the carrying amount of the existing 44.95% non-controlling interest in Yiwan was RMB3.69 million. After the transaction, the Group's equity interest in Yiwan was diluted from 55.05% to 52.09% and retained control over Yiwan. Therefore, the Group recorded an increase in non-controlling interest of RMB72.11 million and an increase in other reserves of RMB27.89 million.
- (ii) In June 2018, X.D Network Inc. and non-controlling shareholders consummated additional capital injection in Yiwan for RMB100 million (out of which RMB50 million was paid in January 2019) and RMB100 million, respectively. Immediately prior to the transaction, the carrying amount of the existing 47.91% non-controlling interest in Yiwan was RMB80.14 million. After the transaction, the Group's equity interest in Yiwan was diluted from 52.09% to 51.90% and retained control Yiwan. Therefore, the Group recorded an increase in non-controlling interest of RMB96.53 million and an increase in other reserves of RMB3.47 million.
- (iii) In April 2018, the Group acquired an additional 14% equity interest in Longcheng at a consideration of RMB28 million. Immediately prior to the purchase, the carrying amount of the existing 49% non-controlling interest in Longcheng was RMB68.94 million. The Group recognized a decrease in non-controlling interest of RMB19.70 million and a decrease in other reserves of RMB8.30 million.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**18 Interests in other entities****(b) Transactions with non-controlling interests**

- (iv) In May 2019, the Group acquired an additional 3.87% equity interest in Yiwan at a consideration of RMB 96.92 million (out of which RMB36.92 million was unpaid as at May 31, 2019). Immediately prior to the purchase, the carrying amount of the existing 48.10% non-controlling interest in Yiwan was RMB234.45 million. The Group recognized a decrease in non-controlling interest of RMB18.89 million and a decrease in other reserves of RMB78.03 million.

(c) Investments in associates using the equity method

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	68,306	72,343	43,259	43,259	44,305
Additions	52,533	4,000	1,000	1,000	—
Share of results of associates	(18,509)	7,587	285	56	(841)
Re-measurement gain (Note i)	—	—	9,446	—	—
Transferred to long-term investment measured at fair value through profit or loss (Note i)	(22,069)	—	(15,577)	—	—
Step acquisition from associates to subsidiaries (Note 33)	(3,779)	(40,927)	—	—	—
Dilution gain (Note ii)	155	1,806	5,127	5,127	—
Disposals (Note iii)	—	(639)	—	—	—
Impairment	(5,222)	—	—	—	—
Currency translation differences	928	(911)	765	(294)	69
At the end of the year/period	72,343	43,259	44,305	49,148	43,533

- (i) On September 5, 2016, one independent third party completed capital injection in one associate of the Group which is accounted for using equity method. In this transaction, the Group's equity interest in the associate was diluted from 35.71% to 27.86% and the Group obtained redemption rights from the associate. The Group subsequently recorded this investment as long term investments measured at fair value through profit or loss (Note 20). No re-measurement gain was recognized since the carrying amount of the investment approximated its fair value.

On July 30, 2018, one independent third party completed capital injection in one associate of the Group which is accounted for using equity method. In this transaction, the Group's equity interest in the associate was diluted from 23.00% to 19.55% and the Group obtained redemption rights from the associate. The Group subsequently recorded this investment as long term investments measured at fair value through profit or loss (Note 20) and recognized a re-measurement gain of RMB9.45 million (Note 10).

- (ii) During the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, the Group's certain associates accounted for using equity method received capital injection from third parties. Subsequently, the Group's equity interest in these investees was diluted, but the Group retained significant influence on these investees. The Group recognized dilution gain of RMB0.16 million, RMB1.81 million, RMB5.13 million, RMB5.13 million and

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**18 Interests in other entities****(c) Investments in associates using the equity method**

nil during the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, respectively.

- (iii) During the year ended December 31, 2017, the Group partially disposed of one associate accounted for using the equity method. The Group received cash consideration of RMB1.67 million and recognized disposal gain of RMB1.03 million (Note 10).
- (d) In the opinion of the directors, none of the associates is material to the Group. The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Aggregate carrying amount of individually immaterial associates	72,343	43,259	44,305	49,148	43,533
Aggregate amounts of the Group's share of:					
- (Loss)/profit from operations	(18,509)	7,587	285	56	(841)

19 Financial instruments by category

The Group holds the following financial instruments:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Assets as per combined statements of financial position				
Financial assets at fair value through profit or loss:				
- Long term investments measured at fair value through profit or loss (Note 20)	50,038	36,451	33,687	38,114
- Short-term investments measured at fair value through profit or loss (Note 23)	45,702	115,738	156,647	241,728
	95,740	152,189	190,334	279,842
Financial assets at amortized costs:				
- Trade receivables (Note 22)	59,964	215,975	449,070	385,328
- Deposits and other assets (Note 21)	6,569	14,486	19,298	22,740
- Cash and cash equivalents (Note 24)	178,127	577,972	573,233	646,300
	244,660	808,433	1,041,601	1,054,368
Liabilities as per combined statements of financial position				
Financial liabilities at amortized costs:				
- Trade payables (Note 29)	23,833	124,696	101,275	115,486
- Advance from customers (Note 30)	810	8,079	9,089	13,562
- Other payables (excluding salaries and benefits payable and other tax payables) (Note 31)	35,209	42	25	44,001
- Lease liabilities (Note 28)	45,470	34,906	60,751	54,599
	105,322	167,723	171,140	227,648

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

20 Long term investments measured at fair value through profit or loss

Movements in long term investments measured at fair value through profit or loss during the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, are as follows:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period . . .	12,336	50,038	36,451	36,451	33,687
Additions	34,034	9,222	—	—	—
Transfer from investments in associates (Note 18(c))	22,069	—	15,577	—	—
Change in fair value (Note 8)	(18,391)	(22,963)	(12,462)	(9,025)	4,572
Disposal	(10)	—	(5,911)	(5,911)	—
Currency translation differences	—	154	32	(110)	(145)
At the end of the year/period	50,038	36,451	33,687	21,405	38,114

As of December 31, 2016, 2017 and 2018, and May 31, 2019, all long term investments measured at fair value through profit or loss are equity investments in unlisted companies held by the Group. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 3.3.

Long term investments measured at fair value through profit or loss included:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Investments in associates at fair value through profit or loss (Note a)	25,952	10,386	19,873	24,309
Other investments at fair value through profit or loss (Note b)	24,086	26,065	13,814	13,805
	50,038	36,451	33,687	38,114

- (a) During the Track Record Period, the Group made investments in associates in the form of redeemable instruments and designated them at fair value through profit or loss. The Group has significant influence in these companies.

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period . . .	4,817	25,952	10,386	10,386	19,873
Additions	7,000	500	—	—	—
Transferred from investment in associates (Note 18(c)(i))	22,069	—	15,577	—	—
Change in fair value	(7,934)	(16,066)	(6,090)	(3,854)	4,436
At the end of the year/period	25,952	10,386	19,873	6,532	24,309

- (b) The Group also has interests in certain investee companies in form of ordinary shares without significant influence, which are managed and their performance are evaluated on a fair value

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

20 Long term investments measured at fair value through profit or loss

basis. The Company designated these instruments as long term investments measured at fair value through profit or loss.

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period . . .	7,519	24,086	26,065	26,065	13,814
Additions	27,034	8,722	—	—	—
Change in fair value	(10,457)	(6,897)	(6,372)	(5,171)	136
Disposal	(10)	—	(5,911)	(5,911)	—
Currency translation differences	—	154	32	(110)	(145)
At the end of the year/period	<u>24,086</u>	<u>26,065</u>	<u>13,814</u>	<u>14,873</u>	<u>13,805</u>

As at December 31, 2016, 2017 and 2018, and May 31, 2019, the balance of the Group's long term investments measured at fair value through profit or loss comprised a large number of individual investments, none of the investment is material to the Group.

21 Prepayments, deposits and other assets

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Prepayments for game licenses (Note a)	25,790	10,616	59,571	66,781
Rental and other deposits	3,326	3,356	5,395	6,679
	<u>29,116</u>	<u>13,972</u>	<u>64,966</u>	<u>73,460</u>
Current				
Prepayments for sharing of proceeds (Note a)	71,738	34,615	57,907	83,615
Rental and other deposits	1,166	2,812	7,302	6,502
Tax prepayments	7,429	16,760	18,537	4,711
Prepayments for advertisements	4,988	144	6,650	4,589
Deferred listing expenses	—	—	384	2,583
Others	2,077	8,318	6,601	9,559
	<u>87,398</u>	<u>62,649</u>	<u>97,381</u>	<u>111,559</u>

- (a) The Group licenses online games from game developers and pays game license fees and sharing of proceeds earned from selling in-game virtual items to game developers. The prepayments for game license fees are transferred to intangible assets when the Group receives related licensed games. The prepayments for sales based sharing are expensed to cost of revenues if the Group acts as principal, or are offset against the revenues if the Group acts as agent, on incurred basis.

During the Track Record Period, certain prepayments were fully impaired as the Group ceased to publish these licensed games due to their underperformance. During the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019, the Group

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

21 Prepayments, deposits and other assets

made an impairment provision on prepayments to game developers of nil, RMB28.10 million, RMB41.56 million, RMB9.43 million and nil respectively.

22 Trade receivables

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Distribution Channels and game publishers	58,444	175,817	351,966	272,809
Online marketing service customers	—	40,584	98,166	113,801
Related parties	1,980	823	503	505
	60,424	217,224	450,635	387,115
Less: allowance for impairment	(460)	(1,249)	(1,565)	(1,787)
	59,964	215,975	449,070	385,328

(a) Distribution Channels and game publishers and online marketing service customers usually settle the amounts within 30-120 days. Related parties are granted with a credit period of 90 days. Aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	57,679	195,779	428,533	347,596
3 months to 6 months	1,677	16,868	19,581	37,315
6 months to 1 year	267	3,793	1,395	1,059
1 to 2 years	550	342	591	429
Over 2 years	251	442	535	716
	60,424	217,224	450,635	387,115

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

22 Trade receivables

(b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. During the Track Record Period, the expected loss rate for related parties is close to zero; the expected credit loss rates for Distribution Channels and game publishers and online marketing service customers are determined according to provision matrix as follows:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
Distribution Channels and game publishers				
Within 3 months	0.05%	0.12%	0.09%	0.09%
3 months to 6 months	0.62%	1.80%	1.21%	1.21%
6 months to 1 year	2.57%	6.27%	8.70%	5.97%
1 to 2 years	36.31%	62.37%	73.22%	47.90%
Over 2 years	100.00%	100.00%	100.00%	100.00%
Online marketing service customers	As of December 31, 2017 and 2018, and May 31, 2019			
Within 3 months				0%
3 months to 6 months				0%
6 months to 1 year				5%
1 to 2 years				30%
Over 2 years				100%

The expected loss rates are based on the payment profiles of sales over a period of 36 month before December 31, 2016, 2017 and 2018, and May 31, 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the CPI and Retail Sales of Consumer Goods ("RSCG") of the countries in which it operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. With regards to online marketing service customers, since the actual loss rates for each type of the trade receivables and the adjustment for forward looking macroeconomic data did not have significant change during the Track Record Period, the directors of the Company consider that the change in the expected credit loss rate for provision matrix of online marketing service customers is insignificant throughout the Track Record Period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

22 Trade receivables

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	342	460	1,249	1,249	1,565
Provision	274	792	299	303	222
Receivables written off during the year as uncollectable	(156)	—	—	—	—
Currency translation differences	—	(3)	17	—	—
At the end of the year/period	<u>460</u>	<u>1,249</u>	<u>1,565</u>	<u>1,552</u>	<u>1,787</u>

The provisions and reversal of provisions for impaired receivables have been included in "Net impairment losses on financial assets" in the combined statements of comprehensive income.

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of December 31, 2016, 2017 and 2018, and May 31, 2019.
- (d) The carrying amount of the Group's trade receivables is denominated in the following currencies:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
USD	34,430	145,717	336,557	255,741
RMB	25,994	71,507	114,078	131,374
	<u>60,424</u>	<u>217,224</u>	<u>450,635</u>	<u>387,115</u>

- (e) The maximum exposure to credit risk as of December 31, 2016, 2017 and 2018, and May 31, 2019 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

23 Short-term investments

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term investments measured at —fair value through profit or loss	<u>45,702</u>	<u>115,738</u>	<u>156,647</u>	<u>241,728</u>

- (a) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, of which principal and returns are not guaranteed. The effective rate of return of these wealth management products are 2.00% to 6.14% and the term are 7 to 270 days. The fair values

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**23 Short-term investments**

- (a) Short-term investments measured at fair value through profit or loss

are based on discounted cash flow using the expected return based on management judgment and are within level 3 of the fair value hierarchy (Note 3.3). Changes in fair value of these financial assets had been recognized in “Fair value changes on investments measured at fair value through profit or loss” in the combined statements of comprehensive income.

- (b) Short-term investments are denominated in the following currencies:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	45,702	76,462	156,647	241,728
USD	—	39,276	—	—
	<u>45,702</u>	<u>115,738</u>	<u>156,647</u>	<u>241,728</u>

24 Cash and cash equivalents

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand and cash in bank	136,678	459,742	179,307	387,582
Term deposit with initial terms within three months				
(Note a)	34,685	105,789	387,782	247,384
Cash held by other financial institutions (Note b)	6,764	12,441	6,144	11,334
	<u>178,127</u>	<u>577,972</u>	<u>573,233</u>	<u>646,300</u>

- (a) The interest rates of these deposits per annum were 1.15%-3.71%.

- (b) As of December 31, 2016, 2017 and 2018, and May 31, 2019, the Group had certain amounts of cash held in accounts managed by other financial institutions, such as Alipay and WeChat Pay in connection with the provision of online and mobile payment services which have been classified as cash and cash equivalents on the combined statements of financial position.

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	59,670	231,989	174,525	193,102
USD	115,324	240,183	367,454	358,072
HKD	48	103,670	29,388	93,444
KRW	3,085	2,130	1,866	1,682
	<u>178,127</u>	<u>577,972</u>	<u>573,233</u>	<u>646,300</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

25 Combined capital

The Reorganization has not been completed as at May 31, 2019. As mentioned in Note 1.3, the Historical Financial Information has been prepared on a combined basis. Combined capital as at December 31, 2016, 2017 and 2018, and May 31, 2019 represent the combined share capital of the companies now comprising the Group after elimination of inter-company transactions and balances. Movements in combined capital are disclosed in the combined statements of changes in equity.

	As of December 31,			As of May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	57,920	289,600	360,359	360,359	360,359
Capital contributions from the then shareholders					
(Note a)	—	14,500	—	—	—
Reclassification from other reserves (Note b)	231,680	56,259	—	—	—
Share repurchase of a subsidiary (Note c)	—	—	—	—	(8,438)
Issuance of shares (Note d)	—	—	—	—	240
At the end of the year/period	<u>289,600</u>	<u>360,359</u>	<u>360,359</u>	<u>360,359</u>	<u>352,161</u>

(a) Pursuant to shareholder's resolution of X.D. Network Inc. dated on February 22, 2017, 14.5 million ordinary shares of X.D. Network Inc. with the par value of RMB1.00 per share were issued at a price of RMB13.80 per share under the placing agreement for the net proceeds. Approximately RMB182.16 million was recognized as other reserves after deducting the placing fee, stamp duty and other related expenses amounting to RMB3.44 million.

(b) Pursuant to shareholder's resolution of X.D. Network Inc. dated on September 8, 2016, the paid-in capital of X.D. Network Inc. increased from RMB57.92 million to RMB289.60 million by way of reclassification of other reserves to paid-in capital.

Pursuant to shareholder's resolution of X.D. Network Inc. dated on June 8, 2017, the paid-in capital of X.D. Network Inc. increased from RMB304.10 million to RMB360.36 million by way of reclassification of other reserves to paid-in capital.

(c) Pursuant to shareholder's resolution of X.D. Network Inc. dated on February 18, 2019, X.D. Network Inc. repurchased 8,437,540 shares held by its certain then shareholders for an aggregate consideration of RMB92.30 million (out of which RMB2.12 million was unpaid as at May 31, 2019). The repurchase prices of shares were determined after arm's length negotiations among the parties based on the respective initial subscription and/or purchase prices of such shares or the average trading price of such shares for the 60 trading days preceding X.D. Network Inc. delisted from NEEQ, whichever is higher. The shares are held as treasury shares by X.D. Network Inc. and was deducted from combined capital and other reserves (Note 26). The Group assessed and concluded that the repurchase consideration higher than the fair value of repurchased shares with amount of RMB5.89 million should be recognized as expenses to reflect the benefit received by X.D. Network Inc.'s then shareholders.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**25 Combined capital**

- (d) The Company was incorporated in the Cayman Islands on January 25, 2019. As at May 31, 2019, 500,000,000 ordinary shares was authorized, 351,920,960 of which was issued at a par value of USD0.0001 each.

26 Other reserves

	Capital Reserve	Statutory reserve	Currency translation differences	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	430,009	—	1,105	431,114
Reclassification from other reserves (Note 25)	(231,680)	—	—	(231,680)
Appropriation to statutory reserves	—	2,928	—	2,928
Currency translation differences	—	—	1,822	1,822
At December 31, 2016	198,329	2,928	2,927	204,184
At January 1, 2017	198,329	2,928	2,927	204,184
Capital contributions from the then shareholders (Note 25)	182,159	—	—	182,159
Reclassification from other reserves (Note 25)	(56,259)	—	—	(56,259)
Appropriation to statutory reserves	—	12,139	—	12,139
Capital injections from non-controlling shareholders (Note 18(b))	27,885	—	—	27,885
Currency translation differences	—	—	(3,030)	(3,030)
At December 31, 2017	352,114	15,067	(103)	367,078
At January 1, 2018	352,114	15,067	(103)	367,078
Appropriation to statutory reserves	—	23,004	—	23,004
Capital injection from non-controlling shareholders (Note 18(b))	3,474	—	—	3,474
Acquisition of additional equity interests in a subsidiary (Note 18(b))	(8,304)	—	—	(8,304)
Currency translation differences	—	—	9,846	9,846
At December 31, 2018	347,284	38,071	9,743	395,098
At January 1, 2018 (Unaudited)	352,114	15,067	(103)	367,078
Acquisition of additional equity interests in a subsidiary (Note 18(b))	(8,304)	—	—	(8,304)
Currency translation differences	—	—	(1,907)	(1,907)
At May 31, 2018 (Unaudited)	343,810	15,067	(2,010)	356,867
At January 1, 2019	347,284	38,071	9,743	395,098
Acquisition of additional equity interests in a subsidiary (Note 18(b))	(78,034)	—	—	(78,034)
Share repurchase of a subsidiary (Note 25)	(77,968)	—	—	(77,968)
Currency translation differences	—	—	1,959	1,959
At May 31, 2019	191,282	38,071	11,702	241,055

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

27 Contract liabilities

Contract liabilities primarily consists of i) the unamortized revenue from sales of virtual items for mobile games, where there is still obligation to be provided by the Group to game players, and ii) the unamortized balance of the initial license fee paid by licensees.

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Game licensing to game publishers	715	—	—	—
	715	—	—	—
Current				
Game operating	54,785	104,491	90,921	100,545
Game licensing to game publishers	3,197	715	—	—
	57,982	105,206	90,921	100,545
	58,697	105,206	90,921	100,545

The following table shows the amount of revenue recognized in the combined statements of comprehensive income for the respective years relating to contract liabilities brought forward:

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year					
Game operating	50,033	54,785	104,491	103,101	90,921
Game licensing to game publishers	3,217	3,197	715	441	—
	53,250	57,982	105,206	103,542	90,921

28 Lease liabilities

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Minimum lease payments due				
–Within 1 year	12,518	13,494	23,692	22,213
–Between 1 and 2 years	13,494	13,494	17,035	16,624
–Between 2 and 5 years	22,564	10,744	24,988	19,584
–Over 5 years	1,673	—	—	—
	50,249	37,732	65,715	58,421
Less: future finance charges	(4,779)	(2,826)	(4,964)	(3,822)
Present value of lease liabilities	45,470	34,906	60,751	54,599

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

28 Lease liabilities

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
–Within 1 year	12,201	13,149	22,892	21,744
–Between 1 and 2 years	12,535	12,538	15,833	15,507
–Between 2 and 5 years	19,433	9,219	22,026	17,348
–Over 5 years	1,301	–	–	–
	<u>45,470</u>	<u>34,906</u>	<u>60,751</u>	<u>54,599</u>

29 Trade payables

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	<u>23,833</u>	<u>124,696</u>	<u>101,275</u>	<u>115,486</u>

Trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to game developers. The credit terms of trade payables granted to the Group are usually 0 to 90 days.

The carrying amount of the Group's trade payables is denominated in the following currencies:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	23,833	49,482	30,549	38,507
USD	–	75,214	70,726	76,979
	<u>23,833</u>	<u>124,696</u>	<u>101,275</u>	<u>115,486</u>

As of December 31, 2016, 2017 and 2018, and May 31, 2019, the fair value of trade payables approximated to their carrying amount.

Aging analysis of trade payables based on the recognition date of the trade payables at the respective reporting dates are as follows:

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	23,833	124,456	98,664	111,680
Over 3 months	–	240	2,611	3,806
	<u>23,833</u>	<u>124,696</u>	<u>101,275</u>	<u>115,486</u>

30 Advance from customers

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Advance from customers	<u>810</u>	<u>8,079</u>	<u>9,089</u>	<u>13,562</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**30 Advance from customers**

Advance from customers mainly represents advance from game developers, game publishers and their advertising agencies, which are usually received before displaying and will be refunded if not used.

31 Other payables and accruals

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for investments (Note 18(b))	—	—	—	36,923
Salaries and benefits payables	24,954	49,429	69,301	24,512
Other tax payables	9,675	10,108	14,546	16,132
Dividend payables (Note 32)	35,000	—	—	—
Others	209	42	25	7,078
	<u>69,838</u>	<u>59,579</u>	<u>83,872</u>	<u>84,645</u>

As at December 31, 2016, 2017 and 2018, and May 31, 2019, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

32 Dividends

As at December 31, 2016, dividend payable of RMB35 million of X.D. Network Inc. was subsequently paid in 2017.

Pursuant to the resolutions of the shareholders' meetings of X.D. Network Inc. on June 20, 2018, a dividend of RMB50.09 million was approved and paid to its then equity holders in the same year.

Pursuant to the resolutions of the shareholders' meetings of Mingdong on February 8, 2018, a dividend of RMB6.95 million was approved and paid, RMB2.81 million of which was paid to non-controlling shareholders.

No dividends have been paid or declared by the Company during the Track Record Period since the Company was incorporated on January 25, 2019.

33 Business combinations**(a) Acquisition of Yiwan**

Before December 20, 2016, the Group held 45.41% of the equity interest of Yiwan, an online game platform providing game publishing solutions and online marketing services, through several transactions and Yiwan was accounted for as investment in associate using the equity method.

On December 20, 2016, the Group obtained control over Yiwan through additional capital injection of RMB20 million in Yiwan. After this capital injection, the Group held 55.05% of the equity interests in Yiwan.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

33 Business combinations

(a) Acquisition of Yiwan

The carrying amount of the previously held equity interest immediately before the capital injection was RMB3.78 million (Note 18(c)) and a gain of RMB36.49 million was recognized as a result of remeasuring it to fair value and was presented in the “Other gains/(losses), net” of the combined statements of comprehensive income (Note 10).

The goodwill of approximately RMB45.15 million recognized represents the excess of the purchase consideration over the fair value of the net identifiable assets acquired. The goodwill recorded, not deductible for tax purposes, is primarily attributable to the Group's opportunity to strengthen its online game operation and distribution business and to achieve synergies from combining Yiwan's online platform.

The following table summarizes the consideration paid for Yiwan, the fair value of assets acquired, liabilities assumed at the acquisition date:

	<u>December 20, 2016</u> RMB'000
Consideration	
Fair value of previous held equity interests	40,273
Total purchase consideration	40,273
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	1,368
Other receivables and prepayments	2,881
Property, plant and equipment	261
Intangible assets	
—Trade name	17,100
—User list	8,000
—Software	3,904
Deferred tax assets	5,847
Trade payables	(9,672)
Other payables and accruals	(14,959)
Deferred tax liabilities	(7,250)
Total identifiable net assets	7,480
Less: Non-controlling interests	(12,353)
Add: Goodwill	45,146
	40,273

The acquisition-related costs were not significant and had been charged to general and administrative expenses in the combined statements of comprehensive income for the period ended December 31, 2016.

The revenue included in the combined statements of comprehensive income since December 20, 2016 contributed by Yiwan was nil, RMB86.58 million, 299.96 million, RMB114.51 million and RMB 178.09 million respectively for the years ended December 31, 2016, 2017 and 2018, five months ended May 31, 2018 and 2019. Yiwan also contributed a profit of nil, a loss of RMB42.49 million, a profit of RMB72.66 million, RMB37.03 million and RMB87.02 million, over the

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**33 Business combinations****(a) Acquisition of Yiwan**

same period. Had Yiwan been combined from March 28, 2016 (the establishment date of Yiwan), the combined revenue of the Group would decrease by approximately RMB0.42 million (after consideration of elimination) and the combined profit of the Group would decrease by approximately RMB25.27 million for the year ended December 31, 2016.

(b) Acquisition of Longcheng

Before July 31, 2017, the Group had 28% equity interest of Longcheng, an online game operator which focused on overseas markets through several transactions and Longcheng was accounted for as investment using the equity method.

On July 31, 2017, the Group acquired 23% of the ordinary shares of Longcheng with a cash consideration of RMB46 million. The Group therefore effectively held 51% equity interests of Longcheng, and at that time obtained control over Longcheng.

The carrying amount of the previously held equity interest immediately before the acquisition date was RMB40.93 million (Note 18(c)) and a gain of RMB5.35 million was recognized as a result of remeasuring it to fair value and was presented in the "Other gains/(losses), net" of the combined statements of comprehensive income (Note 10).

The goodwill of approximately RMB56.52 million recognized represents the excess of the purchase consideration over the fair value of the net identifiable assets acquired. The goodwill recorded, not deductible for tax purposes, is primarily attributable to the Group's opportunity to strengthen their overseas online game operation and distribution business and to achieve synergies.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

33 Business combinations

(b) Acquisition of Longcheng

The following table summarizes the consideration paid for Longcheng, the fair value of assets acquired, liabilities assumed at the acquisition date:

	<u>July 31, 2017</u> RMB'000
Consideration	
Purchase consideration settled in cash	46,000
Fair value of previous held equity interests	46,280
Total purchase consideration	92,280
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	28,285
Trade receivables	69,265
Other receivables and prepayments	6,391
Property, plant and equipment	359
Intangible assets	42,176
Deferred tax assets	4,565
Trade payables	(37,850)
Other payables and accruals	(5,661)
Contract liabilities	(27,808)
Deferred tax liabilities	(9,612)
Total identifiable net assets	70,110
Less: Non-controlling interests	(34,354)
Add: Goodwill	56,524
	92,280

The acquisition-related costs were not significant and had been charged to general and administrative expenses in the combined statements of comprehensive income for the year ended December 31, 2017.

The revenue included in the combined statements of comprehensive income since July 31, 2017 contributed by Longcheng was RMB277.25 million, RMB752.34 million, RMB251.08 million and RMB512.36 million for the years ended December 31, 2017 and 2018, and for the five months ended May 31, 2018 and 2019, respectively. Longcheng also contributed a profit of RMB46.36 million, RMB95.77 million, RMB26.66 million, RMB125.71 million over the same period. Had Longcheng been combined from January 1, 2017, the combined revenue and profit of the Group would increase by approximately RMB137.10 million and RMB23.08 million respectively for the year ended December 31, 2017.

The Group recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests of Yiwan and Longcheng, the Group elected to recognize the non-controlling interests at its proportionate share of the acquired net identifiable assets.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

34 Note to combined statements of cash flows

(a) Cash generated from/(used in) operations

	Notes	Year ended December 31,			Five months ended May 31,	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Profit before income tax		23,325	142,471	389,396	179,378	297,196
Adjustments for						
Depreciation and amortization	6	35,522	55,868	74,467	24,922	41,751
Net impairment losses on financial assets	6	654	960	299	303	222
Impairment of non-financial assets	6	8,222	28,503	41,564	9,434	—
Share based payments	6	—	—	—	—	5,890
Share of results of investments accounted for using equity method	18	18,509	(7,587)	(285)	(56)	841
Fair value changes on investments measured at fair value through profit or loss	8	15,605	21,069	3,351	6,516	(7,714)
Fair value changes on previous held equity interests in step acquisition	10	(36,494)	(5,353)	—	—	—
Re-measurement gain	10	—	—	(9,446)	—	—
Dilution gain	10	(155)	(1,806)	(5,127)	(5,127)	—
Losses/(gains) on disposal of non-current assets		70	(1,446)	(164)	(164)	7
Net exchange differences	10	(7,717)	10,622	(9,518)	6,113	959
Interest expenses on lease liabilities	11	1,940	1,955	2,031	713	1,142
		36,156	102,785	97,172	42,654	43,098
Changes in working capital						
—Trade receivables		(17,149)	(87,459)	(233,411)	(61,618)	63,520
—Prepayments, deposits and other assets		(20,062)	39,933	(40,960)	(21,815)	(27,089)
—Trade payables		(15,059)	63,013	(23,421)	(12,637)	11,694
—Advance from customers		268	7,269	1,010	728	4,473
—Contract liabilities		1,535	18,701	(14,285)	3,818	9,624
—Other payables and accruals		(10,378)	18,811	23,203	(27,954)	(43,175)
Cash (used in)/generated from operations		(1,364)	305,524	198,704	102,554	359,341

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**34 Note to combined statements of cash flows****(b) Note debt reconciliation — lease liabilities**

	As of December 31,			As of May 31,	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
At the beginning of the year/period	34,056	45,470	34,906	34,906	60,751
Cash flows	(10,567)	(12,519)	(17,849)	(6,247)	(7,294)
Increase of right-of-use assets	20,041	—	41,663	14,377	—
Accrual interest for lease liabilities	1,940	1,955	2,031	713	1,142
At the end of the year/period	45,470	34,906	60,751	43,749	54,599

35 Commitments**(a) Capital Commitments**

The Group made capital expenditure in respect of purchase of game licenses which are in development as at December 31, 2016, 2017 and 2018, and May 31, 2019. The Group has commitments to make the following future installments under non-cancelable game purchase agreements are as follows:

	As of December 31,			As of May 31,
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Game licenses	11,734	4,747	54,562	46,844

(b) Operating lease commitments

The Group has non-cancelable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at December 31, 2016, 2017 and 2018 and May 31, 2019 is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 15.

36 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

36 Related party transactions

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period.

Name of related parties	Relationship
Gamecores (Beijing) Culture Communication Co., Ltd.	Associate
Shanghai Fantablade Network Science and Technology Co., Ltd.	Associate
Shanghai Jixin Network Science and Technology Co., Ltd.	Associate
Xiamen So Funny Information Technology Co., Ltd.	Associate
Mengxiang (Caymen) Inc. and its Associates	Associate
Shanghai LinkedTune Culture Communication Co., Ltd.	Associate
Shanghai Xinyu Animation Design Co. Ltd.	Associate
Yiwan (Shanghai) Network Science and Technology Co., Ltd.	Associate prior to December 20, 2016
Shanghai Longcheng Network Technology Co., Ltd.	Associate prior to July 31, 2017
X.D. Global Limited	Associate prior to July 31, 2017
Shanghai Qingyue Software Science and Technology Co., Ltd.	Associate
Shanghai Bianyue Culture Communication Co., Ltd.	Associate
Mr. Huang Yimeng	Shareholder and CEO
Mr. Dai Yunjie	Shareholder and director
Mr. Zhao Yuyao	Shareholder and director
Shanghai Maichuang Network Technology Limited	Associate of Mr. Dai Yunjie's spouse
Shanghai Xuerui Culture Media Limited	Associate of Mr. Zhao Yuyao

(b) Significant transactions with related parties

(i) Sales of service

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Shanghai Fantablade Network Science and Technology Co., Ltd.	232	285	315	86	118
Shanghai Jixin Network Science and Technology Co., Ltd.	751	735	677	282	—
Shanghai Xinyu Animation Design Co. Ltd.	2,191	2,402	218	218	—
Mengxiang (Caymen) Inc. and its Associates	1,192	510	438	164	—
X.D. Global Limited	—	3,042	—	—	—
Others	2,025	670	—	—	—
Total	6,391	7,644	1,648	750	118

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

36 Related party transactions

(b) Significant transactions with related parties

(ii) Purchase of service

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Xiamen So Funny Information Technology Co., Ltd.	3,755	849	232	144	8,981
Shanghai Maichuang Network Technology Limited	7,470	7,985	10,086	5,243	5,916
Shanghai Bianyue Culture Communication Co., Ltd.	675	—	—	1,321	3,774
Shanghai Fantablade Network Science and Technology Co., Ltd.	1,476	12,025	10,373	3,693	3,038
Shanghai Xuerui Culture Media Limited	—	—	5,917	—	—
Gamecores (Beijing) Culture Communication Co. Ltd.	194	194	2,511	888	1,378
Shanghai Jixin Network Science and Technology Co., Ltd.	2,496	2,882	1,598	816	511
Shanghai LinkedTune Culture Communication Co., Ltd.	111	4,443	1,054	601	198
Others	1,282	1,400	82	321	337
Total	17,459	29,778	31,853	13,027	24,133

(iii) Receipt of game licenses

	Year ended December 31,			Five months ended May 31,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Shanghai LinkedTune Culture Communication Co., Ltd.	1,456	—	971	971	—
Shanghai Jixin Network Science and Technology Co., Ltd.	4,274	855	—	—	—
Xiamen So Funny Information Technology Co., Ltd.	7,028	—	—	—	—
Others	3,127	—	—	—	—
Total	15,885	855	971	971	—

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

36 Related party transactions

(c) Year end balances with related parties

(i) Trade receivables from related parties

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Shanghai Xinyu Animation Design Co. Ltd.	—	753	505	505
X.D. Global Limited	1,887	—	—	—
Others	93	71	—	—
Total	1,980	824	505	505

(ii) Prepayments to related parties

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Xiamen So Funny Information Technology Co., Ltd.	—	5,635	25,500	33,283
Shanghai Bianyue Culture Communication Co., Ltd.	1,000	—	—	—
Shanghai Qingyue Software Science and Technology Co., Ltd.	971	1,867	3,495	4,854
Shanghai Jixin Network Science and Technology Co., Ltd.	2,980	1,191	796	667
Others	1,459	1,666	2,043	2,233
Total	6,410	10,359	31,834	41,037

(iii) Trade payables to related parties

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Shanghai Fantablade Network Science and Technology Co., Ltd.	—	7,687	1,701	1,988
Xiamen So Funny Information Technology Co., Ltd.	874	59	15	24
Others	770	1,808	1,023	702
Total	1,644	9,554	2,739	2,714

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**36 Related party transactions****(c) Year end balances with related parties****(iv) Dividend payables**

	As of December 31,			As of May 31,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Huang Yimeng	23,275	—	—	—
Mr. Dai Yunjie	9,975	—	—	—
Mr. Zhao Yuyao	1,750	—	—	—
Total	35,000	—	—	—

All the balance with related parties except the dividends payables, as at December 31, 2016, 2017 and 2018 and as at May 31, 2019, are trade related.

37 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2016, 2017 and 2018, and May 31, 2019.

38 Subsequent events

There is no material subsequent event happened after May 31, 2019.

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

The Group obtained control over Longcheng on July 31, 2017. The pre-acquisition financial information of Longcheng, including the consolidated statements of financial position of Longcheng as at December 31, 2016 and July 31, 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the year ended December 31, 2016 and the seven months ended July 31, 2017, are presented as follows:

Consolidated statements of comprehensive income of Longcheng

		Year ended December 31, 2016	Seven months ended July 31, 2017
	Notes	RMB'000	RMB'000
Revenues	1	80,223	140,784
Cost of revenues	2	(51,118)	(89,913)
Gross profit		29,105	50,871
Selling and marketing expenses	2	(42,656)	(26,557)
Research and development expenses		(2,864)	(608)
General and administrative expenses	2	(2,767)	(1,122)
Net impairment losses on financial assets	2	(3)	(75)
Fair value changes on investments measured at fair value through profit or loss		195	—
Other losses, net		(20)	(13)
Operating (loss)/profit		(19,010)	22,496
Finance income		56	15
Finance costs		(268)	(22)
(Loss)/profit before income tax		(19,222)	22,489
Income tax expenses	4	—	(1,071)
(Loss)/profit for the year/period		(19,222)	21,418
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
—Currency translation differences		239	(594)
Other comprehensive income/(loss) for the year/period, net of tax		239	(594)
Total comprehensive (loss)/income for the year/period		(18,983)	20,824

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

Consolidated statements of financial position of Longcheng

	Notes	As of December 31, 2016 RMB'000	As of July 31, 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		342	359
Intangible assets	5	4,001	3,727
Deferred tax assets	6	—	4,565
Prepayments, deposit and other assets	7	2,844	3,139
		7,187	11,790
Current assets			
Trade receivables	8	5,135	69,265
Prepayments and other assets	7	3,130	3,252
Cash and cash equivalents	9	17,743	28,285
		26,008	100,802
Total assets		33,195	112,592
EQUITY			
Paid-in capital		1,000	1,000
Capital reserves		39,400	39,400
Other reserves		239	(355)
(Accumulated deficits)/retained earnings		(20,190)	1,228
Total Equity		20,449	41,273
LIABILITIES			
Current liabilities			
Trade payables	10	8,276	37,850
Other payables and accruals	11	705	5,661
Contract liabilities	12	3,765	27,808
		12,746	71,319
Total liabilities		12,746	71,319
Total equity and liabilities		33,195	112,592

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

Consolidated statements of changes in equity of Longcheng

	Attributable to equity holders of the Company				Total RMB'000
	Paid-in capital	Capital reserves	Other reserves	Accumulated deficits	
	RMB'000	RMB'000	RMB'000	RMB'000	
As of January 1, 2016	475	—	—	(968)	(493)
Comprehensive income					
Loss for the year	—	—	—	(19,222)	(19,222)
Currency translation differences	—	—	239	—	239
Total comprehensive income/(loss) for the year	—	—	239	(19,222)	(18,983)
Transaction with owners in their capacity as owners					
Capital contribution from shareholder	525	39,400	—	—	39,925
Total transactions with owners in their capacity as owners for the year	525	39,400	—	—	39,925
As of December 31, 2016	1,000	39,400	239	(20,190)	20,449

	Attributable to equity holders of the Company				Total RMB'000
	Paid-in capital	Capital reserves	Other reserves	(Accumulated deficits) / retained earnings	
	RMB'000	RMB'000	RMB'000	RMB'000	
As of January 1, 2017	1,000	39,400	239	(20,190)	20,449
Comprehensive income					
Profit for the period	—	—	—	21,418	21,418
Currency translation differences	—	—	(594)	—	(594)
Total comprehensive (loss)/income for the period	—	—	(594)	21,418	20,824
As of July 31, 2017	1,000	39,400	(355)	1,228	41,273

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

Consolidated statements of cash flows of Longcheng

		Year ended December 31, 2016	Seven months ended July 31, 2017
	Notes	RMB'000	RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	13	(12,485)	14,378
Income tax paid		—	(96)
Net cash (used in)/generated from operating activities		(12,485)	14,282
Cash flows from investing activities			
Purchase of property, plant and equipment		(330)	(97)
Purchase of intangible assets	5	(9,368)	(3,139)
Purchase of short-term investment		(24,000)	—
Proceeds from disposal of short-term investment		33,895	—
Net cash generated from/(used in) investing activities		197	(3,236)
Cash flows from financing activities			
Capital contribution from shareholder		39,925	—
Repayment of loan due to shareholder		(20,069)	—
Net cash generated from financing activities		19,856	—
Net increase in cash and cash equivalents		7,568	11,046
Cash and cash equivalents at the beginning of the year/period		10,031	17,743
Effects of exchange rate changes on cash and cash equivalents		144	(504)
Cash and cash equivalents at the end of the year/period	9	17,743	28,285

1 Revenue

	Year ended December 31, 2016	Seven months ended July 31, 2017
	RMB'000	RMB'000
Game publishing and operating revenues	80,223	140,784

There is no concentration risk as no revenue from a single external customer was more than 10% of Longcheng's total revenue for the year ended December 31, 2016 and the seven months ended July 31, 2017.

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

2 Expenses by nature

	Year ended December 31, 2016	Seven months ended July 31, 2017
	RMB'000	RMB'000
Commissions charged by Payment Channels and Distribution Channels . . .	24,587	48,708
Sharing of proceeds to game developers	18,178	34,278
Promotion and advertising expenses	42,187	26,382
Amortization of intangible assets	2,619	3,026
Bandwidth and servers custody fee	1,986	2,485
Employee benefits expenses (Note 3)	6,081	2,361
Professional and technical services fee	3,182	692
Office expenses	371	158
Depreciation of property, plant and equipment	83	80
Net impairment losses on financial assets	3	75
Others	131	30
Total	99,408	118,275

3 Employee benefits expenses

	Year ended December 31, 2016	Seven months ended July 31, 2017
	RMB'000	RMB'000
Wages, salaries and bonuses	3,961	1,365
Pension and other social security costs	1,362	444
Other benefits	758	552
Total	6,081	2,361

4 Income tax

Hong Kong

Hong Kong profits tax rate is 16.5%.

PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within Longcheng incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the Track Record Period.

	Year ended December 31, 2016	Seven months ended July 31, 2017
	RMB'000	RMB'000
Current income tax	—	5,636
Deferred income tax	—	(4,565)
Total income tax expenses	—	1,071

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

4 Income tax

PRC corporate income tax ("CIT")

The tax on Longcheng's profit/(loss) before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2016 and seven months ended July 31, 2017.

The difference is analyzed as follows:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	RMB'000	RMB'000
(Loss)/profit before income tax	(19,222)	22,489
Tax calculated at statutory income tax rate of 25% in mainland China	(4,806)	5,622
Tax effects of:		
Effect of different tax rates available to different jurisdictions	410	(2,439)
Expenses not deductible for income tax purposes	24	—
Utilization of previously unrecognized tax losses	—	(3,822)
Tax losses for which no deferred income tax assets were recognized	3,720	—
Temporary differences for which no deferred income tax assets were recognized	652	1,710
Total income tax expenses	—	1,071

5 Intangible assets

	Game Licenses RMB'000
At January 1, 2016	
Cost	—
Accumulated amortization	—
Net book amount	—
Year ended December 31, 2016	
Opening net book amount	—
Additions	6,524
Amortization	(2,619)
Currency translation differences	96
Closing net book amount	4,001
At December 31, 2016	
Cost	6,635
Accumulated amortization	(2,634)
Net book amount	4,001

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

5 Intangible assets

	Game Licenses RMB'000
At January 1, 2017	
Cost	6,635
Accumulated amortization	(2,634)
Net book amount	4,001
Seven months ended July 31, 2017	
Opening net book amount	4,001
Additions	2,844
Amortization	(3,026)
Currency translation differences	(92)
Closing net book amount	3,727
At July 31, 2017	
Cost	9,349
Accumulated amortization	(5,622)
Net book amount	3,727

Amortization expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended December 31, 2016 RMB'000	Seven months ended July 31, 2017 RMB'000
Cost of revenues	<u>2,619</u>	<u>3,026</u>

6 Deferred income taxes

The following amounts, determined after appropriate offsetting, are shown in the consolidated statements of financial position:

	As of December 31, 2016 RMB'000	As of July 31, 2017 RMB'000
The balance comprises temporary differences attributable to:		
—Tax losses	—	4,565
Total gross deferred tax assets	—	4,565
Set-off of deferred tax liabilities pursuant to set-off provisions	—	—
Net deferred tax assets	—	4,565
	As of December 31, 2016 RMB'000	As of July 31, 2017 RMB'000
Deferred tax assets:		
—to be recovered within 12 months	—	4,565
—to be recovered after 12 months	—	—
	—	4,565

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

6 Deferred income taxes

The movement on the gross deferred income tax assets is as follows:

	Tax losses RMB'000
As at January 1, 2016	—
Credited to consolidated statements of comprehensive income	—
As at December 31, 2016	—
As at January 1, 2017	—
Credited to consolidated statements of comprehensive income	4,565
As at July 31, 2017	4,565

Longcheng only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at December 31, 2016 and July 31, 2017, Longcheng did not recognize deferred income tax assets of RMB3.83 million and nil in respect of cumulative tax losses amounting to RMB17.04 million and nil, respectively. These tax losses will expire from 2020 to 2021.

7 Prepayments, deposits and other assets

	As of December 31, 2016 RMB'000	As of July 31, 2017 RMB'000
Non-current		
Prepayments for game licenses (Nota a)	2,844	3,139
	2,844	3,139
Current		
Prepayments for sharing of proceeds (Nota a)	2,494	2,589
Tax prepayments	468	618
Others	168	45
	3,130	3,252

- (a) Longcheng licenses online games from game developers and pays game license fees and sharing of proceeds earned from selling in-game virtual items to game developers. The prepayments for game license fees are transferred to intangible assets when the Longcheng receives related licensed games. The prepayments for sales based sharing are expensed to cost of revenues if the Longcheng acts as principle, or are offset against the revenues if the Longcheng acts as agent, on incurred basis.

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

8 Trade receivables

	As of December 31, 2016	As of July 31, 2017
	RMB'000	RMB'000
Distribution channels	5,138	69,341
	5,138	69,341
Less: allowance for impairment	(3)	(76)
	5,135	69,265

(a) Movements on Longcheng's allowance for impairment of trade receivables are as follows:

	Year ended December 31, 2016	Seven months ended July 31, 2017
	RMB'000	RMB'000
At the beginning of the period	—	3
Provision	3	75
Currency translation differences	—	(2)
At the end of the period	3	76

The provisions and reversal of provisions for impaired receivables have been included in “Net impairment losses on financial assets” in the consolidated statements of comprehensive income

- (b) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of December 31, 2016 and July 31, 2017.
- (c) The carrying amount of Longcheng's trade receivables is denominated in USD.
- (d) The maximum exposure to credit risk as of December 31, 2016 and July 31, 2017 was the carrying value of the trade receivables. Longcheng did not hold any collateral as security.

9 Cash and cash equivalents

	As of December 31, 2016	As of July 31, 2017
	RMB'000	RMB'000
Cash on hand and cash in bank	7,743	23,285
Term deposit with initial terms within three months	10,000	5,000
	17,743	28,285

Cash and cash equivalents are denominated in the following currencies:

	As of December 31, 2016	As of July 31, 2017
	RMB'000	RMB'000
RMB	11,486	6,038
USD	2,954	8,408
HKD	3,303	13,839
	17,743	28,285

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG**10 Trade payables**

	As of December 31, 2016	As of July 31, 2017
	RMB'000	RMB'000
Trade payables	8,276	37,850

Trade payables are primarily related to the purchase of services for server custody, promotion and advertising expenses, and sharing of proceeds due to game developers. The credit terms of trade payables granted to Longcheng are usually 0 to 90 days.

The carrying amount of Longcheng's trade payables is denominated in the following currencies:

	As of December 31, 2016	As of July 31, 2017
	RMB'000	RMB'000
USD	8,088	37,809
RMB	188	41
	8,276	37,850

As of December 31, 2016 and July 31, 2017, the fair value of trade payables approximated to their carrying amount.

11 Other payables and accruals

	As of December 31, 2016	As of July 31, 2017
	RMB'000	RMB'000
Salaries and benefits payable	705	121
Tax payable	—	5,540
	705	5,661

12 Contract liabilities

	As of December 31, 2016	As of July 31, 2017
	RMB'000	RMB'000
Game operating revenue	3,765	27,808
	Year ended December 31, 2016	Seven months ended July 31, 2017
	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the period	—	3,765

III ADDITIONAL FINANCIAL INFORMATION OF LONGCHENG

13 Note to consolidated statements of cash flows

Cash generated from/(used in) operations

		Year ended December 31, 2016	Seven months ended July 31, 2017
	Note	RMB'000	RMB'000
(Loss)/Profit before income tax		(19,222)	22,489
Adjustments for			
Depreciation and amortization	2	2,702	3,106
Net impairment losses on financial assets	2	3	75
Fair value changes on investments measured at fair value through profit or loss		(195)	–
Changes in working capital			
–Trade receivables		(4,938)	(64,203)
–Prepayments, deposits and other assets		(3,101)	(122)
–Trade payables		8,272	29,574
–Contract liabilities		3,765	24,043
–Other payables and accruals		229	(584)
Cash (used in)/generated from operations		<u>(12,485)</u>	<u>14,378</u>

IV ADDITIONAL FINANCIAL INFORMATION OF YIWAN

Yiwan was founded on March 28, 2016. The Group obtained control over Yiwan on December 20, 2016. The pre-acquisition financial information of Yiwan, including the statements of financial position of Yiwan as at December 20, 2016, and statement of comprehensive income, statement of changes in equity and cash flow statement for the period from March 28, 2016 to December 20, 2016, are presented as follows:

Statement of comprehensive income of Yiwan

		Period from March 28, 2016 to December 20, 2016
	Notes	RMB'000
Revenues	1	227
Cost of revenues	2	(3,978)
Gross loss		(3,751)
Selling and marketing expenses	2	(20,034)
Research and development expenses		(3,544)
General and administrative expenses	2	(3,795)
Operating loss		(31,124)
Finance income		10
Finance costs		(3)
Loss before income tax		(31,117)
Income tax expenses	4	5,847
Loss for the period		(25,270)
Other comprehensive income for the period, net of tax		–
Total comprehensive loss for the period		(25,270)

IV ADDITIONAL FINANCIAL INFORMATION OF YIWAN

Statement of financial position of Yiwan

	Notes	As of December 20, 2016 RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment		261
Intangible assets		4
Deferred tax assets	5	5,847
		6,112
Current assets		
Prepayments and other assets	6	2,881
Cash and cash equivalents	7	1,368
		4,249
Total assets		10,361
EQUITY		
Paid-in capital		1,177
Capital reserves		9,823
Accumulated deficits		(25,270)
Total Equity		(14,270)
LIABILITIES		
Current liabilities		
Trade payables	8	9,672
Other payables and accruals	9	14,959
		24,631
Total liabilities		24,631
Total equity and liabilities		10,361

Statement of changes in equity of Yiwan

	Attributable to equity holders of the Company			
	Paid-in capital RMB'000	Capital reserves RMB'000	Accumulated deficits RMB'000	Total RMB'000
As of March 28, 2016	—	—	—	—
Comprehensive income				
Loss for the period	—	—	(25,270)	(25,270)
Total comprehensive loss for the period	—	—	(25,270)	(25,270)
Transaction with owners in their capacity as owners				
Contribution from shareholders	1,177	9,823	—	11,000
Total transactions with owners in their capacity as owners for the period	1,177	9,823	—	11,000
As of December 20, 2016	1,177	9,823	(25,270)	(14,270)

IV ADDITIONAL FINANCIAL INFORMATION OF YIWAN

Statement of cash flows of Yiwan

	Notes	Period from March 28, 2016 to December 20, 2016 RMB'000
Cash flows from operating activities		
Cash used in operations		(9,345)
Cash flows from investing activities		
Purchase of property, plant and equipment		(282)
Purchase of intangible assets		(5)
Net cash used in investing activities		(287)
Cash flows from financing activities		
Capital contribution from shareholders		11,000
Net increase in cash and cash equivalents		1,368
Cash and cash equivalents at the beginning of the period		—
Effects of exchange rate changes on cash and cash equivalents		—
Cash and cash equivalents at the end of the period	7	1,368

1 Revenue

	Period from March 28, 2016 to December 20, 2016 RMB'000
Information service revenue	227

2 Expenses by nature

	Period from March 28, 2016 to December 20, 2016 RMB'000
Promotion and advertising expenses	19,956
Employee benefits expenses	7,216
Bandwidth and servers custody fee	2,964
Depreciation of property, plant and equipment	21
Amortization of intangible assets	1
Others	1,193
Total	31,351

IV ADDITIONAL FINANCIAL INFORMATION OF YIWAN

3 Employee benefits expenses

	Period from March 28, 2016 to December 20, 2016
	RMB'000
Wages, salaries and bonuses	5,208
Pension and other social security costs	1,313
Other benefits	695
Total	7,216

4 Income tax

PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of Yiwan incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the Track Record Period.

	Period from March 28, 2016 to December 20, 2016
	RMB'000
Current income tax	—
Deferred income tax	5,847
Total income tax benefit	5,847

The tax on Yiwan's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the period ended December 20, 2016.

The difference is analyzed as follows:

	Period from March 28, 2016 to December 20, 2016
	RMB'000
Loss before income tax	31,117
Tax calculated at statutory income tax rate of 25% in mainland China	7,779
Tax effects of:	
Expenses not deductible for income tax purposes	(5)
Temporary differences for which no deferred income tax assets was recognized	(1,927)
Total income tax benefit	5,847

IV ADDITIONAL FINANCIAL INFORMATION OF YIWAN**5 Deferred income taxes**

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	As of December 20, 2016
	RMB'000
The balance comprises temporary differences attributable to:	
—Tax losses	5,847
Total gross deferred tax assets	5,847
Set-off of deferred tax liabilities pursuant to set-off provisions	—
Net deferred tax assets	5,847

	As of December 20, 2016
	RMB'000
Deferred tax assets:	
—to be recovered within 12 months	5,847
—to be recovered after 12 months	—
	5,847

The movement on the gross deferred income tax assets is as follows:

	Tax losses
	RMB'000
As at March 28, 2016	—
Credited to statement of comprehensive income	5,847
As at December 20, 2016	5,847

Yiwan only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at December 20, 2016, deferred income tax asset was recognized in respect of all cumulative tax losses.

6 Prepayments, deposits and other assets

	As of December 20, 2016
	RMB'000
Prepayment for advertisements	1,630
Tax prepayments	1,251
	2,881

IV ADDITIONAL FINANCIAL INFORMATION OF YIWAN**7 Cash and cash equivalents**

	As of December 20, 2016
	RMB'000
Cash on hand and cash in bank	1,020
Cash held by other financial institutions	348
	<u><u>1,368</u></u>

As of December 20, 2016, Yiwang had certain amounts of cash held in accounts managed by other financial institutions, such as Alipay and WeChat Pay, in connection with the provision of online and mobile payment services which have been classified as cash and cash equivalents on the statement of financial position

Cash and cash equivalents are denominated in RMB.

8 Trade payables

	As of December 20, 2016
	RMB'000
Trade payables	<u><u>9,672</u></u>

Trade payables are primarily related to the purchase of services for server custody and advertisement. The credit terms of trade payables granted to Yiwang are usually 0 to 90 days.

The carrying amount of Yiwang's trade payables is denominated in RMB.

As of December 20, 2016, the fair value of trade payables approximated to their carrying amount.

9 Other payables and accruals

	As of December 20, 2016
	RMB'000
Due to related parties	13,000
Salaries and benefits payable	1,911
Tax payable	48
	<u><u>14,959</u></u>

IV ADDITIONAL FINANCIAL INFORMATION OF YIWAN**10 Note to statement of cash flows****Cash used in operations**

		Period from March 28, 2016 to December 20, 2016
	Notes	RMB'000
Loss before income tax		(31,117)
Adjustments for		
Depreciation and amortization	2	22
Changes in working capital		
—Prepayments, deposits and other assets	6	(2,881)
—Trade payables	8	9,672
—Other payables and accruals	9	14,959
Cash used in operations		<u><u>(9,345)</u></u>

V SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to May 31, 2019 and up to the date of this report. No dividend or distribution have been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to May 31, 2019.

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I in this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group attributable to the equity holders of the Company as of May 31, 2019 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group had the Global Offering been completed as at May 31, 2019 or at any future dates.

	Audited combined net tangible assets of the Group attributable to equity holders of the Company as at May 31, 2019 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets of the Group attributable to equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$15.80 per Share	956,986	835,988	1,792,974	4.23	4.72
Based on an Offer Price of HK\$11.10 per Share	956,986	577,602	1,534,588	3.62	4.04

Notes:

- (1) The audited combined net tangible assets of the Group attributable to the equity holders of the Company as at May 31, 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the equity holders of the Company as at May 31, 2019 of RMB1,100,481,000 with adjustments for the intangible assets attributable to the equity holders of the Company as at May 31, 2019 of RMB143,495,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$15.80 and HK\$11.10 per share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB17,523,000 which have been accounted for during the Track Record Period) payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate, Buy-back Mandate, and the extended mandate to purchase shares.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 423,958,500 Shares were in issue assuming that the Global Offering have been completed on May 31, 2019 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate, Buy-back Mandate, and the extended mandate to purchase shares.

- (4) Except as disclosed above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to May 31, 2019.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.8958.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**To the Directors of XD Inc.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of XD Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at May 31, 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated November 29, 2019, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at May 31, 2019 as if the proposed initial public offering had taken place at May 31, 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended May 31, 2019, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 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.

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Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at May 31, 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, November 29, 2019

SUMMARY OF THE CONSTITUTION OF OUR COMPANY**1 Memorandum of Association**

The Memorandum of Association of our Company was conditionally adopted on November 19, 2019 and states, inter alia, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the 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 in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection”.

2 Articles of Association

The Articles of Association of our Company were conditionally adopted on November 19, 2019 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of our Company consists of ordinary shares. The authorized share capital of our Company at the date of adoption of the Articles is US\$100,000 divided into 1,000,000,000 shares of US\$0.0001 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 our Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the 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 our Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of our Company or any subsidiary*

The management of the business of our Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by our 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 our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by our Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with our Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The 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 our Company and shall then be eligible for re-election at that meeting.

Our 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 our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director).

Our 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. Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of our Company and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors who are to retire by rotation at such meeting.

No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the 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 our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to

propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors. The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by 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 our Company under the Articles of Association.

At every annual general meeting of our Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the 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 our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the 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 separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized 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

Our Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares ratably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the

amount of the shares so canceled 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 our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized 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 our 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 authorized 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 our 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 authorized 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 our Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of our Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but

if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized 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 our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the 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 recognized clearing house (or its nominee(s)) is a member of our Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of our Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

Our Company shall hold a general meeting as its annual general meeting 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 Stock Exchange may authorize). 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 recognized 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 our 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 our Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our Company, or any of them, shall be open to the inspection by members of our Company (other than officers of our Company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorized by the Directors or by our Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of our Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a 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 our Company for the period covered by the profit and loss account and the state of our Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

Our Company shall at every annual general meeting appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed provided that in respect of any particular year our 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 our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our Company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and

- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

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 Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof. All instruments of transfer shall be retained by our Company.

The Directors may, 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 our Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) 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 favor of our Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to our Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with our Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of our Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of our Company to purchase its own shares

Our 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 our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase. The holder of the shares being purchased shall be bound to deliver up to our 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 our Company shall pay to him the purchase or redemption monies in respect thereof.

2.13 Power of any subsidiary of our Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Cayman Companies Law and the Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of our Company such interim dividends as appear to the Directors to be justified by the profits of our Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, installments or otherwise.

No dividend shall carry interest against our Company.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee,

provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to our Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared, the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor 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 authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of our Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of our Company shall (subject to our Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments 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 installment 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 installment 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 installment 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 installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all monies which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 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 our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in paragraph 2.4 above.

2.19 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 our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Cayman Companies Law, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) our Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, our Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our 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

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 25, 2019 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized 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 cancelation 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.

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 authorized 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 authorized 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 authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized 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 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 authorized 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 authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

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, our 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 our Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of our Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of thirty years from November 14, 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 our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Campbells, our Company's legal advisers on Cayman Islands law, have sent to our Company a letter of advice summarizing 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 in Hong Kong 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 COMPANY AND OUR SUBSIDIARIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands on January 25, 2019 as an exempted company with limited liability. Our registered office address is at the offices of Campbells Corporate Services Limited, Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in the section headed "Summary of the Constitution of our Company and Cayman Companies Laws" in Appendix III to this prospectus.

Our registered place of business in Hong Kong is at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 16, 2019 with the Registrar of Companies in Hong Kong. Mr. Fan Shuyang and Mr. Yim Lok Kwan have been appointed as the authorized representatives of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong.

As at the date of this prospectus, our Company's head office was located at Unit A2, No. 700, Wanrong Road, Shanghai, PRC.

2. Changes in Share Capital

On January 25, 2019, our Company was incorporated with an authorized share capital of US\$50,000 divided into 500,000,000 shares of a par value of US\$0.0001 each.

The following changes in the share capital of our Company took place during the two years immediately preceding the date of this prospectus:

- (a) On January 25, 2019, our Company issued 1 share with a par value of US\$0.0001 to McGrath Tonner Corporate Services Limited, which was subsequently transferred to Happy Today Holding Limited on the same day for a consideration of US\$0.0001;
- (b) On April 10, 2019, our Company issued and allotted an aggregate of 291,773,029 Shares to the following persons with a par value of US\$0.0001:

<u>Name</u>	<u>Number of Share Allotted</u>	<u>Number of Shares Held</u>	<u>Consideration</u>
Happy Today Holding Limited	157,604,999	157,605,000	US\$15,760.5000
Aiks Danger Inc.	67,545,000	67,545,000	US\$6,754.5000
Jiexin Holdings Limited	37,598,680	37,598,680	US\$3,759.8680
Edragon Technology Limited	11,805,865	11,805,865	US\$1,180.5865
Chris Technology Limited	45,030	45,030	US\$4.5030
Pearl Wide Limited	10,961,250	10,961,250	US\$1,096.1250
PTCP. Ltd	1,962,500	1,962,500	US\$196.2500
Pensway Limited	1,369,525	1,369,525	US\$136.9525
Xochipilli Ltd	1,188,000	1,188,000	US\$118.8000
Freemind Group Ltd	692,040	692,040	US\$69.2040
Comerstone Limited	690,855	690,855	US\$69.0855
Prairie Investment Holding Inc.	171,825	171,825	US\$17.1825
Shaochi Limited	137,460	137,460	US\$13.7460

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES (Continued)**2. Changes in Share Capital (Continued)**

- (c) On May 23, 2019, Pearl Wide Limited transferred 10,961,250 Shares to Dynasty Vision Limited for a consideration of US\$1,096.1250;
- (d) On May 27, 2019, our Company issued and allotted an aggregate of 60,147,930 Shares to the following persons with a par value of US\$0.0001:

<u>Name</u>	<u>Number of Share Allotted</u>	<u>Number of Shares Held</u>	<u>Consideration</u>
IGG Inc	24,648,000	24,648,000	US\$2,464.8000
Orient Ruide Tenghui Hong Kong Limited	10,829,715	10,829,715	US\$1,082.9715
Yousu HongKong Limited	8,591,250	8,591,250	US\$859.1250
37 Darkbreak Co., Limited	8,591,250	8,591,250	US\$859.1250
CMFHK Alternative Opportunity Investment VI Limited	4,833,315	4,833,315	US\$483.3315
Hongkong Kunpan Co., Limited	2,654,400	2,654,400	US\$265.4400

- (e) On June 17, 2019, our Company issued and allotted an aggregate of 8,437,540 Shares to Heart Assets Limited with a par value of US\$0.0001; and
- (f) On June 17, 2019, Jiexin Holdings Limited transferred 37,598,680 Shares to Jiexin Management Limited.

Save as disclosed above and in “– Resolutions of the Shareholders of Our Company dated November 19, 2019” below, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this prospectus.

3. Changes in the share capital of our subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in the Accountant’s Report in Appendix I to this prospectus.

The following subsidiaries have been incorporated within two years immediately preceding the date of this prospectus:

<u>Name of Subsidiary</u>	<u>Place of Incorporation</u>	<u>Date of Incorporation</u>
Ewan Holding Limited	BVI	January 30, 2019
XDG Holding Limited	BVI	January 30, 2019
XD Holdings Limited	BVI	February 11, 2019
Ewan Global (HK) Limited	HK	February 26, 2019
X.D. Global (HK) Limited	HK	January 31, 2019
XD (HK) Limited	HK	February 28, 2019
XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司)	PRC	June 6, 2019
Xinxuan Network	PRC	March 27, 2019

On July 10, 2018, the registered capital of Yiwan Network was increased from RMB1,654,135 to RMB1,819,549.

Save as disclosed above and in the section headed “Accountant’s Report” in Appendix I, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES (Continued)**3. Changes in the share capital of our subsidiaries (Continued)**

Save for the subsidiaries mentioned in the Accountant's Report set out in Appendix I to this prospectus, our Company has no other subsidiaries.

4. Resolutions of the Shareholders of Our Company dated November 19, 2019

Written resolutions of our Shareholders were passed on November 19, 2019, pursuant to which, among others:

- (a) the authorized share capital of our Company be increased from US\$50,000 divided into 500,000,000 ordinary shares of a par value of US\$0.0001 each to US\$100,000 divided into 1,000,000,000 ordinary shares of a par value of US\$0.0001 each by the creation of an additional 500,000,000 ordinary shares of a par value of US\$0.0001 each;
- (b) conditional on (i) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as to be stated in this prospectus and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (ii) the Offer Price having been determined; (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements; and (iv) the Underwriting Agreements having been duly executed by the Underwriters and the Company:
 - (1) the Global Offering (including the Over-allotment Option) was approved, and the proposed allotment and issue of the Offer Shares under the Global Offering were approved, and the Directors were authorized to determine the Offer Price for, and to allot and issue the Offer Shares and Shares as may be required to be sold and/or issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
 - (2) a general unconditional mandate (the “**General Mandate**”) was given to our Directors to exercise all the powers of our Company to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted and issued or dealt with, such number of Shares as will represent up to 20% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global Offering;
 - (3) a general unconditional mandate (the “**Buy-back Mandate**”) was given to our Directors to exercise all powers of our Company to buy-back on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the 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; and

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES (Continued)**4. Resolutions of the Shareholders of Our Company dated November 19, 2019 (Continued)**

- (4) the general unconditional mandate as mentioned in paragraph (2) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (4) above (up to 10% of the aggregate nominal value of the 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);
- (c) our Company conditionally approved and adopted the Memorandum and Articles of Association with effect from the Listing.

Each of the general mandates referred to in paragraphs (b)(2), (b)(3) and (b)(4) above will remain in effect until whichever is the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; or
- the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

5. Buying-back of Our Own Securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the purchase of our own securities.

(a) *Provision of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to buy-back their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholders' Approval*

All proposed purchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on November 19, 2019, the Buy-back Mandate was given to our Directors authorizing them to exercise all powers of our Company to buy-back Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued under the Over-allotment Option), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES (Continued)**5. Buying-back of Our Own Securities (Continued)****(a) *Provision of the Listing Rules* (Continued)****(i) *Shareholders' Approval* (Continued)**

(unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

(ii) *Source of Funds*

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Islands Companies Law. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Islands Companies Law.

(iii) *Trading Restrictions*

The total number of shares which a listed company may buy-back on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a buy-back (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such buy-back) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a buy-back of securities discloses to the Stock Exchange such information with respect to the buy-back as the Stock Exchange may require.

(iv) *Status of Brought-back Shares*

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES (Continued)**5. Buying-back of Our Own Securities (Continued)****(a) *Provision of the Listing Rules* (Continued)****(iv) *Status of Brought-back Shares* (Continued)**

to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman law.

(v) *Suspension of Buy-back*

A listed company may not make any purchase of securities after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not buy-back its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a purchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting Requirements*

Certain information relating to purchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding purchases of securities made during the year, including a monthly analysis of the number of securities brought-back, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) *Core Connected Persons*

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) *Reasons for Buying-back*

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to buy-back Shares in the market. Such purchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such purchases will benefit our Company and Shareholders.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES (Continued)**5. Buying-back of Our Own Securities (Continued)****(c) Funding of Buying-back**

Purchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. Our Directors may not buy-back the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Directors may buy-back with profits of the Company or out of a new issuance of shares made for the purpose of the purchase or, if authorized by the Articles of Association and subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles of Association and subject to the Companies Law, out of capital.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing position which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) General

The exercise in full of the Buy-back Mandate, on the basis of 423,958,500 Shares in issue immediately following the completion of the Global Offering, but assuming the Over-allotment Option is not exercised, could accordingly result in up to approximately 84,791,700 Shares being brought-back by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any purchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any purchases pursuant to the Buy-back Mandate.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES (Continued)**5. Buying-back of Our Own Securities (Continued)****(d) General (Continued)**

Any purchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Buy-back Mandate is exercised.

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) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an equity transfer agreement dated April 30, 2018, entered into among Shanghai Shuojia Investment Management Partnership (Limited Partnership) (上海燦嘉投資管理合夥企業(有限合夥)), X.D. Network and Longcheng, pursuant to which Shanghai Shuojia Investment Management Partnership (Limited Partnership) agreed to transfer 14% equity interest in Longcheng to X.D. Network for a total consideration of RMB28,000,000;
- (b) a share capital increase agreement dated June 21, 2018, entered into among Yiwan, Huang Xiwei (黃希威), Zhang Qian (張乾), X.D. Network, Shanghai Xinhe Business Consulting Partnership (Limited Partnership) (上海芯赫商務諮詢合夥企業(有限合夥)), Huzhou Yixin Investment Management Partnership (Limited Partnership) (湖州易心投資管理合夥企業(有限合夥)), Xiamen Jixiang Equity Investment Company Limited (廈門吉相股權投資有限公司), Xiamen Youli Information Technology Company Limited (廈門游力信息科技有限公司), Zhuhai Anran Investment Enterprise (Limited Partnership) (珠海安然投資企業(有限合夥)) and Hangzhou Bobo Technology Company Limited (杭州播播科技有限公司), pursuant to which X.D. Network, Xiamen Jixiang Equity Investment Company Limited, Xiamen Youli Information Technology Company Limited and Hangzhou Bobo Technology Company Limited agreed to subscribe for the registered share capital of RMB165,414 in Yiwan for a total consideration of RMB200,000,000;
- (c) an equity transfer agreement dated January 31, 2019, entered into between Xiamen Youli Information Technology Company Limited (廈門游力信息科技有限公司) and X.D. Network, pursuant to which Xiamen Youli Information Technology Company Limited agreed to transfer 3.88% equity interest in Yiwan to X.D. Network for a total consideration of RMB96,923,050;
- (d) an equity transfer agreement dated March 28, 2019, entered into among Xinxuan Network, X.D. Network and Longcheng, pursuant to which X.D. Network agreed to transfer 65% equity interest in Longcheng to Xinxuan Network for a total consideration of RMB134,550,000;
- (e) an equity transfer agreement dated May 15, 2019, entered into among XD (HK) Limited, X.D. Network, Hyunki Shim (沈琰基) and Xinxuan Network, pursuant to which X.D. Network and

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**1. Summary of Material Contracts (Continued)**

Hyunki Shim agreed to transfer 100% equity interest in Xinxuan Network to XD (HK) Limited for an aggregate consideration of RMB50,000;

- (f) a deed of assignment of shares of stock dated June 1, 2019, entered into between X.D. Network and XD Holdings Limited, pursuant to which X.D. Network agreed to transfer 228,400 shares in Xindong Korea Co., Ltd. to XD Holdings Limited for an aggregate consideration of USD1,000,000;
- (g) an exclusive consultation and technical service agreement dated June 16, 2019, entered into between WFOE and X.D. Network (the “Exclusive Service Agreement”), pursuant to which X.D. Network agreed to engage WFOE as its exclusive provider to provide X.D. Network with technical consultation and services in return for service fee;
- (h) an exclusive option agreement dated June 16, 2019, entered into among WFOE, X.D. Network and the Registered Shareholders, namely Xindong Holding Co., Ltd. (心動控股有限公司), Huang Yimeng (黃一孟), Shanghai Jiexin Investment Management Partnership (Limited Partnership) (上海界心投資管理合夥企業 (有限合夥)), Fuzhou Tianmeng Digital Co., Ltd. (福州天盟數碼有限公司), Dai Yunjie (戴雲傑), Shanghai Muxinyinxi Investment Management Partnership (Limited Partnership) (上海木辛尹習投資管理合夥企業 (有限合夥)), Dongfang Xinghui (Shanghai) Investment Center (Limited Partnership) (東方星輝 (上海) 投資中心 (有限合夥)), Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司), Tibet Taifu Culture Media Co., Ltd. (西藏泰富文化傳媒有限公司), Xiamen Qunce Chuangying Equity Investment Partnership (Limited Partnership) (廈門群策創贏股權投資合夥企業 (有限合夥)), Zhao Yuyao (趙宇堯), Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), Tianjin Jinwutong Investment Management Partnership (Limited Partnership) (天津金梧桐投資管理合夥企業 (有限合夥)), Hong Shen (洪深), Shen Sheng (沈晟), Wang Chenguang (王晨光), Pan Zuqiang (潘祖強), Zhang Aifen (張愛芬), Chen Ying (陳穎), Jia Shaochi (賈少馳), Huang Yecheng (黃業成), Pan Chenping (潘陳萍) and Huang Xiwei (黃希威) (the “Exclusive Option Agreement”), pursuant to which the Registered Shareholders and X.D. Network agreed to grant WFOE an irrevocable, unconditional and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in X.D. Network held by the Registered Shareholders and the assets of X.D. Network for a consideration of RMB1 or the lowest price as permitted by the PRC laws or the relevant governmental authorities;
- (i) equity pledge agreements dated June 16, 2019, entered into among WFOE, X.D. Network and each of the Registered Shareholders, pursuant to which each of the Registered Shareholders respectively agreed to unconditionally and irrevocably pledge all of their respective equity interests in X.D. Network to WFOE as collateral security for securing the performance of their respective obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (j) a voting rights proxy agreement dated June 16, 2019, entered into among the Registered Shareholders, WFOE and X.D. Network (the “Voting Rights Proxy Agreement”), pursuant to which the Registered Shareholders irrevocably agreed to enter into a power of attorney respectively to appoint WFOE or any person designated by WFOE as their agents to exercise their respective rights as the shareholder of X.D. Network under the articles of association of X.D. Network;

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**1. Summary of Material Contracts (Continued)**

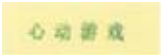







- (k) powers of attorney dated June 16, 2019, executed by each of the Registered Shareholders in favor of WFOE or any person designated by the WFOE, pursuant to which the Registered Shareholders agreed to irrevocably and exclusively appoint WFOE or any person designated by the WFOE as their exclusive agents to exercise their respective right as the shareholder of X.D. Network including but not limited to exercising voting rights on all the resolutions;
- (l) spouse undertakings dated June 16, 2019, executed by each of Pan Zuqiang (潘祖強), Chen Yunruo (陳韻若), Sun Luting (孫璐婷), Zhang Aifen (張愛芬), Wang Chenguang (王晨光), Pan Chenping (潘陳萍), Li Guiyun (李桂雲), Wang Xiangyang (王向陽), Wu Zhiquan (吳智群), Zhang Wen (張雯) and Chen Fang (陳芳);
- (m) the cornerstone investment agreement dated November 27, 2019 entered into among our Company, Bytedance (HK) Limited, CLSA Capital Markets Limited and CLSA Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus;
- (n) the cornerstone investment agreement dated November 27, 2019 entered into among our Company, miHoYo Limited, CLSA Capital Markets Limited and CLSA Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus;
- (o) the cornerstone investment agreement dated November 27, 2019 entered into among our Company, Lilith Mobile Company Limited, CLSA Capital Markets Limited, CLSA Limited and Zhongtai International Securities Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus;
- (p) the cornerstone investment agreement dated November 27, 2019 entered into among our Company, Nikkigames HK Limited, CLSA Capital Markets Limited, CLSA Limited and Zhongtai International Securities Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus; and
- (q) 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 or may be material to our business:

No.	Trademark	Place of Registration	Registered Owner	Class	Registered Number	Expiry Date (dd/mm/yyyy)
1.	心动动画	PRC	X.D. Network	41	10651392	20/09/2023
2.						
3.	心动娱乐	PRC	X.D. Network	41	10651395	20/09/2023
4.	心动教育	PRC	X.D. Network	41	10651396	13/12/2023
5.	心动文学	PRC	X.D. Network	41	10651393	20/09/2023














B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights (Continued)****(a) Trademarks (Continued)****(i) Registered Trademarks (Continued)**

No.	Trademark	Place of Registration	Registered Owner	Class	Registered Number	Expiry Date (dd/mm/yyyy)
6.		PRC	X.D. Network	41	9062904	27/01/2022
7.		PRC	X.D. Network	28	23693704	20/12/2028
		PRC	X.D. Network	16	23693424	06/07/2028
		PRC	X.D. Network	41	29814993A	20/03/2029
8.		PRC	X.D. Network	16	23693472	20/08/2028
9.		PRC	X.D. Network	28	29491643	27/01/2029
10.		PRC	X.D. Network	41	29826942A	20/03/2029
11.		PRC	X.D. Network	28	23693727	20/12/2028
12.		PRC	X.D. Network	25	29589072	20/01/2029
		PRC	X.D. Network	34	29596288	13/01/2029
		PRC	X.D. Network	9	15610433	20/12/2025
		PRC	X.D. Network	25	15610539	20/12/2025
		PRC	X.D. Network	35	15610623	20/12/2025
		PRC	X.D. Network	41	15610717	20/12/2025
13.		PRC	X.D. Network	1	15601851	13/02/2026
14.		PRC	X.D. Network	2	15601857	13/02/2026
15.		PRC	X.D. Network	3	15601965	13/02/2026
16.		PRC	X.D. Network	4	15602015	06/03/2026
17.		PRC	X.D. Network	5	15602065	06/03/2026
18.		PRC	X.D. Network	6	15602040	13/03/2026
19.		PRC	X.D. Network	7	15602252	06/03/2026
20.		PRC	X.D. Network	8	15602332	20/12/2025
21.		PRC	X.D. Network	9	10226700	06/03/2024
22.		PRC	X.D. Network	10	15602374	20/12/2025
23.		PRC	X.D. Network	11	15602471	20/12/2025
24.		PRC	X.D. Network	12	15602535	20/12/2025
25.		PRC	X.D. Network	13	15602613	13/02/2026
26.		PRC	X.D. Network	14	15602621	20/12/2025
27.		PRC	X.D. Network	15	15602628	20/12/2025
28.		PRC	X.D. Network	16	15602798	13/12/2025
29.		PRC	X.D. Network	17	15602886	13/12/2025
30.		PRC	X.D. Network	18	15602934	13/12/2025
31.		PRC	X.D. Network	19	15602967	13/12/2025
32.		PRC	X.D. Network	20	15603155	20/12/2025
33.		PRC	X.D. Network	21	15603277	20/12/2025
34.		PRC	X.D. Network	22	15608203	13/03/2026
35.		PRC	X.D. Network	24	15608412	27/04/2026
36.		PRC	X.D. Network	25	10226699	06/03/2024
37.		PRC	X.D. Network	26	15608563	27/04/2026
38.		PRC	X.D. Network	27	15608606	20/12/2025
39.		PRC	X.D. Network	29	15608877	20/12/2025




B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights (Continued)****(a) Trademarks (Continued)****(i) Registered Trademarks (Continued)**

No.	Trademark	Place of Registration	Registered Owner	Class	Registered Number	Expiry Date (dd/mm/yyyy)
40.		PRC	X.D. Network	30	15608912	20/12/2025
41.		PRC	X.D. Network	31	15609110	13/02/2026
42.		PRC	X.D. Network	32	15609270	20/12/2025
43.		PRC	X.D. Network	33	15609347	20/12/2025
44.		PRC	X.D. Network	34	15609470	20/12/2025
45.		PRC	X.D. Network	35	10226698	60/03/2024
46.		PRC	X.D. Network	36	15609628	20/12/2025
47.		PRC	X.D. Network	37	15609701	06/03/2026
48.		PRC	X.D. Network	39	15609881	20/12/2025
49.		PRC	X.D. Network	41	10226697	13/01/2024
50.		PRC	X.D. Network	42	10226696	27/10/2025
51.		PRC	X.D. Network	43	15610147	27/12/2025
52.		PRC	X.D. Network	44	15610163	20/12/2025
53.		PRC	X.D. Network	45	15610244	13/02/2026
54.		PRC	X.D. Network	28	15608778	27/11/2026
55.		PRC	X.D. Network	29	29630854	27/01/2029
56.		PRC	X.D. Network	16	29587993	13/01/2029
57.		PRC	X.D. Network	20	29588326	13/01/2029
58.		PRC	X.D. Network	19	29593408	13/01/2029
59.		PRC	X.D. Network	18	29593400	13/01/2029
60.		PRC	X.D. Network	11	29603627	13/01/2029
61.		PRC	X.D. Network	8	29603569	13/01/2029
62.		PRC	X.D. Network	25	29608022	13/01/2029
63.		PRC	X.D. Network	14	29603665	13/01/2029
64.		PRC	X.D. Network	17	29595190	13/01/2029
65.		PRC	X.D. Network	15	29606121	13/01/2029
66.		PRC	X.D. Network	12	29590368	13/01/2029
67.		PRC	X.D. Network	32	29629033	20/01/2029
68.		PRC	X.D. Network	33	29615107	20/01/2029
69.		PRC	X.D. Network	10	29605555	20/01/2029
70.		PRC	X.D. Network	44	29616604	20/01/2029
71.		PRC	X.D. Network	36	29629080	20/01/2029
72.		PRC	X.D. Network	43	29630304	20/01/2029
73.		PRC	X.D. Network	39	29621468	13/02/2029
74.		PRC	X.D. Network	30	29619592	13/02/2029
75.		PRC	X.D. Network	27	29616116	13/02/2029
76.		PRC	X.D. Network	21	29616103	13/02/2029
77.		PRC	X.D. Network	42	26038796	06/04/2029
78.		PRC	Yiwan	9	20665561	06/07/2028
79.		PRC	Yiwan	35	20665715	20/11/2028
80.		PRC	Yiwan	35	29615436A	20/03/2029

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights (Continued)****(a) Trademarks (Continued)****(i) Registered Trademarks (Continued)**

No.	Trademark	Place of Registration	Registered Owner	Class	Registered Number	Expiry Date (dd/mm/yyyy)
81.		PRC	Yiwan	35	20665745	06/11/2027
82.		PRC	Yiwan	41	19258376	06/06/2028
83.		PRC	Yiwan	41	32960115	06/05/2029
84.		Taiwan	X.D. Global	9	01928981	31/07/2028
85.		Taiwan	X.D. Global	38	01930440	31/07/2028
86.		Taiwan	X.D. Global	41	01933729	15/08/2028
87.		Taiwan	X.D. Global	42	01930617	31/07/2028
88.		Taiwan	Yiwan	9	01894831	31/01/2028
89.		Taiwan	Yiwan	35	01890681	31/12/2027
90.		Taiwan	Yiwan	41	01891017	31/12/2027
91.		Taiwan	X.D. Network	9	01961151	31/12/2028
92.		Taiwan	X.D. Network	35	01971718	15/02/2029
93.		Taiwan	X.D. Network	41	01972207	15/02/2029
94.		Taiwan	X.D. Network	9	01975461	15/03/2029
95.		Taiwan	X.D. Network	35	01976396	15/03/2029
96.		Taiwan	X.D. Network	41	01976753	15/03/2029
97.		Japan	Yiwan	9	6120081	08/02/2029
98.		Japan	Yiwan	35		
99.		Japan	Yiwan	41		
100.		Japan	X.D. Network	9	6142604	10/05/2029
101.		Japan	X.D. Network	35		
102.		Japan	X.D. Network	41		
103.		Japan	X.D. Network	9	6142605	10/05/2029
104.		Japan	X.D. Network	35		
105.		Japan	X.D. Network	41		
106.		Korea	X.D. Global	9	1396694	12/09/2028
107.		Korea	X.D. Global	38	1356585	03/05/2028
108.		Korea	X.D. Global	41	1356586	03/05/2028
109.		Korea	X.D. Global	42	1356587	03/05/2028
110.		Korea	Yiwan	35	1319209	05/01/2028
111.		Korea	Yiwan	41	1411232	29/10/2028
112.		Korea	X.D. Network	9	1449503	20/02/2029
113.		Korea	X.D. Network	35	1436272	11/01/2029
114.		Korea	X.D. Network	41	1436273	11/01/2029
115.		Korea	X.D. Network	9	1462342	26/03/2029
116.		Korea	X.D. Network	35	1445525	11/02/2029
117.		Korea	X.D. Network	41	1445526	11/02/2029

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights (Continued)****(a) Trademarks (Continued)****(i) Registered Trademarks (Continued)**

No.	Trademark	Place of Registration	Registered Owner	Class	Registered Number	Expiry Date (dd/mm/yyyy)
118.		Hong Kong	Yiwan	9	304177242	18/06/2027
119.		Hong Kong	Yiwan	35		
120.		Hong Kong	Yiwan	41		
121.		Hong Kong	X.D. Network	9		
122.		Hong Kong	X.D. Network	35	304578300	26/06/2028
123.		Hong Kong	X.D. Network	41		
124.		Hong Kong	X.D. Network	9		
125.		Hong Kong	X.D. Network	35		
126.		Hong Kong	X.D. Network	41	304578319	26/06/2028
127.		Hong Kong	X.D. Network	9		
128.		Hong Kong	X.D. Network	35		
129.		Hong Kong	X.D. Network	38		
130.	X.D. NETWORK	Hong Kong	X.D. Network	41	304795804	08/01/2029
131.		Hong Kong	X.D. Network	42		
132.		Hong Kong	X.D. Network	9		
133.		Hong Kong	X.D. Network	35		
134.	XD	Hong Kong	X.D. Network	38	304795840	08/01/2029
135.		Hong Kong	X.D. Network	41		
136.		Hong Kong	X.D. Network	42		
137.		Hong Kong	X.D. Network	9		
138.	XINDONG Global	Hong Kong	X.D. Network	35	304795831	08/01/2029
139.		Hong Kong	X.D. Network	38		
140.		Hong Kong	X.D. Network	41		
141.		Hong Kong	X.D. Network	42		
142.	XINDONG Network	Hong Kong	X.D. Network	9	304795822	08/01/2029
143.		Hong Kong	X.D. Network	35		
144.		Hong Kong	X.D. Network	38		
145.		Hong Kong	X.D. Network	41		
146.	心动网络	Hong Kong	X.D. Network	42	304795787	08/01/2029
147.		Hong Kong	X.D. Network	9		
148.		Hong Kong	X.D. Network	35		
149.		Hong Kong	X.D. Network	38		
150.	心动网络	Hong Kong	X.D. Network	41	304795787	08/01/2029
151.		Hong Kong	X.D. Network	42		

(ii) Trademarks Applications Pending

As at the Latest Practicable Date, we had applied for the registration of the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of registration	Applicant	Class	Application Number	Application Date (dd/mm/yyyy)
1.	TapTap	PRC	Yiwan	16	36614417	04/03/2019
2.		PRC	Yiwan	25	36442728	22/02/2019

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights** (Continued)**(b) Copyrights**

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material to our business:

Software Copyrights

No.	Copyright	Version	Registration Number	Registration Date (dd/mm/yyyy)
1.	Xindong Xin Xia Dao iOS version game software (心動仙俠道 iOS 版遊戲軟件)	V1.0	2015SR084550	18/05/2015
2.	Xian Xia Dao mobile version game software (仙俠道手機版遊戲軟件)	V2.1	2016SR014607	20/01/2016
3.	To the moon mobile version game software (To the moon 去月球手機遊戲軟件)	V1.0	2016SR154254	23/06/2016
4.	TapTap mobile game simulation software (TapTap 手機遊戲模擬軟件)	V1.0	2019SR0185145	26/02/2019
5.	TapTap game App software (Android version) (TapTap 遊戲 APP 軟件 (安卓版))	V1.0	2019SR0188801	27/02/2019
6.	TapTap game App software (Web version) (TapTap 遊戲 APP 軟件 (網頁版))	V1.0	2019SR0186991	26/02/2019
7.	TapTap game community information platform (TapTap 遊戲社區資訊平臺)	V2.0	2019SR0190241	27/02/2019
8.	TapTap operation data processing software (iOS version) (TapTap 運營數據處理軟件 (iOS 版))	V1.0	2019SR0187645	27/02/2019
9.	TapTap operation data processing software (Android version) (TapTap 運營數據處理軟件 (安卓版))	V1.0	2019SR0186987	26/02/2019
10.	TapTap operation data processing software (Web version) (TapTap 運營數據處理軟件 (網頁版))	V1.0	2019SR0196883	28/02/2019
11.	Yiwan TapTap big data game recommendation software (易玩 TapTap 大數據遊戲推薦軟件)	V1.0	2019SR0038686	11/01/2019
12.	Yiwan TapTap big data precision marketing software (易玩 TapTap 大數據精準營銷軟件)	V1.0	2019SR0038694	11/01/2019
13.	Yiwan TapTap media customer back-end management software (易玩 TapTap 媒體客戶後臺管理軟件)	V1.0	2019SR0037108	11/01/2019
14.	Yiwan TapTap developer data monitoring software (易玩 TapTap 開發者數據監控軟件)	V1.0	2019SR0037215	11/01/2019
15.	Yiwan TapTap developer message push software (易玩 TapTap 開發者消息推送軟件)	V1.0	2019SR0038690	11/01/2019
16.	Yiwan TapTap open platform login interface software (易玩 TapTap 開放平臺登陸接口軟件)	V1.0	2019SR0037221	11/01/2019
17.	Yiwan TapTap user behaviour monitoring software (易玩 TapTap 用戶行為監測軟件)	V1.0	2019SR0037232	11/01/2019

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights (Continued)****(b) Copyrights (Continued)**

No.	Copyright	Version	Registration Number	Registration Date (dd/mm/yyyy)
18.	Yiwan TapTap video processing software (Android version) (易玩 TapTap 視頻處理軟件 (Android 版))	V1.0	2019SR0037243	11/01/2019
19.	Yiwan TapTap video processing software (iOS version) (易玩 TapTap 視頻處理軟件 (iOS 版))	V1.0	2019SR0038539	11/01/2019
20.	Yiwan TapTap video processing software (Web version) (易玩 TapTap 視頻處理軟件 (Web 版))	V1.0	2019SR0038682	11/01/2019
21.	TapDB software (Android version) (TapDB 軟件 (安卓版))	V1.0	2017SR647964	24/11/2017
22.	TapDB software (iOS version) (TapDB 軟件 (蘋果版))	V1.0	2017SR647958	24/11/2017
23.	TapDB software (TapDB 軟件)	V1.0	2017SR518103	14/09/2017
24.	TapTap game community software (TapTap 遊戲社區軟件)	V1.0	2017SR577479	20/10/2017
25.	Yiwan TapTap simulator software (易玩 TapTap 模擬器軟件)	V1.0	2017SR093209	27/03/2017
26.	Yiwan TapTap game software (易玩 TapTap 遊戲軟件)	V1.0	2016SR181867	15/07/2016
27.	Yiwan TapTap game software (易玩 TapTap 遊戲軟件)	V2.0	2016SR395478	26/12/2016
28.	Xindong Heng Sao Qian Jun mobile game software (心動橫掃千軍手機遊戲軟件)	V1.0	2014SR211110	26/12/2014
29.	Xindong Heng Sao Qian Jun Android version game software (心動橫掃千軍 Android 版遊戲軟件)	V1.0	2015SR021216	03/02/2015
30.	Xindong Heng Sao Qian Jun mobile game software (心動橫掃千軍手機遊戲軟件)	V2.0	2015SR148779	03/08/2015
31.	Xindong Heng Sao Qian Jun mobile game software (心動橫掃千軍手機遊戲軟件)	V2.1	2015SR248935	08/12/2015
32.	Xindong Sheng Shi San Guo game software (心動盛世三國遊戲軟件)	V2.0	2013SR106545	09/10/2013
33.	Xindong Shen Xian Dao Android version mobile game software (心動神仙道 Android 版手機遊戲軟件)	V3.0	2015SR084545	18/05/2015
34.	Xindong Shen Xian Dao iOS version mobile game software (心動神仙道 iOS 版手機遊戲軟件)	V6.0	2015SR084548	18/05/2015
35.	Shen Xian Dao iOS version game software (神仙道 iOS 版遊戲軟件)	V1.0	2015SR084543	18/05/2015
36.	Shen Xian Dao HD remaster mobile game software (《神仙道》高清重製版手機遊戲軟件)	V2.0	2016SR086241	25/04/2016

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights (Continued)****(b) Copyrights (Continued)**

No.	Copyright	Version	Registration Number	Registration Date (dd/mm/yyyy)
37.	Guangyu Shen Xian Dao 2016 remaster mobile game software (光娛《神仙道》2016 重製版手機遊戲軟件)	V1.1	2016SR053072	15/03/2016
38.	Xindong game version automatic sharing tool platform software (心動遊戲版本自動化共享工具平臺軟件)	V1.0	2013SR143277	11/12/2013
39.	Xian Xia Dao mobile version game software (仙俠道手機版遊戲軟件)	V2.1	2016SR014607	20/01/2016
40.	X.D. Network multi-platform integration development tool software (心動網絡多平臺整合開發工具軟件)	V1.0	2019SR0481369	17/05/2019
41.	X.D. Network server traffic control optimization software (心動網絡服務器流量防洪優化軟件)	V1.0.0	2019SR0481355	17/05/2019

Other Copyright

No.	Copyright	Registration Number	Registration Date (dd/mm/yyyy)
1.	Tap Niang (Q version) (Tap娘 (Q版))	2019F00723251	13/02/2019
2.	Tap Niang (Tap娘)	2018F00630224	11/10/2018
3.	Tap	2016F00288870	15/07/2016
4.	Xindong network graphics of word of heart (心動網絡心字圖形)	2014F00201859	01/07/2014

(c) Patents

As at the Latest Practicable Date, we had registered the following patents which we consider to be or may be material to our business:

No.	Patent	Patentee	Place of registration	Patent Number	Application Date (dd/mm/yyyy)	Expiry Date (dd/mm/yyyy)
1.	System and method of message push(消息推送系統及其方法)	X.D. Network	PRC	201410837023.8	24/12/2014	20/12/2034
2.	Methods and devices to achieve a unified login with the webpage at the client end(在客戶端處實現與網頁統一的登錄的方法和裝置)	X.D. Network	PRC	201310124222.X	11/04/2013	10/04/2033
3.	A kind of system of screen network nodes to accelerate the download based on cloud computing(一種基於雲計算篩選網絡節點加速下載的系統)	X.D. Network	PRC	201120098089.1	06/04/2011	05/04/2021
4.	Electronic equipment and data processing method(電子設備及數據處理方法)	X.D. Network	PRC	201510999401.7	28/12/2015	27/12/2035

B. FURTHER INFORMATION ABOUT OUR BUSINESS (Continued)**2. Intellectual Property Rights (Continued)****(c) Patents (Continued)**

As at the Latest Practicable Date, we had applied for the registration of the following patents which we consider to be or may be material to our business:

No.	Patent	Applicant	Place of Application	Application Number	Application Date (dd/mm/yyyy)
1.	A kind of advertising pricing method and computing device(一種廣告定價方法及計算設備)	Yiwan	PRC	201810091811.5	30/01/2018
2.	A kind of communication method, server and system of remote service(一種遠程服務通信方法、服務器和系統)	X.D. Network	PRC	201910081005.4	28/01/2019
3.	A kind of method to prevent malicious top-up of online games(一種防範網絡遊戲惡意充值的方法)	X.D. Network	PRC	201511003036.6	28/12/2015
4.	Gateway device and gateway configuration method(網關設備及網關配置方法)	X.D. Network	PRC	201610435596.7	17/06/2016

3. Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registered Owner	Expiry Date (dd/mm/yyyy)
1.	xindong.org	X.D. Network	16/01/2021
2.	xd.cn	X.D. Network	17/03/2021
3.	xd.com	X.D. Network	20/01/2024
4.	xindong.com	X.D. Network	25/04/2020
5.	xindong.net	X.D. Network	12/11/2023
6.	xdapp.net	X.D. Network	12/12/2021
7.	xdapp.com	X.D. Network	18/08/2029
8.	ro.com	X.D. Network	29/10/2029
9.	tapdb.com	Yiwan	13/02/2020
10.	taptap.com	Yiwan	07/06/2025

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Particulars of Directors' service contracts and appointment letters****(a) Executive Directors**

Each of our executive Directors has entered into a service contract with our Company on November 29, 2019. Pursuant to this agreement, they agreed to act as executive Directors for an initial

C. FURTHER INFORMATION ABOUT OUR DIRECTORS (Continued)**1. Particulars of Directors' service contracts and appointment letters (Continued)****(a) *Executive Directors* (Continued)**

term of three years with effect from the date the appointment is approved by the Board until the third annual general meeting of our Company since the Listing Date (whichever is sooner). Either party has the right to give not less than three months' written notice to terminate the agreement. Details of the Company's remuneration policy is described in section headed "Directors and Senior Management — Directors' Remuneration".

(b) *Non-executive Directors and independent non-executive Directors*

Each of the non-executive Directors has entered into a service contract with our Company on November 29, 2019. The initial term for their service contracts shall commence from the date of their appointments and shall continue for three years after or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with our Company on November 29, 2019. The initial term for their appointment letters shall be three years from the date of this prospectus or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

2. Remuneration of Directors

- (a) Remuneration and benefits in kind of approximately RMB2.3 million, RMB4.8 million, RMB5.3 million and RMB1.7 million in aggregate were paid and granted by our Group to our Directors in respect of the years ended December 31, 2016, 2017, 2018 and the five months ended May 31, 2019.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2019, is expected to be approximately RMB3.5 million in aggregate (excluding discretionary bonus).
- (c) None of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

3. Disclosure of interests**(a) *Interests and short positions of our Directors or Chief Executives in the share capital of our Company and its associated corporations following completion of the Global Offering***

Save as disclosed in the section headed "Substantial Shareholders", immediately following completion of the Global Offering (taking no account of any Shares which may be allotted and issued

C. FURTHER INFORMATION ABOUT OUR DIRECTORS (Continued)**3. Disclosure of interests** (Continued)**(a) *Interests and short positions of our Directors or Chief Executives in the share capital of our Company and its associated corporations following completion of the Global Offering*** (Continued)

pursuant to the exercise of the Over-allotment Option), the interests or short positions of our Directors and chief executives in the shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is 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 to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) *Interest in Shares and underlying Shares*

Name of Director or chief executive	Nature of interest	Number of Shares	Approximate percentage of interest in our Company immediately after the Global Offering⁽¹⁾
Mr. Shen Sheng	Settlor of a discretionary trust ⁽²⁾	1,188,000	0.28%
	Beneficiary of a trust ⁽³⁾	10,486,271	2.47%
Mr. Fan Shuyang	Administrator ⁽⁴⁾	37,598,680	8.87%

Notes:

- (1) The calculation is based on the total number of 423,958,500 Shares in issue immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised).
- (2) Xochipilli Ltd is a company incorporated in the British Virgin Islands and is held by the Toliman Trust, which was established by Mr. Shen Sheng as the settlor. First American Trust of Nevada, LLC is the trustee of the Toliman Trust, and Mr. Shen Sheng, his spouse and his decedents (only after the death of Mr. Shen Sheng) are the beneficiaries of the Toliman Trust. Mr. Shen Sheng is also a director of Xochipilli Ltd. As such, Mr. Shen Sheng is deemed to be interested in the 1,188,000 Shares held by Xochipilli Ltd.
- (3) Jiexin Management Limited was a company incorporated in the British Virgin Islands on June 4, 2019 and was held by the Jiexin Trust. The beneficiaries of the Jiexin Trust were Onshore Key Employee Shareholders and Mr. Shen Sheng is interested in 27.89% of the Shares held by the Jiexin Trust as one of the beneficiaries.
- (4) Jiexin Management Limited was a company incorporated in the British Virgin Islands on June 4, 2019 and was held by the Jiexin Trust. Mr. Fan Shuyang is the administrator of the Jiexin Trust.

(ii) *Interest in associated corporations*

Name of director or chief executive	Nature of interest	Associated corporations	Number of Shares	Percentage of shareholding in the associated corporation
Mr. Huang Yimeng	Interest in controlled corporation	X.D. Network	165,900,000	47.14%
	Beneficial owner	X.D. Network	47,281,500	13.44%
Mr. Dai Yunjie	Beneficial owner	X.D. Network	20,263,500	5.76%
Mr. Shen Sheng	Beneficial owner	X.D. Network	11,674,271	3.32%
Mr. Tong Weiliang	Beneficial owner	X.D. Network	431,750	0.12%
Mr. Fan Shuyang	Interest in controlled corporation	X.D. Network	37,598,680	10.68%

C. FURTHER INFORMATION ABOUT OUR DIRECTORS (Continued)**3. Disclosure of interests** (Continued)**(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO***

So far as our Directors are aware, immediately following the completion of the Global Offering, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, see “Substantial Shareholders.”

Name of Shareholder	Nature of interest	Immediately following the Completion of the Global Offering (assuming the Over-Allotment Option is not exercised)	
		Number of Shares	Approximate percentage in our Company
Jiexin Management Limited	Beneficial owner ⁽¹⁾	37,598,680	8.87%
Trident Trust Company (HK) Limited	Trustee ⁽¹⁾	37,598,680	8.87%
IGG Inc	Beneficial owner	24,648,000	5.81%

(1) Jiexin Management Limited was a company incorporated in the British Virgin Islands on June 4, 2019 and was held by the Jiexin Trust. The beneficiaries of the Jiexin Trust were Onshore Key Employee Shareholders. Trident Trust Company (HK) Limited was the trustee of the Jiexin Trust.

Save as set out above and in the “Substantial Shareholders” in this prospectus, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

4. Disclaimers

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of our Group;
- (b) none of the Directors or the experts named in the paragraph headed “— E. Other Information — 4. Consents of Experts” in this section has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of our Company within the two years ended on the date of this prospectus;
- (d) none of the Directors 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 taken as a whole;

C. FURTHER INFORMATION ABOUT OUR DIRECTORS (Continued)**4. Disclaimers (Continued)**

- (e) save as disclosed in this prospectus, none of the Directors is interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group;
- (f) taking no account of any Shares which may be taken up under the Global Offering, so far as is known to any Director or chief executive of our Company, no other person (other than a Director or chief executive of our Company) will, immediately following completion of the Global Offering, have interests or short positions in our Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of our Group), be interested, directly or indirectly, 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 member of our Group; and
- (g) save as disclosed in this prospectus, none of the Directors or chief executive of our Company has any interests or short positions in our Shares, underlying shares or debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange once our Shares are listed thereon.

D. RSU SCHEME**1. Summary**

The following is a summary of the principal terms of the RSU Scheme of our Company as approved by the Board on June 3, 2019. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme will not involve the grant of options by us to subscribe for ordinary shares of the Company with a par value of US\$0.0001 each once we have become a listed issuer.

2. Purpose

The purpose of the RSU Scheme is to enable our Group to attract and retain the services of Participants (as defined below) considered essential to the success of our Group by providing additional incentives, and to promote the success of our Group as a whole.

3. Effectiveness and Duration

Subject to any early termination as may be determined by the Board pursuant to terms of the RSU Scheme, the RSU Scheme shall be valid and effective for a period of ten years commencing the adoption date of June 3, 2019, after which no award of RSUs granted to a Participant (the "Award") will be granted, but the provisions of this RSU Scheme shall in all other respects remain in full force

D. RSU SCHEME (Continued)**3. Effectiveness and Duration (Continued)**

and effect and the Awards granted during the term of the RSU Scheme may continue to be valid and exercisable in accordance with their terms of grant.

4. Administration

The RSU Scheme shall be subject to the administration of the Board.

The Board shall have the sole and absolute right to (i) interpret and construe the provisions of the RSU Scheme; (ii) determine the persons who will be granted the Awards under the RSU Scheme, the terms and conditions on which the Awards are granted and when the RSUs granted pursuant to the RSU Scheme may vest; (iii) make such appropriate and equitable adjustments to the terms of the Awards granted under the RSU Scheme as it deems necessary; and (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the RSU Scheme. The Board may by resolution delegate any or all of its powers in the administration of the RSU Scheme to the administration committee or any other committee as authorized by the Board for such purpose. All the decisions, determinations and interpretations made by the Board shall be final, conclusive and binding on all parties.

The RSU Holding Entity will not exercise the voting rights attached to the Shares underlying the RSU Scheme.

5. Participants

Those eligible to participate in the RSU Scheme (the “Participants”) include: (i) full-time employees (including directors, officers and members of senior management) of any member of our Group; and (ii) any person who, in the sole opinion of the Board, has contributed or will contribute to any member of our Group.

6. Annual limit of Shares

Upon the completion of Listing, the maximum limit of the total number of Shares to be issued by the Company under the RSU Scheme in any financial year will not exceed 3% of the total Shares in issue as at the beginning of that financial year. The total number of Shares issued and to be issued to a grantee in any 12-month period will not exceed 1% of the total number of Shares in issue at anytime during this 12-month period.

7. Terms and Conditions of Award**(i) Grant of Awards**

The Board may, from time to time, select the Participants to whom the Award may be granted. The amount of the Award may be determined at the sole and absolute discretion of the Board and may differ among selected Participants.

(ii) Notice of grant

Subject to the limitations and conditions of the RSU Scheme, a notice of grant (the “Notice of Grant”) will be sent to the grantee confirming (a) the number of Shares (and, if applicable, the cash or

D. RSU SCHEME (Continued)**7. Terms and Conditions of Award** (Continued)**(ii) Notice of grant** (Continued)

non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip dividends in respect of these Shares) or the amount of cash the grantee will receive; (b) the lock-up arrangements upon vesting (if any); and (c) other terms and conditions (if any) that the RSUs are subject to as determined by the Board in its absolute discretion.

The grantee is required to execute an acceptance notice and return it to the trustee of the RSU Scheme (the “Trustee”) after receiving the Notice of Grant. Upon the receipt from the eligible Participant of a duly executed acceptance notice, the RSUs are granted to such Participant, who becomes a grantee pursuant to the RSU Scheme. The date of such receipt shall be the grant commencement date (the “Grant Commencement Date”). In the event that the grantee fails to execute or return the acceptance notice within the time period and in a manner prescribed in the Notice of Grant, it shall be deemed that such grant of Award has been irrevocably declined and thus the RSUs have immediately lapsed.

(iii) Conditions of Award

The Board has absolute discretion on the terms and conditions of the Awards. Subject to the terms of the RSU Scheme, the Awards may be granted on such terms and conditions (such as by linking the vesting of their RSUs to the attainment or performance of milestones by any member of our Group, the grantee or any group of grantees).

(iv) Restrictions

No grant of Award shall be made to any selected Participant at a time when the selected Participant would or might be prohibited from dealing in our Shares by the Listing Rules (where applicable) or by any other applicable rules, regulations or law.

For as long as our Shares are listed on the Stock Exchange, a grant of Award must not be made after inside information has come to the knowledge of our Company until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular during the period commencing one month immediately preceding the earlier of:

- (a) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement;

no Award may be granted. Such period will cover any period of delay in the publication of a results announcement.

D. RSU SCHEME (Continued)**7. Terms and Conditions of Award (Continued)****(iv) Restrictions (Continued)**

For as long as our Shares are listed on the Stock Exchange, where any Award is proposed to be granted to a director, it shall not be granted on any day on which the financial results of our Company are published and during the period of:

- (a) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (b) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

Upon the completion of Listing, any grant to any Director, chief executive or substantial shareholder of our Company, or any of their respective associates (as defined under the Listing Rules), shall be subject to the prior approval of the independent non-executive directors (excluding the independent non-executive director who is the proposed grantee of the Awards in question) and shall otherwise be subject to compliance with the requirements of the Listing Rules. Notwithstanding the foregoing, any grant of Award to a director pursuant to Rule 14A.95 of the Listing Rules will be exempted from reporting, announcement and independent Shareholders' approval requirements if the Award forms part of the relevant director's remuneration under his service contract.

The Board may not grant any Award to any Participants in any of the following circumstances:

- (a) the requisite approvals for that grant of Award from any applicable regulatory authorities have not been obtained; or
- (b) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of Award or in respect this Scheme, unless the Board determines otherwise; or
- (c) where the grant of Award would result in a breach of any applicable securities laws, rules or regulations by any member of our Group or any of its directors; or
- (d) the grant of Award would result in breach of the RSU Limit or other rules of the RSU Scheme.

(v) Transferability of Awards

Awards, and any interest therein, shall not be transferable or assignable or encumbered, and shall not be made subject to execution, attachment or similar process, except:

- (a) transfer from a grantee to his family member by gift or pursuant to domestic relations order in the settlement of marital property rights with the consent of the Board; or
- (b) transfer by the grantee and provided that following the grantee's death, RSUs may be transferred by will, or by the laws of descent and distribution.

D. RSU SCHEME (Continued)**8. Taxes**

The grantee shall pay all taxes and other liabilities that may be assessed or assessable on any payments made by our Company or Trustee under the RSU Scheme and all payments required to be made hereunder by our Company shall be subject to the deduction or withholding of any payment or transfer of any kind otherwise due to the grantee, and the grantee agrees to indemnify and keep our Company (for itself and for any members of our Group), the Trustee and RSU Holding Entity indemnified in respect of any such liability, obligation or loss and accepts any claim in respect of such indemnity may be satisfied by set-off against any sums due from our Company, any member of our Group, the Trustee and/or RSU Holding Entity to such grantee from time to time.

9. Vesting**(i) Vesting period**

Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted shall be subject to vesting schedule and to the satisfaction of performance and/or other conditions to be determined by the Board (if any) in its absolute discretion. If such conditions are not satisfied, the RSU shall automatically lapse on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion.

The Board shall have the sole and absolute discretion to determine whether or not a grantee shall have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award prior to vesting of the Award.

(ii) Voting Rights

Prior to the transfer of the Shares underlying the vested RSUs to the grantee, the grantee shall not be entitled to have any rights as a shareholder with respect to such Shares.

10. Lapse and Forfeiture

Subject to terms and conditions of the RSU Scheme, the unvested RSUs shall automatically lapse upon the earliest of:

- (a) the date of the termination of grantee's employment or service in Cause (as defined below) by any member of our Group; or
- (b) in the event that certain general offer by way of voluntary offer or takeover is made to all the Shareholders the date of the offer (or, as the case may be, revised offer);
- (c) in the event that certain general offer for Shares by way of scheme of arrangement is made to all the Shareholders, the record date for determining entitlements under the scheme of arrangement;
- (d) the date of the commencement of the winding-up of our Company; or
- (e) the date on which, at the absolute discretion of the Board, the grantee has failed to perform any major customary duties or responsibilities of an employee, or has committed a material violation of any reasonable directions or instructions of the managerial

D. RSU SCHEME (Continued)**10. Lapse and Forfeiture (Continued)**

department or personnel of the relevant member of our Group, or has committed a material breach of any applicable internal rules, regulations and code of conduct of the relevant member of our Group; or

- (f) the date on which it is no longer possible to satisfy any outstanding conditions to vesting; or
- (g) the Board has decided that the unvested RSUs shall not be vested in the grantee in accordance with the rules of the RSU Scheme and the terms and conditions as set out in the Notice of Grant.

For the purpose of defining the lapse conditions, the Cause means, with respect to a grantee, the summary termination of employment or office or service on any one or more of the following grounds: the grantee has been guilty of willful misconduct or gross negligence, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board in its absolute discretion) on any other ground on which the relevant member in our Group would be entitled to terminate his employment or office or service summarily at common law or pursuant to any applicable laws or under the grantee's employment or service contract with the relevant member in our Group.

Notwithstanding the aforesaid, in each case, the Board may in its absolute discretion decide that any RSU shall not lapse or shall be subject to such conditions or limitations as the Board may decide.

11. Reorganization of Capital Structure

In the event of any alteration in the capital structure of our Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, the Board may make equitable adjustments that it considers appropriate, at its sole discretion and may instruct the Trustee to take appropriate actions accordingly.

12. Alteration or Termination of the RSU Scheme**(i) Alteration**

The terms of the RSU Scheme may be altered, amended or waived in any respect by our Board provided that such alteration, amendment or waiver shall not affect any subsisting rights of any grantee thereunder. Any alteration, amendment or waiver to RSU Scheme of a material nature shall be approved by our Shareholders. Our Board shall have the right to determine whether any proposed alteration, amendment or waiver is material and such determination shall be conclusive.

(ii) Termination

The RSU Scheme may be terminated at any time prior to the expiry of its term by the Board provided that such termination shall not affect any subsisting rights of any grantee hereunder. For the avoidance of doubt, no further Awards shall be granted after the RSU Scheme is terminated but in all other respects the provisions of the RSU Scheme shall remain in full force and effect. All RSUs granted prior to such termination and not vested on the date of termination shall remain valid. In such event, the Board shall notify the Trustee and all grantees of such termination and how the Shares held by the Trustee on trust and other interests or benefits shall be dealt with, provided that Shares held by

D. RSU SCHEME (Continued)**12. Alteration or Termination of the RSU Scheme (Continued)****(ii) Termination (Continued)**

the Trustee shall not be transferred to the Company and the Company shall not otherwise hold any Shares or any interest in Shares whatsoever (other than interest in the proceeds of sale of such Shares).

13. No Effect on Contract of Employment

Subject to the terms of the RSU Scheme in relation to the grant to our Directors, the RSU Scheme shall not form part of any contract of employment or engagement of services between any member of the Group and any Participant and the rights and obligations of any Participant under the terms of his office, employment or engagement in services shall not be affected by the participation of the Participants in the RSU Scheme or any rights which he may have to participate in it and the RSU Scheme shall afford such a Participant no additional rights to compensation or damages in consequence of the termination of such office, employment or engagement for any reason.

14. Details of the RSUs granted under RSU Scheme

As of the Latest Practicable Date, the aggregate number of Shares held by the RSU Holding Entity pursuant to the RSU Scheme for and on behalf of the grantees was 8,437,540, representing approximately 2.34% of the issued share capital of our Company as at the Latest Practicable Date and approximately 1.99% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Any vested or unvested RSUs or any Share underlying any RSUs shall not be transferred or sold prior to the Listing and during the period of six months following the Listing Date.

As of the Latest Practicable Date, no RSUs had been granted by the Company, and if the Company shall decide to grant any RSUs, no grant of such RSUs will cause any dilution of the shareholding of our Shareholders immediately upon the Listing.

E. OTHER INFORMATION**1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this prospectus and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

E. OTHER INFORMATION (Continued)**3. Sole Sponsor (Continued)**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fee in relation to the Listing is USD700,000.

4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
CLSA Capital Markets Limited	Licensed to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Zhong Lun Law Firm	Qualified PRC Lawyers
Campbells	Cayman Islands attorneys-at-law
PricewaterhouseCoopers	Certified Public Accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

As of the Latest Practicable Date, none of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

5. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

6. Bilingual Document

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Preliminary Expenses

The preliminary expenses incurred by the Company amounts to approximately HK\$0.04 million.

E. OTHER INFORMATION (Continued)**8. Disclaimers**

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.
- (b) Save as disclosed in this prospectus:
 - (i) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
 - (ii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.
- (c) Save as disclosed in the paragraph headed “B. Further Information about our Business — 1. Summary of Material Contracts” in this section, none of our Directors or proposed Directors or experts (as named in this prospectus), have any interest, direct or indirect, in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.
- (d) We do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.
- (e) Save as disclosed in this prospectus, no equity or debt securities of any company within our Group is presently listed on any stock exchange or traded on any trading system nor is any listing or permission to deal being or proposed to be sought.
- (f) Save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.
- (g) There is no arrangement under which future dividends are waived or agreed to be waived.
- (h) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

E. OTHER INFORMATION (Continued)**8. Disclaimers** (Continued)

- (i) there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong.

9. Particulars of the Over-allotment Option Grantor as of the Latest Practicable Date

Name	Dynasty Vision Limited
Description	Dynasty Vision Limited was a limited liability company incorporated in the British Virgin Islands
Registered office address	P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands
Maximum number of Option Existing Shares to be sold pursuant to the exercise of the Over-allotment Option	5,480,000

