



**GAME
HOLLYWOOD**

Digital Hollywood Interactive Limited

遊萊互動集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2022

Global Offering

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



中信建投國際

China Securities International

Joint Bookrunners and Joint Lead Managers



中國銀河國際
CHINA GALAXY INTERNATIONAL



廣發證券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED



招銀國際
CMB INTERNATIONAL

* For identification purposes only

IMPORTANT

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



DIGITAL HOLLYWOOD INTERACTIVE LIMITED

遊萊互動集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total number of Offer Shares under the Global Offering	: 500,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares	: 50,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 450,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	: Not more than HK\$0.85 per Share and expected to be not less than HK\$0.63 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund on final pricing)
Nominal value	: US\$0.001 per Share
Stock code	: 2022

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



中信建投國際

China Securities International

Joint Bookrunners and Joint Lead Managers



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 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. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator, on behalf of the Underwriters, and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, December 8, 2017 or such later date as may be agreed between the parties. The Offer Price will be not more than HK\$0.85 per Share and is expected to be not less than HK\$0.63 per Share. The Sole Global Coordinator, on behalf of the Underwriters, may, with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus (being HK\$0.63 per Share to HK\$0.85 per Share) at any time on or prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Public 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) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.gamehollywood.com as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Public Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, and in particular, the risk factors set out in the section headed "Risk Factors."

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Hong Kong Public Offer Shares, the Sole Global Coordinator, on behalf of the Hong Kong Underwriters, has the right in certain circumstances, in its absolute discretion, to terminate the obligation of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for termination." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons. The Offer Shares may be offered, sold or delivered outside of the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

* For identification purposes only

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences and WHITE and YELLOW Application Forms available from	9:00 a.m. on Tuesday, December 5, 2017
Latest time to complete electronic applications under the HK eIPO White Form service through the designated website at www.hkeipo.hk ⁽²⁾	11:30 a.m. on Friday, December 8, 2017
Application lists for the Hong Kong Public Offering open ⁽³⁾	11:45 a.m. on Friday, December 8, 2017
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, December 8, 2017
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, December 8, 2017
Application lists close ⁽³⁾	12:00 noon on Friday, December 8, 2017
Expected Price Determination Date ⁽⁵⁾	Friday, December 8, 2017
Announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allocation of the Hong Kong Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.gamehollywood.com on or before ⁽⁶⁾	Thursday, December 14, 2017
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. (See the section headed "How to Apply for the Hong Kong Public Offer Shares — Publication of Results") from	Thursday, December 14, 2017
Results of allocations for the Hong Kong Public Offering will be available at www.tricor.com.hk/ipo/result with a "search by ID" function	Thursday, December 14, 2017
Share certificates (if applicable) in respect of wholly or partially successful applications to be despatched on or before ⁽⁷⁾	Thursday, December 14, 2017
HK eIPO White Form e-Refund payment instructions/Refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be despatched on or before ⁽⁸⁾	Thursday, December 14, 2017
Dealings in Shares on the Stock Exchange to commence on	Friday, December 15, 2017

EXPECTED TIMETABLE⁽¹⁾

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering.”
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting 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 for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 8, 2017, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Public Offer Shares — Effect of bad weather on the opening of the application lists.”
- (4) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Hong Kong Public Offer Shares — Applying by giving electronic application instructions to HKSCC via CCASS” for details.
- (5) The Offer Price is expected to be determined by Friday, December 8, 2017, but in any event, the expected time for determination of the Offer Price will not be later than Monday, December 11, 2017. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator, on behalf of the Underwriters, and our Company by Monday, December 11, 2017, the Global Offering will not proceed.
- (6) If the Offer Price is determined on Friday, December 8, 2017, the announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allocation of the Hong Kong Public Offer Shares and the successful applicants’ identification document numbers will be published on or before Thursday, December 14, 2017.
- (7) Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Thursday, December 14, 2017, but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (1) the Global Offering has become unconditional in all respects and (2) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for Termination” has not been exercised. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before they become valid do so entirely at their own risk.
- (8) Applicants who apply for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering and have indicated on their Application Forms that they wish to collect any refund cheque(s) (if applicable) and/or Share certificate(s) (if applicable) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Thursday, December 14, 2017. Applicants being individuals who are applying for 1,000,000 Hong Kong Public Offer Shares or more and opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Public Offer Shares or more and opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporations’ chop. Identification and (where applicable) authorization documents acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, must be produced at the time of collection. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms. Further details are set out in the paragraphs headed “13. Refund of Application Monies” and “14. Despatch/Collection of Share Certificates and Refund Monies” in the section headed “How to Apply for the Hong Kong Public Offer Shares.”

For details of the structure of the Global Offering, including the conditions thereof, please refer to the section headed “Structure and Conditions of the Global Offering.”

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our Company, the Sole Global Coordinator, any of the Underwriters, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.gamehollywood.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 and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set forth in the section headed "Risk Factors." You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading global online game publisher for China-based game developers, with fast-growing in-house development capabilities for mobile games. Our mission is to bring engaging, differentiated gameplay experience to users across languages, cultures and borders. We began our business as an international web game publisher and grew quickly to become the No. 1 web game publisher with a market share of 8.9% in terms of revenue generated from publishing web games developed by China-based game developers in the international markets in 2016, according to the Analysys Report. In recent years, we strategically expanded our business focuses to develop and launch mobile games by enhancing in-house development capabilities to capture the market opportunity from the fast-growing smartphone users, and our mobile games immediately achieved considerable success in a number of regional markets. As a result of the change in our business focuses, our revenue from web games decreased while our revenue from mobile games increased significantly during the Track Record Period, generally consistent with the market trend, according to the Analysys Report. To support our global footprint, we have adopted a flexible business model to meet the local licensing requirements, whereby we directly publish or engage qualified co-publishers to publish licensed and proprietary web games and mobile games in the overseas markets and engage qualified co-publishers to publish our proprietary mobile games in China.

Leveraging our in-depth understanding of the international markets, extensive publishing experience and proprietary technical know-how, we offer compelling value proposition to game developers by helping them penetrate the international markets with one-stop solutions, including game redesign, optimization, marketing, distribution, monetization, payment support and other user-related services. We achieved immediate success from our 2012 title, *Wartune*, which was our first web game to generate over US\$10 million gross billings and achieved considerably higher longevity among web games of the same genre to date. We continue to vigorously select viable web games created by China-based game developers for our international users, offering differentiated redesign and optimization to meet the localized gameplay needs. As of the Latest Practicable Date, we had launched 25 web games in the international markets.

As we strategically expanded our business focuses to develop and launch mobile games, our experience and technical know-how accumulated from publishing web games have allowed us to leverage our established market leadership and cost-effectively develop or outsource viable mobile games to engage and monetize smartphone users. We developed and launched various casual shooting games for iOS and Android platforms and immediately achieved considerable success in a number of regional markets, including Southeast Asia and South America. As of the Latest Practicable Date, we had launched 26 mobile games worldwide, of which 14 titles were developed in-house. As of the same date, we had also built a robust pipeline with two licensed web games and two proprietary mobile games for launch by the first quarter of 2018.

We grew during the Track Record Period, primarily driven by the significant growth of our mobile games as a result of our strategic business expansion. Our average MAUs for online games were approximately 1,182,399, 1,205,078, 1,258,360 and 1,555,705 in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Our mobile game business grew substantially during the Track Record Period. Our average MAUs for mobile games increased from approximately 165,445 in 2014 to approximately 646,966 in 2015 and further to approximately 749,236 in 2016, representing a CAGR of 112.8%. Our average MAUs for

SUMMARY

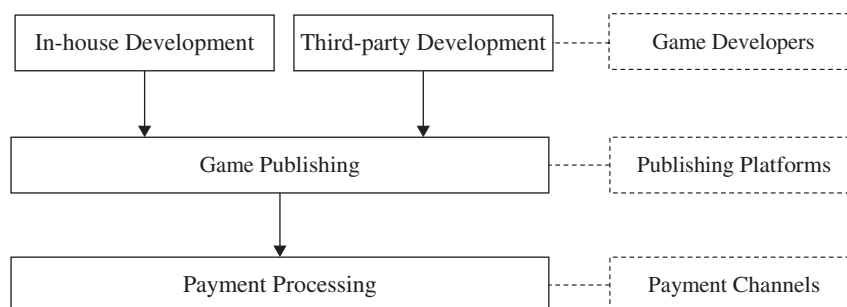
mobile games further increased by 20.3% to approximately 901,402 in the six months ended June 30, 2017. Our revenue was US\$22.8 million, US\$28.0 million, US\$28.4 million, US\$14.7 million and US\$13.8 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our net profit was US\$7.1 million, US\$4.6 million, US\$6.9 million, US\$2.5 million and US\$2.3 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our adjusted net profit was US\$7.3 million, US\$6.2 million, US\$7.6 million, US\$3.0 million and US\$3.1 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. See “Financial Information — Principal Income Statement Components — Non-IFRS Measures” for details.

BUSINESS MODEL

We have built an integrated business model which creates considerable synergies to improve our overall performance. Our extensive experience from publishing web games allows us to effectively identify key successful drivers for mobile games and create game contents that appeal to our users. As a growth strategy, we intend to focus on in-house development of new game IPs as well as outsourcing of popular IPs from third parties to develop new games and enhance existing games.

As all of our games are free to play, we generate revenue primarily from the in-game sale of virtual items. We generally share gross billings from such sale with (1) game developers in the case of games licensed from third parties, (2) publishing platforms in the case of distribution on third-party platforms, and (3) payment channels.

The following diagram sets forth a simplified presentation of our business process.



- *In-house development.* We have an in-house game development studio, which develops mobile games using our proprietary technologies. See “Business — Game Development — In-house Development.”
- *Third-party development.* We review and select viable games of different genres from China-based game developers for publishing primarily in the international markets. See “Business — Game Development — Third-party Development.” We typically enter into content distribution agreements with the game developers to manage our collaboration, including revenue sharing arrangements. See “Business — Game Development — Content Distribution Arrangements.”
- *Game publishing.* We publish online games primarily (1) by ourselves through third-party distribution platforms, including major social networks and App marketplaces, and (2) by cooperation with co-publishers, including leading local game publishers. We provide our game developer partners with one-stop solutions, including game redesign, optimization, marketing, distribution, monetization, payment support and other user-related services. See “Business — Game Publishing.”
- *Payment processing.* As we generate revenue primarily from the in-game sale of virtual items, we collaborate with major online payment channels in North America and other regional markets to facilitate and collect the proceeds from in-game purchases. See “Business — Payment Processing.”

SUMMARY

GAMES

We generated a substantial majority of our revenue from online games during the Track Record Period. Our online game revenue was US\$21.9 million, US\$27.2 million, US\$27.6 million, US\$14.2 million and US\$13.6 million in 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 96.2%, 97.1%, 97.0%, 96.6% and 98.4% of our revenue in the same periods, respectively. We offer a diverse selection of games consisting primarily of casual games and mid-and hardcore games in both web and mobile formats to a demographically diverse user community. As of the Latest Practicable Date, we published 20 casual games and 31 mid-and hardcore games, developed either in-house or by China-based game developers. Many of our games, however, do not neatly fit into any single category due to their complex gameplay style.

As of June 30, 2017 our game portfolio included 14 mobile games (of which 12 are proprietary and two are licensed) and nine web games (of which one is proprietary and eight are licensed). The table below sets forth certain information of our major games that are currently in operation:

Title	Platform	Source	Official Launch Date	Lifecycle Stage as of June 30, 2017
DDTank	Web	Licensed	June 2012	Late Stage
Wartune	Web	Licensed	August 2012	Late Stage
Stallion Race	Web	Licensed	September 2013	Late Stage
League of Angels	Web	Licensed	March 2014	Late Stage
Legend Knight	Web	Licensed	September 2014	Stable and Mature Stage
Era of Empire	Web	Licensed	January 2015	Late Stage
Omega Zodiac ⁽¹⁾	Web	Proprietary	August 2016	Stable and Mature Stage
Dragon Awaken (English)	Web	Licensed	March 2017	Growth Stage
Dragon Awaken (Portuguese)	Web	Licensed	June 2017	Growth Stage
DDTank Pocket (Simplified Chinese)	Mobile	Proprietary	March 2014	Stable and Mature Stage
Gunny Mobi (Vietnamese)	Mobile	Proprietary	December 2014	Growth Stage
DDTank Barcelona (Android)	Mobile	Proprietary	June 2015	Stable and Mature Stage
DDTank Barcelona (iOS)	Mobile	Proprietary	June 2015	Stable and Mature Stage
DDTank (English)	Mobile	Proprietary	June 2015	Stable and Mature Stage
MMOG I (Simplified Chinese for Malaysia)	Mobile	Proprietary	July 2015	Late Stage
MMOG II (English for Malaysia)	Mobile	Proprietary	September 2015	Late Stage
DDTank Pocket (Traditional Chinese for Taiwan)	Mobile	Proprietary	November 2015	Late Stage
DDTank (Traditional Chinese for Hong Kong and Macau)	Mobile	Proprietary	January 2016	Late Stage
DDTank Brasil (Portuguese)	Mobile	Proprietary	March 2016	Growth Stage
Boomz (Thai)	Mobile	Proprietary	May 2016	Stable and Mature Stage
Devil Age	Mobile (in cross-platform format)	Proprietary	September 2016	Stable and Mature Stage
Lord of Star	Mobile (in cross-platform format)	Licensed	March 2017	Growth Stage
Heroes Crash	Mobile	Licensed	May 2017	Growth Stage

(1) Omega Zodiac became our proprietary web game since April 2017.

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All of our online games are free to play. We generate revenue primarily from the in-game sale of virtual items. Our web games typically have a lifecycle over 24 months (the industry average for web games) and our mobile games typical have a lifecycle over 12 months (the industry average for mobile games). Historically, most of our games experienced in their lifecycles (1) an early growth stage during which the user number and the revenue generated from such game tend to increase, (2) a stable and mature stage during which the user number and the revenue generated from such game tend to be stable and (3) a late stage during which the user number and the revenue generated from such game tend to decrease. See “Business — Game Publishing — Localization capabilities” for details. As we test the viability and build up the user base for a new game during the growth stage (approximately the first 30% of the time span for the game’s lifecycle, according to the Analysys Report) and gradually phase out an old game during the late stage (approximately the last 20% of the time span for the game’s lifecycle, according to the Analysys Report) when an increasing number of existing users begin to lose interest, we strive to maintain a game at the stable and mature stage (approximately 30% to 80% of the time span for the game’s lifecycle, according to the Analysys Report) within its lifecycle during which we are able to generate steady revenue from its paying users. We seek to extend the lifecycle of our games through launching frequent fixes and updates with new features, levels and characters to enhance user satisfaction and increase retention rate; and creating player-focused game environment that offers users a superior gameplay experience in order to retain longer-term users.

The following table sets forth a breakdown of our online game revenue by game formats for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(US\$ except for percentages)									
	(Unaudited)									
Web games	20,398,486	89.6	15,659,772	55.9	10,199,039	35.9	5,578,006	38.1	4,363,244	31.5
Mobile games	1,500,828	6.6	11,532,943	41.2	17,389,934	61.1	8,583,418	58.5	9,249,915	66.9
Total	21,899,314	96.2	27,192,715	97.1	27,588,973	97.0	14,161,424	96.6	13,613,159	98.4

Our revenue from web games decreased during the Track Record Period, which reflected a slowdown of our web game business primarily due to (1) the slowdown of the global web game market which resulted in a scarcity of viable web games we were able to identify for publishing, (2) a decline in the revenue generated from our existing web games as they progressed in their respective lifecycles, and (3) the gradual build-up of user bases from our recent games launched in the third quarter of 2016 and the first half of 2017.

Our revenue from mobile games increased significantly during the Track Record Period, which reflected our strategic business expansion to develop and launch mobile games beginning in 2014 and the considerable success of our mobile games.

USERS

We attract, engage and monetize our users primarily through third-party distribution platforms we partner with. We have established a massive global user base, particularly in North America, Southeast Asia, Europe and South America, and we did not rely on any single user during the Track Record Period. We continuously seek to target users with diverse cultural or demographic backgrounds. As of June 30, 2017, we had cumulative registered users of approximately 47.8 million. Calculated based on IP addresses we recorded, we have registered users located in over 168 countries and regions.

SUMMARY

We offer our games on a free-to-play basis and generate revenue from the in-game sale of virtual items. Our users are able to enjoy our games without discretionary in-game purchases to enhance their gameplay experience, and consistent with the industry norms, paying users only account for a relatively small portion of our total users. We continuously seek to optimize in-game merchandising designs to stimulate in-game spending and maximize monetization, without compromising the overall gameplay experience we strive to offer all of our users, paid or not. As of December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our average MPUs for online games were approximately 68,343, 73,125, 76,331 and 84,773, respectively, representing approximately 5.8%, 6.1%, 6.1% and 5.4% of the average MAUs for the same periods, respectively.

The following table sets forth certain operating data regarding our games for the periods indicated.

	Year ended December 31,			Six months
	2014	2015	2016	ended June 30, 2017
Average MPUs				
Web games	55,551	32,481	26,667	22,622
Mobile games	12,793	40,644	49,664	62,151
ARPPU (US\$)				
Web games	31	40	32	32
Mobile games	13	24	29	25
Revenue (US\$)				
Web games	20,398,486	15,659,772	10,199,039	4,363,244
Mobile games	1,500,828	11,532,943	17,389,934	9,249,915

For details, see “Business — Our Users and Customer Services” beginning on page 172 of this prospectus.

PROCUREMENT AND SUPPLIERS

Our suppliers include primarily third-party distribution platforms (including co-publishers), third-party payment channels, data server providers, game developers and IP providers, and our cost of revenue correspondingly includes primarily commission charges, server rental expenses, license fees, and royalty fees. We collaborate with third-party distribution platforms, including Facebook, Apple Inc.’s App Store and Google Play, and co-publishers, including leading local game publishers, to publish our games, and utilize third-party payment channels, including integrated distribution platforms, PayPal and Skrill, to collect proceeds from in-game purchases. To operate our games in the overseas markets, we also rent servers hosted by data server providers in the United States. The games we publish are either developed in-house or licensed from third-party game developers. We have also obtained licenses from leading IP providers within and outside China to enhance the appeal of our games by incorporating popular IP elements.

For 2014, 2015, 2016 and the six months ended June 30, 2017, our five largest suppliers contributed a total of 84.2%, 55.0%, 55.2% and 60.6%, respectively, of our cost of revenue for the same periods, respectively. For 2014, 2015, 2016 and the six months ended June 30, 2017, our largest supplier contributed 47.5%, 15.3%, 19.5% and 31.6% of our cost of revenue for the same periods, respectively. Save as otherwise disclosed in this prospectus, all of our suppliers 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 5.0% of our Shares) has any interest in any of our five largest suppliers during the Track Record Periods.

For details, see “Business — Procurement and Suppliers” beginning on page 176 of this prospectus.

COMPETITIVE STRENGTHS

We believe that the following strengths of our Company differentiate us from our competitors and help us compete effectively in the industry: (1) a leading global online game publisher for China-based game developers with in-house development capabilities; (2) a

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diversified portfolio of entertainment products powered by continuous creation and innovation; (3) robust technical capabilities to support game publishing and in-house development; (4) strong and trusted partnership with game developers, distribution platforms and payment channels; and (5) a visionary and experienced management team with a proven record of successful execution. For details, see “Business — Competitive Strengths” beginning on page 135 of this prospectus.

BUSINESS STRATEGIES

We aspire to become a pre-eminent global interactive entertainment provider and intend to pursue the following strategies to further grow our business: (1) solidify our leading position as a global game publisher; (2) strengthen our in-house game development capabilities; (3) improve our technology infrastructure to support our business growth; (4) expand our product portfolio with advanced visual technologies; and (5) pursue strategic alliance and acquisition opportunities.

For details, see “Business — Business Strategies” beginning on page 139 of this prospectus.

RISKS AND CHALLENGES

Our business faces risks including those set out in the “Risk Factors” section of this prospectus. As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the “Risk Factors” section in its entirety before you decide to invest in the Offer Shares. Some of the major risks that we face include:

- a small number of games have contributed a substantial majority of our revenue, and we must continue to maintain the popularity of our existing games and launch new games that attract and retain a significant number of users in order to grow our revenue and sustain our competitive position;
- if we fail to maintain and grow our user base, we will not be able to sustain our growth and our business may be materially and adversely affected;
- we collaborate with game developers to provide games to our users, and any loss or deterioration of our relationship with our game developer partners may result in the loss of user base and revenues;
- our growth prospects will suffer if we are unable to successfully implement our game development strategies on mobile games; and
- we work with game distribution platforms to distribute our games, and our business may be materially and adversely affected if they breach their contractual obligations, or if we fail to maintain relationships with a sufficient number of platforms, or if the platforms lose popularity among Internet users.

FINANCIAL TRACK RECORD

The summary historical consolidated financial statements set forth below should be read in conjunction with our consolidated financial statements included in the “Accountant’s Report” in Appendix I to this prospectus, together with the accompanying notes, which have been prepared in accordance with IFRS. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

We recorded a net loss in 2012 mainly due to our substantial investment in business expansion as we had been in the process of (1) promoting our brand and (2) expanding our user base, which had been our focus since our inception in 2010. Our net loss in 2012 was also attributable to the fact that most of our games at the time were at an early growth stage with limited but increasing revenue contribution. According to the Analysis Report, game companies typically record losses at the early stage of their development (usually two to three years from their inception) due to similar reasons. With a gradual growth of our user base and

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an increasing recognition on our brand, coupled with the gradual development of our games into a stable stage generating substantial revenue, we began to progressively break even and started to generate profits in 2013.

The following table sets forth selected line items of our summary consolidated statements of comprehensive income for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(US\$ except for percentages)									
	(Unaudited)									
Revenue	22,775,694	100.0	28,008,030	100.0	28,445,686	100.0	14,658,856	100.0	13,829,731	100.0
Cost of revenue	(2,784,251)	(12.2)	(10,039,380)	(35.8)	(12,910,243)	(45.4)	(6,603,705)	(45.0)	(6,163,937)	(44.6)
Gross profit	19,991,443	87.8	17,968,650	64.2	15,535,443	54.6	8,055,151	55.0	7,665,794	55.4
Operating profit	9,146,849	40.2	6,479,157	23.1	8,642,588	30.4	3,075,753	21.0	3,393,117	24.5
Profit before income tax	9,147,103	40.2	6,480,907	23.1	8,552,146	30.1	3,063,653	20.9	3,352,986	24.2
Income tax expense	(2,081,576)	(9.1)	(1,930,703)	(6.9)	(1,612,619)	(5.7)	(609,516)	(4.2)	(1,084,098)	(7.8)
Profit for the year/period	<u>7,065,527</u>	<u>31.0</u>	<u>4,550,204</u>	<u>16.2</u>	<u>6,939,527</u>	<u>24.4</u>	<u>2,454,137</u>	<u>16.7</u>	<u>2,268,888</u>	<u>16.4</u>
Profit attributable to the owners	<u>7,502,481</u>	<u>32.9</u>	<u>4,473,988</u>	<u>16.0</u>	<u>6,939,527</u>	<u>24.4</u>	<u>2,454,137</u>	<u>16.7</u>	<u>2,268,888</u>	<u>16.4</u>
Profit for the year/period	7,065,527	31.0	4,550,204	16.2	6,939,527	24.4	2,454,137	16.7	2,268,888	16.4
Add:										
Listing-related expenses	284,278	1.2	1,033,675	3.7	625,867	2.2	581,098	4.0	854,476	6.2
Share-based compensation	-	-	612,443	2.2	-	-	-	-	-	-
Non-IFRS measure										
Adjusted net profit ⁽¹⁾	<u>7,349,805</u>	<u>32.3</u>	<u>6,196,322</u>	<u>22.1</u>	<u>7,565,394</u>	<u>26.6</u>	<u>3,035,235</u>	<u>20.7</u>	<u>3,123,364</u>	<u>22.6</u>

(1) Adjusted net profit eliminates the effect of certain non-cash or non-recurring items: listing-related expenses and share-based compensation expenses. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest IFRS performance measure, which should be considered when evaluating our performance. See “Financial Information — Principal Income Statement Components — Non-IFRS Measures” for details.

Our cost of revenue consists primarily of commission charges by third-party distribution platforms and payment channels, server rental expenses, royalty fees, amortization of license fees, compensation and benefits for employees involved in the operation of our online games, and tax surcharges.

The decrease in our operating profit in 2015 was primarily due to an increase in (1) our cost of revenue driven by our strategic business expansion to develop and launch mobile games, as a result of which we presented certain fees paid to distribution platforms and payment channels on a gross basis as cost of revenue and (2) our listing-related expenses incurred for the preparation of the Global Offering.

SUMMARY

The following table sets forth selected line items of our summary consolidated statements of financial position as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
Non-current assets	1,408,578	1,244,036	1,353,019	1,795,360
Current assets	28,256,967	30,967,706	25,170,822	26,691,478
Current liabilities	17,518,852	27,591,241	15,687,641	14,994,679
Non-current liabilities	143,708	191,027	44,709	44,441
 Total equity	 <u>12,002,985</u>	 <u>4,429,474</u>	 <u>10,791,491</u>	 <u>13,447,718</u>

We made provisions for impairment of US\$0.5 million, US\$0.7 million, US\$1.4 million and US\$1.7 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively, on receivables primarily from certain distribution platforms and co-publishers which we then believed could not be collected due to the lapse of considerable time. The increase in impairment provisions during the Track Record Period was primarily due to certain Android-based distribution platforms in China that were slow in remitting our share of the game proceeds as we strategically expanded our business focus to launch mobile games. We made appropriate impairment provisions per the pertinent accounting policies and will seek to enhance our collection efforts as our business in China grows.

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	(US\$)			(Unaudited)	
Net cash generated from operating activities	7,466,323	1,358,078	249,912	113,686	2,050,252
Net cash used in investing activities	(1,243,011)	(868,069)	(845,554)	(64,641)	(226,754)
Net cash generated from/ (used in) financing activities	64,686	19,849	(7,978,376)	(102,377)	(410,261)
Net increase/(decrease) in cash and cash equivalents	<u>6,287,998</u>	<u>509,858</u>	<u>(8,574,018)</u>	<u>(53,332)</u>	<u>1,413,237</u>
 Cash and cash equivalents at beginning of year/period	 10,049,553	 16,336,408	 16,812,751	 16,812,751	 8,130,169
Exchange losses/(gains) on cash and cash equivalents	<u>(1,143)</u>	<u>(33,515)</u>	<u>(108,564)</u>	<u>(5,577)</u>	<u>105,725</u>
 Cash and cash equivalents at end of the year/period	 <u>16,336,408</u>	 <u>16,812,751</u>	 <u>8,130,169</u>	 <u>16,753,842</u>	 <u>9,649,131</u>

The significant decrease in the net cash generated from operating activities from 2014 to 2016 was primarily due to the increase in our prepayments and other receivables in 2015 as a result of an increase in the unwithdrawn funds accumulated in PayPal, a payment channel, and the settlement of historical tax liabilities in 2016. The net cash generated from operating activities increased significantly in the six months ended June 30, 2017.

SUMMARY

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

	Year ended December 31,			Six months ended
	2014	2015	2016	June 30, 2017
Profitability ratios				
Gross profit margin ⁽¹⁾	87.8%	64.2%	54.6%	55.4%
Net profit margin ⁽²⁾	31.0%	16.2%	24.4%	16.4%
Adjusted net profit margin ⁽³⁾	32.3%	22.1%	26.6%	22.6%
Return on equity ⁽⁴⁾	83.5%	55.4%	91.2%	18.7%
Adjusted return on equity ⁽⁵⁾	86.9%	75.4%	99.4%	25.8%
Return on total assets ⁽⁶⁾	29.3%	14.7%	23.6%	8.2%
Adjusted return on total assets ⁽⁷⁾	30.5%	20.0%	25.8%	11.4%
Liquidity ratios				
Current ratio ⁽⁸⁾	1.6	1.1	1.6	1.8

- (1) The calculation of gross profit margin is based on gross profit for the year or period divided by revenue for the respective year or period and multiplied by 100.0%.
- (2) The calculation of net profit margin is based on profit for the year or period divided by revenue for the respective year or period and multiplied by 100.0%.
- (3) The calculation of adjusted net profit margin is based on the adjusted net profit divided by revenue for the respective year or period and multiplied by 100.0%. For reconciliation of adjusted net profit, a non-IFRS measure, to its closest IFRS measures, see “Financial Information — Principal Income Statement Components — Non-IFRS Measures” for details.
- (4) The calculation of return on equity is based on profit for the year or period divided by the average of the opening and closing balances of total equity in the relevant year or period and multiplied by 100.0%.
- (5) The calculation of adjusted return on equity is based on the adjusted net profit divided by the average of the opening and closing balances of total equity in the relevant year or period and multiplied by 100.0%.
- (6) The calculation of return on total assets is based on profit for the year or period divided by the average of the opening and closing balances of total assets in the relevant year or period and multiplied by 100.0%.
- (7) The calculation of adjusted return on total assets is based on the adjusted net profit divided by the average of the opening and closing balances of total assets in the relevant year or period and multiplied by 100.0%.
- (8) The calculation of current ratio is based on current assets divided by current liabilities.

The decrease in gross profit margin from 2014 to 2016 was primarily due to an increase in our cost of revenue driven by our strategic business expansion to develop and launch mobile games, as a result of which we presented certain fees paid to IP licensors, distribution platforms and payment channels on a gross basis as cost of revenue for our proprietary mobile games, while previously such fees were generally pre-deducted by distribution platforms and payment channels and net off from our revenue for third-party developed web games. Our Directors believe that this decreasing trend will not continue going forward as the product mix of mobile games and web games in our current game portfolio and game pipeline remains relatively stable and we do not expect any material change to our current revenue sharing arrangements as we have maintained long-term stable relationships with our important business partners, including game developers, distribution platforms and payment channels.

For further discussion of these ratios, see “Financial Information — Key Financial Ratios” beginning on page 287 of this prospectus.

SUMMARY

LISTING EXPENSES

The listing expenses in connection with the Global Offering are estimated to be approximately US\$9.4 million which comprises US\$2.3 million underwriting commission and US\$7.1 million other expenses, assuming an Offer Price of HK\$0.74 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of approximately US\$3.6 million, of which approximately US\$2.8 million was charged to our consolidated statements of comprehensive income during the Track Record Period, while the remaining amount of approximately US\$0.8 million was recorded as deferred listing expenses and will be capitalized and deducted from the share premium upon the completion of the Global Offering. We expect to further incur underwriting commission and other listing expenses of approximately US\$5.8 million (including the underwriting commission of approximately US\$2.3 million) upon the completion of the Global Offering, out of which approximately US\$2.7 million will be charged to the consolidated statements of comprehensive income, and approximately US\$3.1 million will be deducted from the share premium.

OFFERING STATISTICS

Number of Offer Shares in the Global Offering	:	Initially 25.0% of the enlarged issued share capital of the Company
Over-allotment Option	:	Up to 15.0% of the Offer Shares initially available under the Global Offering (excluding the number of Offer Shares to be subscribed by the Cornerstone Investors)
Offer Price per Share	:	HK\$0.63 to HK\$0.85 per Offer Share
Offering structure	:	90.0% International Offering and 10.0% Hong Kong Public Offering (subject to reallocation and the Over-allotment Option)

	<u>Based on an Offer Price of HK\$0.63</u>	<u>Based on an Offer Price of HK\$0.85</u>
Market Capitalization	HK\$1,260 million	HK\$1,700 million
Unaudited pro forma adjusted net tangible assets per Share ⁽¹⁾	HK\$0.20	HK\$0.26

(1) See “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for further details regarding the assumptions used and the calculations method.

DIVIDEND

We declared special dividends of US\$12.1 million in August 2015 and completed the distribution by December 2016 to the Founders. Other than the foregoing, we did not pay or declare dividends to our Shareholders during the Track Record Period.

We are a holding company incorporated in the Cayman Islands. The payment and amount of our future dividends will depend on the availability of dividends received from our subsidiaries. Distributions from us and our subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements or other agreements that we or they may enter into in the future.

We currently do not have any pre-determined dividend payout ratio. The amount of dividends actually distributed to our Shareholders will depend on our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividends.

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USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$0.74 per Share (being the mid-point of the indicative range of the Offer Price of HK\$0.63 to HK\$0.85 per Share), we estimate that the net proceeds of the Global Offering, after deducting the estimated underwriting fees and expenses payable by us in connection with the Global Offering, will be approximately HK\$318.5 million.

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

- approximately HK\$127.4 million (equivalent to approximately US\$15.4 million, or approximately 40.0% of our total estimated net proceeds) to acquire popular IPs or other related assets from, or invest in or acquire, overseas or China-based online game developers or IP providers. In particular, we intend to use approximately HK\$89.2 million to invest in or acquire game developers and IP providers and approximately HK\$38.2 million to acquire IPs or other related assets primarily relating to popular cartoons and movies. As of the Latest Practicable Date, we had no finalized or definitive understandings, commitments or agreements for investment or acquisition and had not engaged in any related negotiations;
- approximately HK\$79.6 million (equivalent to approximately US\$9.6 million, or approximately 25.0% of our total estimated net proceeds) to fund our in-house research and development efforts in respect of developing proprietary online games and other IPs. In particular, we intend to use approximately HK\$22.3 million to recruit more research and development talents with competitive compensation and approximately HK\$57.3 million to expand and upgrade our research and development centers;
- approximately HK\$47.8 million (equivalent to approximately US\$5.8 million, or approximately 15.0% of our total estimated net proceeds) to further support the expansion of our online game business, which includes enhancing network and technology infrastructure and improving game analytics. In particular, we intend to use approximately HK\$28.7 million for enhancing technology infrastructure and approximately HK\$19.1 million for improving game analytics;
- approximately HK\$31.8 million (equivalent to approximately US\$3.8 million, or approximately 10.0% of our total estimated net proceeds) to support our marketing and promotion campaigns, which include the promotion of our brand “Game Hollywood” and other marketing activities and campaigns. In particular, we intend to use approximately HK\$12.7 million for our brand promotion and approximately HK\$19.1 million for marketing activities and campaigns; and
- the balance of the net proceeds, which is HK\$31.9 million (equivalent to approximately US\$3.8 million, or approximately 10.0% of our total estimated net proceeds) to be used for working capital and other general corporate purposes.

In the event that the Offer Price is fixed below or above the mid-point of the indicative price range, the net proceeds allocated to the above purposes will be adjusted on a pro rata basis. Any additional proceeds received from the exercise of the Over-allotment Option will be allocated to the above purposes on a pro rata basis.

To the extent that our net proceeds are not sufficient to fund the purposes set out above, we intend to fund the balance through a variety of means, including our internal resource, cash generated from our operations, debt financing and equity financing. To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

SHAREHOLDERS AND CORPORATE STRUCTURE

Controlling Shareholders

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. LU Yuanfeng, Ms. LUO Simin (the spouse of Mr.

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LU), Mr. HUANG Guozhan and Mr. HUANG Deqiang through LYF Digital Holdings Limited, Angel Age Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited, will beneficially and jointly own approximately 49.46% of the issued share capital of our Company. Hence, Mr. LU Yuanfeng, Ms. LUO Simin, Mr. HUANG Guozhan, Mr. HUANG Deqiang, LYF Digital Holdings Limited, Angel Age Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited are considered as our Controlling Shareholders.

Mr. LU Yuanfeng, Ms. LUO Simin (the spouse of Mr. LU), Mr. HUANG Guozhan, Mr. HUANG Deqiang and their respective wholly-owned companies holding the Shares (the “Concert Parties”) have been the Controlling Shareholders of our Group. Our Founders had held interests in our Group’s subsidiaries and acted in concert in the management, operation and all major decisions of our Group based on mutual trust, cooperation and agreement since our Group was founded. Ms. LUO has also been acting in concert with the Founders since she became interested in our Group. The Concert Parties entered into a parties acting in concert deed on June 27, 2017 to confirm and record this arrangement. Pursuant to the aforesaid deed, the Concert Parties agreed that (i) this arrangement will continue after Listing; and (ii) each Concert Party will continue to exercise his or her voting rights based on mutual trust, cooperation and agreement with each other, and in the event of any dispute among the Concert Parties, based on the instructions of the Concert Party holding the largest number of Shares.

For details, see “Relationship with Controlling Shareholders” beginning on page 224 of this prospectus.

Pre-IPO Investments

On November 2, 2015, LYF Digital Holdings Limited transferred 2,300,000 Shares to 7 Road International. On January 9, 2016, LYF Digital Holdings Limited transferred 2,500 Shares to Mr. YU Ching Ming. On May 27, 2017, Angel Age Limited transferred 222,224 Shares to F.S. Management. For details of such share transfer, see “History, Reorganization and Corporate Structure — Pre-IPO Investments” beginning on page 124 of this prospectus.

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), 7 Road International, Mr. YU Ching Ming and F.S. Management will hold 15.52%, 0.02% and 1.50% of our issued share capital, respectively.

Post-IPO Share Option Scheme

Pursuant to the resolutions of our Shareholders passed on May 27, 2017, we have conditionally adopted the Post-IPO Share Option Scheme.

Pursuant to the Post-IPO Share Option Scheme, our Company will use Shares held by the Nominee and new Shares to be allotted by us to satisfy the options upon exercise. The maximum number of new Shares which may be issued under the Post-IPO Share Option Scheme is 200,000,000, representing 10.0% of our enlarged share capital immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised). For principal terms of the Post-IPO Share Option Scheme, see “D. Share Incentive Scheme — 1. Post-IPO Share Option Scheme” in Appendix IV to this prospectus.

Legality of Our Corporate Structure

Our offshore subsidiaries publish web games in the international markets through self-publishing (including Facebook as a third-party distribution platform and our self-owned platform) and regional co-publishers. In respect of self-publishing, our web games are scripted primarily in English and all the in-game purchases are settled primarily in U.S. dollars. In respect of co-publishing, our co-publishers are responsible for publishing and operating our web games. The co-publishers are required to comply with the relevant licensing requirement in the jurisdictions where the local regulators require operating licenses. Our PRC subsidiaries do not engage in the business of web game publication and operation in any market. As advised by our PRC legal advisers, we are currently not required to obtain any special approvals, licenses and permits in China for the operation of our web games in the international markets through self-publishing or co-publishers.

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We publish mobile games through self-publishing (including third-party distribution platforms, primarily Apple Inc.'s App Store and Google Play) and regional co-publishers. In respect of self-publishing, our offshore subsidiaries are responsible for publishing mobile games primarily through Apples Inc.'s App Store and Google Play. We do not directly publish mobile games by ourselves in China. In respect of co-publishing, we are primarily responsible for offering game contents and related technical support and our co-publishers are primarily responsible for marketing and distributing the games within their authorized distribution territories. As advised by our PRC legal advisers, we are also currently not required to hold any approvals, licenses and permits in China for the business of our mobile games as we have adopted a business model to authorize qualified third-parties to publish and operate our proprietary mobile games in China.

Our PRC subsidiaries are primarily engaged in research and development of games, software development and technical support, and have not involved in any game operation and publication activities in China. As advised by our PRC legal advisers, the business activities of our PRC subsidiaries do not fall into the scope of restricted or prohibited foreign investment industries in the PRC, and are not required to obtain any special approvals, licenses and permits in China; on the other hand, our offshore subsidiaries are primarily engaged in game operations and publication in the international markets rather than in China, and are not subject to laws and regulations in respect of any special approvals, licenses and permits in China. We also had an interview with the Department of Culture of Guangdong Province (廣東省文化廳), the competent authority at provincial level that overseeing the game industry, which supported our PRC legal advisers' views. See "Business — Approvals, Licenses and Permits" for details.

Based on the foregoing facts and the interview with the competent government authority overseeing the game industry, our PRC legal advisers are of the opinion that the business operations of our PRC subsidiaries under the current corporate structure are legal and not in violation of any applicable PRC rules and regulations in any material respects.

COMPLIANCE AND INTERNAL CONTROL

Tax and Related Arrangements

Our international footprint has subjected us to unique tax risks in relation to the countries and regions where we publish online games, and given the relatively short history of China's overseas game publishing industry and our leading market leadership, there is limited established common practice for professional tax management in the industry. As the implication of global and local tax regulations on our operations became increasing complicated, we engaged an external tax consultant to provide professional tax compliance and consulting services and rectified existing taxation-related issues in the relevant jurisdictions. We have also put in place enhanced corporate governance measures since January 1, 2016 to ensure that we will comply with relevant tax laws and regulations in the context of our cross-border operation.

For details, see "Business — Taxation and Related Arrangements" beginning on page 186 of this prospectus.

Historical Business Activities in Countries Subject to International Sanctions

The United States and other jurisdictions or organizations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries.

Although it has never been our intention (except for three particular Russian-language games published through third-party distribution platforms or co-publishers) to target any users in the Countries subject to International Sanctions, we publish online games primarily through third-party distribution platforms and co-publishers globally, including Facebook, Apple Inc.'s App Store and Google Play, which are accessible to users worldwide, including users from the Relevant Countries. During the Track Record Period, we incurred sales from users located in the Relevant Countries, estimated based on the IP addresses we recorded.

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We generated revenue from three Russian-language mobile games of nil, approximately US\$20,622, US\$51,664 and US\$31,288 in 2014, 2015, 2016 and in the six months ended June 30, 2017, representing nil, approximately 0.1%, 0.2% and 0.2% of the our revenue during the same periods, respectively. All the games in Russian version ceased operation in June 2017.

In addition, we also generated revenue⁽¹⁾ from users in the Relevant Countries through our websites and distribution platform and co-publisher partners of approximately US\$86,000, US\$103,000, US\$194,000 and US\$129,000 in 2014, 2015, 2016 and in the six months ended June 30, 2017, representing approximately 0.38%, 0.37%, 0.69% and 0.93% of our revenue during the same periods, respectively.

As advised by our International Sanctions legal advisers, based on the procedures conducted by them as specified in the section headed “Business — Historical Business Activities in Countries subject to International Sanctions,” the sales incurred from users located in the Relevant Countries during the Track Record Period do not implicate any applicable International Sanctions laws on our Group, or any person or entity, including our Group’s investors, our Shareholders, the Stock Exchange, HKSCC and HKSCC Nominees. See “Risk factors — We could be adversely affected as a result of our operations and sales in countries that are subject to evolving economic sanctions by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities” for further details regarding any risks associated with our prior sales in the Relevant Countries.

Social Insurance and Housing Fund

We did not make adequate social insurances and housing reserve fund contributions for all of our employees or make timely registration with certain social insurance or housing reserve fund authorities during the Track Record Period. For details, see “Business — Legal Proceedings and Compliance — Non-compliance Incidents” beginning on page 200 of this prospectus.

RECENT DEVELOPMENTS

Based on our unaudited management accounts for the three months ended September 30, 2017, our revenue for the three months ended September 30, 2017 slightly increased when compared with the corresponding period in 2016. After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that since June 30, 2017 and up to the date of this prospectus, there was no material adverse change in our financial, operational or trading position or in the general regulatory, economic and market conditions in the markets or the industry in which we operate, and there is no event since June 30, 2017 that would materially affect the audited financial information as set out in Appendix I — “Accountant’s Report” to this prospectus.

We currently estimate that our net profit for the year ending December 31, 2017 may decrease as compared to our net profit for 2016, primarily due to a significant non-recurring amount of listing-related expenses we incurred and expect to incur in connection with the Global Offering. Excluding the impact of the listing-related expenses, we currently expect that our net profit for the year ending December 31, 2017 would increase compared to our net profit for 2016.

As of the Latest Practicable Date, we had a pipeline of two and two games expected to be officially launched by end of 2017 and first quarter of 2018, respectively, and all of them had entered into testing process.

(1) Calculated based on revenue derived from the IP addresses from Countries subject to International Sanctions which we identify from our web-game operation. We are otherwise unable to collect any such information for our mobile games.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed “Glossary” 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
“Analysys”	Analysys Ltd., our Company’s industry consultant
“Analysys Report”	an industry report we commissioned from Analysys in respect of online game markets
“Angame”	Angame Inc., a company incorporated in the BVI with limited liability on July 5, 2005, which is a wholly-owned subsidiary of our Company
“Anhui Tips”	Anhui Tips Network Technology Company Limited (安徽提普斯網絡科技有限公司), a company limited liability on January 16, 2013
“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, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	our articles of association, as conditionally adopted on November 24, 2017 with effect from the Listing Date, and as amended from time to time, a summary of which is contained in Appendix III to this prospectus
“Baker Tilly”	Baker Tilly Hong Kong Risk Assurance Limited, our Company’s internal control consultant
“Beijing You Lai”	Beijing You Lai Information Technology Company Limited (北京遊萊信息科技有限公司), a company established in the PRC with limited liability on November 14, 2014, which is an indirectly wholly-owned subsidiary of our Company
“Beijing You Tang”	Beijing You Tang Information Technology Company Limited (北京遊堂信息科技有限公司), a company established in the PRC with limited liability on July 17, 2015, which is an indirectly wholly-owned subsidiary of our Company

DEFINITIONS

“Board of Directors” or “Board”	our board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of Shares to be made upon capitalization of part of the reserve accounts of our Company upon completion of the Global Offering referred to in the section headed “Statutory and General Information — A. Further information about our Group — 4. Resolutions in Writing of Our Shareholders Passed on November 24, 2017” in Appendix IV to this prospectus
“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
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company,” “Group,” “our Group,” “Digital Hollywood,” “we” or “us”	Digital Hollywood Interactive Limited (遊萊互動集團有限公司)*, a company incorporated under the laws of Cayman Islands with limited liability on November 24, 2014 and except where the context indicated otherwise (1) our subsidiaries and (2) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. LU Yuanfeng, Ms. LUO Simin, Mr. HUANG Guozhan, Mr. HUANG Deqiang, LYF Digital Holdings Limited, Angel Age Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited
“Countries subject to International Sanctions”	countries regarding which governments such as the United States or Australia, or governmental organizations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company or any one of them
“EU”	the European Union region
“EUR”	Euro, the lawful currency of the European Union

* For identification purposes only

DEFINITIONS

“F.S. Management”	F.S. Management Consultation Limited, a company incorporated in the BVI with limited liability on November 18, 2016, which is wholly-owned by Mr. LEE Kok Wai and one of our Pre-IPO Investors
“Founders”	the founders of our Group, namely Mr. LU Yuanfeng, Mr. HUANG Guozhan and Mr. HUANG Deqiang
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Guangzhou SYND”	Guangzhou Suiyue Niandai Software Technology Company Limited (廣州歲月年代軟件科技有限公司), a company established in the PRC with limited liability on June 12, 2010, which is an indirectly wholly-owned subsidiary of our Company
“Guangzhou Hongquan”	Guangzhou Hongquan Information Technology Company Limited (廣州紅圈信息科技有限公司), a company established in the PRC with limited liability on March 6, 2014, a former business partner
“Guangzhou Lanquan”	Guangzhou Lanquan Information Technology Company Limited (廣州藍圈信息科技有限公司), a company established in the PRC with limited liability on September 25, 2014, a former business partner
“Guangzhou You Lai”	Guangzhou You Lai Information Technology Company Limited (廣州遊萊信息科技有限公司), a company established in the PRC with limited liability on May 13, 2015, which is an indirectly wholly-owned subsidiary of our Company
“HK eIPO White Form”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form service provider, www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website www.hkeipo.hk

DEFINITIONS

“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hollywood BVI”	Digital Hollywood International Limited, a company incorporated in the BVI with limited liability on November 25, 2014, which is a wholly-owned subsidiary of our Company
“Hollywood HK”	Game Hollywood Hong Kong Limited, a company established in Hong Kong with limited liability on December 5, 2014, which is an indirectly wholly-owned subsidiary of our Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offer Shares”	the 50,000,000 Shares being initially offered by our Company for subscription under the Hong Kong Public Offering at the Offer Price (subject to adjustment as described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage, Stock Exchange trading fee and SFC transaction levy) on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering, whose names are set out under the section headed “Underwriting — Hong Kong Underwriters” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated December 4, 2017 relating to the Hong Kong Public Offering entered into, among others, our Company, the Controlling Shareholders, the Sole Global Coordinator and the Hong Kong Underwriters
“independent third party(ies)”	a party which is not connected (as defined in the Listing Rules) to our Company or our connected persons
“International Offer Shares”	the 450,000,000 new Shares initially being offered by our Company for subscription at the Offer Price under the International Offering (subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering”) together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
“International Offering”	the conditional placing by the International Underwriters of the International Offer Shares outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S and to QIBs in the United States in reliance on Rule 144A for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in the section headed “Structure and Conditions of the Global Offering” on and subject to the terms and conditions stated herein and in the International Underwriting Agreement
“International Sanctions”	Sanctions-related laws and regulations issued by the United States, the European Union, the United Nations or Australia
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company, the Controlling Shareholders, the Sole Global Coordinator and the International Underwriters on or about the Price Determination Date

DEFINITIONS

“Joint Bookrunners”	China Securities (International) Corporate Finance Company Limited, CSC Securities (HK) Limited, China Galaxy International Securities (Hong Kong) Co., Ltd., GF Securities (Hong Kong) Brokerage Limited and CMB International Capital Limited
“Joint Lead Managers”	China Securities (International) Corporate Finance Company Limited, CSC Securities (HK) Limited, China Galaxy International Securities (Hong Kong) Co., Ltd., GF Securities (Hong Kong) Brokerage Limited and CMB International Capital Limited
“Latest Practicable Date”	November 25, 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date expected to be on or about December 15, 2017 on which the Shares are listed and from which dealings therein are 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 from time to time)
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOC”	the Ministry of Culture of the PRC (中華人民共和國文化部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Now To Play Game”	Now To Play Game Limited, a company incorporated in Hong Kong with limited liability on March 29, 2011, which is an indirectly wholly-owned subsidiary of our Company

DEFINITIONS

“Now To Play Game (Spain)”	Now To Play Game Sucursal En Espana, a branch office established in Spain on July 24, 2014 by Now To Play Game, which is an indirectly wholly-owned subsidiary of our Company
“OFAC”	the Office of Foreign Assets Control of the U.S. Department of the Treasury
“Offer Price”	the offer price per Offer Share (excluding brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed pursuant to the Global Offering
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offering Shares
“Over-allotment Option”	the option granted by our Company to the International Underwriters, exercisable by CSCI on behalf of the International Underwriters, pursuant to which our Company may be required to allot and issue up to an aggregate of 75,000,000 additional Offer Shares, representing 15% of the initial size of the Global Offering, to cover over-allocations in the International Offering, as described in the section headed “Structure of the Global Offering — Over-allotment Option and Stock Borrowing Arrangement” in this prospectus
“Over-allotment Shares”	up to 75,000,000 Shares which our Company may be required to issue at the Offer Price pursuant to the Over-allotment Option
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Post-IPO Share Option Scheme”	the share option scheme conditionally adopted by our Company on May 27, 2017, the principal terms of which are summarized in “Appendix IV — Statutory and General Information — Other Information — Post-IPO Share Option Scheme”

DEFINITIONS

“Pre-IPO Investments”	the investments made by the Pre-IPO Investors, the principal terms of which are summarized in “Our History, Reorganization and Corporate Structure — Pre-IPO Investment”
“Pre-IPO Investors”	7 Road International, Mr. YU Ching Ming (余精明) and F.S. Management
“Price Determination Date”	the date, expected to be on or around Friday, December 8, 2017 and, in any event, not later than Monday, December 11, 2017, on which the Offer Price will be determined for the purpose of the Global Offering
“Proficient City”	Proficient City Limited, a company incorporated in the BVI with limited liability on January 25, 2011, which is a wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the US Securities Act
“related parties”	has the meaning as set out in the paragraph headed “Related parties” under note 30 to the accountant’s report set out in Appendix I to this prospectus
“Relevant Countries”	Iran, Sudan, Syria, Zimbabwe, Belarus, Congo, Iraq, Lebanon, Ukraine, Venezuela, Yemen and Libya, which are Countries subject to International Sanctions, and Russia, where certain Sanctioned Persons are located
“Reorganization”	the corporate reorganization of our Group for the restructuring of our business and in preparation for the Listing, particulars of which are set out in the section headed “History, Reorganization and Corporate Structure — Reorganization” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, the European Union, the United Nations or Australia
“SAPPRFT”	the 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 General Administration of Press and Publication of the PRC (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)
“SAT”	the 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
“Share(s)”	ordinary share(s) with par value of US\$0.001 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Sole Sponsor,” “Sole Global Coordinator,” or “CSCI”	China Securities (International) Corporate Finance Company Limited, a licensed corporation under SFO permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO)

DEFINITIONS

“Stabilizing Manager”	China Securities (International) Corporate Finance Company Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilizing Manager and LYF Digital Holdings Limited on or around December 8, 2017 to which the Stabilizing Manager or any person acting for it may borrow up to an aggregate of 75,000,000 Shares to cover any over-allocations in the International Offering
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Person”	has the meaning given to it in Regulation S
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“White Application Form(s)”	the application form(s) for use by the public who require such Hong Kong Public Offer Shares to be issued in the applicant’s own names
“Yellow Application Form(s)”	the application form(s) for use by the public who require such Hong Kong Public Offer Shares to be deposited directly into CCASS

DEFINITIONS

“Zhang Ying Kong”	Guangzhou Zhang Ying Kong Information Technology Company Limited (廣州掌贏控信息科技有限公司), a company established in the PRC with limited liability on March 6, 2013, which is an indirect wholly-owned subsidiary of our Company
“7Road”	Shenzhen 7Road Technology Co., Ltd. (深圳第七大道科技有限公司), a company established in the PRC on January 22, 2008, one of our game developer partners; 7Road wholly-owns 7 Road International, which is our substantial shareholder
“7 Road International”	7 Road International Group Limited, a company incorporated in the BVI with limited liability on May 12, 2015, which is our substantial shareholder; 7 Road International is a wholly-owned subsidiary of 7Road
“%”	per cent

Unless otherwise specified, references to years in this prospectus are to calendar years.

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only.

In this prospectus, the terms “associate,” “close associate,” “core connected person,” “connected person,” “connected transaction,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

GLOSSARY

This glossary contains certain technical terms used in this prospectus in connection with our Company. Such terms and their meanings may not correspond to standard industry definitions or usage.

“active users”	in any given period, (1) active users of a particular game refers to all registered users of such game that have entered the game at least once in such period; and (2) active users of a particular type or all of our games refers to the simple sum of the active users of each game of such type or all of our games, as applicable, in such period and a registered user that entered two or more games in such period is counted as two or more active users in such period
“Android”	an operating system developed and maintained by Google Inc. used in touchscreen technology including smartphones and tablets
“AR”	augmented reality, a live direct or indirect view of a physical, real-world environment whose elements are augmented by computer-generated sensory input such as sound, video or graphics
“ARPGs”	action role-playing games, which incorporate elements of action or action-adventure games and normally have combat systems
“ARPPU”	average revenue per month per paying user, which represents our revenue recognized for a particular game, a particular type of games or all of our games, as applicable, in the period divided by the number of paying users of the game, the type of games or all of our games, as applicable, in such period
“casual games”	games which are easy to learn and typically have a simple story line with challenges for users to overcome in order to progress
“client games”	games that can be played by first downloading the client base from game providers’ websites and then connecting to the servers through Internet browsers

GLOSSARY

“download”	to transfer (data or programs) from a server or host computer to one’s own computer or device
“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
“iOS”	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including iPhones, iPods and iPads
“IP(s)”	intellectual property(ies)
“IP address”	internet protocol address, an identifier assigned to each computer and other device to a network that is used to locate and identify the node in communications with other nodes on the network
“MAUs”	monthly active users, which refers to the number of individuals who login to a particular game in the relevant calendar month; average MAUs for a particular period is the average of the MAUs in each month during that period
“mid- and hardcore games”	games which involve complex controls and typically with sophisticated storylines or themes
“mobile games”	games that can be played on mobile devices
“MPUs”	monthly paying users, which refers to the number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the MPUs in each month during that period
“online games”	video games that are played over some form of computer or mobile network, including primarily client games, web games and mobile games

GLOSSARY

“paying users”	in any given period, (1) paying users of a particular game refers to all registered users who charged their accounts for the game with virtual items purchased from us at least once in such period regardless of whether such virtual items were consumed by the registered users in such period; and (2) paying users of a particular type or all of our game refers to the simple sum of the paying users of each game of such type or all of our games, as applicable, in such period and a paying users that purchased virtual items for two or more games in such period is counted as two or more paying users in such period
“PC(s)”	personal computer(s)
“registered user(s)”	as of any period of time, registered user of a particular game refers to the user account that had at least one entry into such game prior to such time; registered users of certain type or all of our games refers to the simple sum of the registered users of each game of such type or all of our games, as applicable, as of such time and a user account that has been used to enter two or more games is counted as two or more registered users
“RPGs”	role-playing games, which refer to games that involve a large number of users who interact with each other in an evolving fictional world; each user adopts skill sets (such as melee combat or casting magic spells) and controls the avatars’ actions; there are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the users, and the storyline continuously evolves even while the users are offline and away from the games
“SDK”	software development kit, typically a set of software development tools that allows the creation of applications for a certain software package, software framework, hardware platform, computer system, video game console, operating system, or similar development platform
“server”	a computer system that provides services to other computing systems over a computer network

GLOSSARY

“SLGs”	simulation games, which are generally designed to closely simulate aspects of a real or fictional reality
“virtual items”	items, avatars, skills, privileges or other in-game consumables, features or functionalities we offer to users to help them extend their play, enhance or personalize their game environments and accelerate their progress in our games
“VR”	virtual reality, a computer technology that uses certain equipment to generate realistic images, sounds and other sensations that simulate a user’s physical presence in a virtual or imaginary environment
“web games”	games that are played in a web browser on PC without downloading any client base or application

FORWARD-LOOKING STATEMENTS

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

- our business operations and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies and plans and our ability to implement such strategies;
- our ability to enhance our existing games and launch new games;
- our ability to attract and retain our users;
- our ability to maintain and strengthen our relationship with game developers, distribution platforms and payment channels;
- general economic political and business conditions in the markets in which we operate;
- our ability to attract and retain qualified employees and key personnel;
- our capital expenditure programs and future capital requirements;
- the amount and nature of, and potential for, future development of our business;
- the actions of and developments affecting our competitors; and
- certain statement in the sections headed “Risk Factors,” “Industry Overview,” “Regulatory Overview,” “Business,” “Financial Information” and “Future Plans and Use of Proceeds” with respect to risks, uncertainties, future events and operations, risk management and market trends.

FORWARD-LOOKING STATEMENTS

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statement set for in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors.”

RISK FACTORS

You should carefully read and consider all of the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition and results of operations could be materially and 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.

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorized as (1) risks relating to our business and industry, (2) risks relating to overseas markets and China, and (3) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

A small number of games have contributed a substantial majority of our revenue, and we must continue to maintain the popularity of our existing games and launch new games that attract and retain a significant number of users in order to grow our revenue and sustain our competitive position.

Historically, we have derived a substantial majority of our revenue from a limited number of games. Our top five web games contributed 88.4%, 54.1%, 34.4% and 30.6% of our revenue in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Our top five mobile games contributed 6.6%, 32.2%, 50.2% and 59.3% of our revenue in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. We expect these games to continue to contribute a majority of our revenue in the foreseeable future. However, we cannot assure you that these games will continue to attract and retain a sufficient number of users, as our users may lose interest in these games if their interests and preferences change over time or if they become attracted to newer games. We must extend the lifecycle of these games through regular upgrades and expansions to maintain user interest, which requires the investment of significant resources. If we experience any decline in the number of users of our existing games, particularly, our top games, any failure to improve, upgrade or enhance these games in a timely manner or at all, any lasting or prolonged server interruption due to network failures or other reasons, or any other adverse developments specific to these games, our business, financial condition and results of operations could be materially and adversely affected.

Our growth also depends on our ability to continuously launch new games that attract and retain a significant number of users, which in turn depends on our ability to:

- anticipate and respond to changes in user interests and preferences;
- anticipate or respond to changes in the competitive landscape;
- attract, retain and motivate talented game designers, product managers and engineers;
- source, sustain and expand games that appeal to our users;

RISK FACTORS

- effectively market new games and enhancements to our existing and prospective users;
- minimize launch delays and cost overruns on new games and game expansions; and
- minimize downtime and other technical difficulties.

If we experience any difficulty in any of the foregoing respects, our business, financial condition and results of operations could be materially and adversely affected.

If we fail to maintain and grow our user base, we will not be able to sustain our growth and our business may be materially and adversely affected.

As of June 30, 2017, we had approximately 47.8 million cumulative registered users worldwide. We must retain our existing users, attract new users to achieve sustainable growth of our business and maximize the network effect of our games and monetization potential. This requires us to regularly launch new games and release updates for our existing games to maintain user interest. It also requires us to continue to strengthen the social connectivity of our games to encourage viral social marketing. In order to deliver a better gameplay and social networking experience and deepen our understanding of our users, we need to invest in technology, including our cloud-based storage and computing infrastructure and data analysis engine, which are software development tools that allow for the creation of software packages or platforms. If we are unable to consistently deliver a satisfactory user experience, we may lose our users. If we are unable to anticipate user preferences or behaviors or industry changes in order to market and promote new games, or if we are unable to extend the lifecycle of our existing games, or if we are unable to provide sufficient social connectivity to our users as part of their gameplay experience, our user base may not increase at the rate we anticipate, or at all, and it may even decrease.

Despite our rigorous game selection and development process, we cannot guarantee that the new games we launch will gain popularity within a short period of time, if at all. Neither can we guarantee that our existing games will sustain their current level of popularity. Users may lose interest our games over time despite our efforts in offering a diversified portfolio of games and improving or upgrading our existing games. Users may not choose our games or services if our technology becomes unreliable. Users may choose to play games offered by other platforms if those platforms offer better in-game services or social networking opportunities. Furthermore, new games of certain genres that we offer require a build-up period when users are first introduced to the games, and for some games their gaining of popularity can be slow, if it happens at all. If a build-up period coincides with the inevitable phasing-out period of our older games, the result could be a decrease in the number of total active and paying users as well as gross billings and revenue during that period. If a game does not gain anticipated user acceptance and we fail to introduce additional games to maintain our user base, the phasing out of old games could result in a prolonged or permanent decrease in our total active and paying users, which would materially and adversely affect our results of operations.

The growth of our user base reinforces the popularity of our games. A failure to effectively expand and engage our user base will materially and adversely affect our business, financial condition, results of operations and growth prospects.

RISK FACTORS

We collaborate with game developers to provide games to our users, and any loss or deterioration of our relationship with our game developer partners may result in the loss of user base and revenues.

We work closely with game developers to publish games and benefit from their strong brand recognition and the success of their games in China's domestic market. Among our partners, 7Road was a major game developer during the Track Record Period. 7Road is the original developer of our flagship web titles, including *Wartune* and *DDTank*. In addition, to enhance the appeal of our games, we have also obtained an IP license from 7Road and developed several casual shooting games in mobile formats, incorporating certain IP elements from *DDTank*. We generated approximately 86.7%, 49.8%, 30.3% and 23.0% of our revenue from games developed by 7Road, including our flagship web titles, *Wartune* and *DDTank*, in 2014, 2015, 2016 and the six months ended June 30, 2017.

We cannot assure you, however, that we may be able to maintain stable business relationships with all of our game developer partners, including 7Road. Any failure on our part to properly localize, operate and monetize their games or safeguard their IPs may adversely affect our business relationship with our game developer partners.

The term of our content distribution agreements with game developers typically ranges from two to four years. Our game developer partners may terminate our agreements prior to their expiration, or may refuse to renew the agreements. Even if they are willing to renew the agreements, they may demand commercial terms, such as revenue-sharing ratios, that are less favorable to us than under our original agreements. They may also choose to partner with our competitors to enable them to enhance their game portfolio and better compete against us. As we began to publish mobile games developed in-house in the first quarter of 2014, we cannot assure you that such in-house development capabilities will not affect our relationship with our game developer partners. Any loss or deterioration of our relationship with any of our game developer partners may result in a loss of revenues and materially and adversely affect our business and results of operations.

Our growth prospects will suffer if we are unable to successfully implement our game development strategies on mobile games.

The number of individuals who access the Internet through devices other than a PC, such as smartphones, tablets, televisions and set-top box devices, has increased significantly in recent years, and we believe this trend will continue. To capitalize on the anticipated growth potential offered by the booming mobile game market, we have allocated substantial resources to developing mobile games since 2014. For 2014, 2015, 2016 and the six months ended June 30, 2017, our revenue generated from mobile games accounted for approximately 6.6%, 41.2%, 61.1% and 66.9% of our revenue, respectively. Beginning in March 2014, we have developed and launched several casual shooting games in mobile formats and achieved considerable success in a number of regional markets. We seek to continue to place high priority on sourcing and developing games that operate on smartphones and tablets. However, our limited

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experience with mobile games makes it difficult to predict whether we will succeed in developing games that appeal to mobile game users. The uncertainties we face include:

- the generally lower processing speed, power, functionality and memory associated with mobile devices make gameplay on these devices different if not more difficult;
- we may not be able to continuously identify, develop, operate and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effectively manner, or at all, given the fast technical advancements;
- we may not be able to anticipate and effectively respond to the interests and preferences of users on mobile devices and platforms, or effectively market mobile games to our existing users and attract new users;
- each mobile device manufacturer or mobile platform provider may establish unique technical requirements or restrictive terms and conditions for game developers on their devices or platforms, and our games may not be compatible or functional on these devices and platforms, especially immediately after such devices and platforms are upgraded;
- we may encounter various technical difficulties in providing new versions of our games that function as intended on new mobile devices or platforms when launched or updated, and we need to devote significant resources for the creation, support and maintenance of our games to keep pace with the evolving mobile devices and platforms and allow our games to operate across different devices and platforms; and
- we will need to further improve the quality and increase the option of payment methods and systems based on the mobile platforms, geographies and other factors.

These and other uncertainties make it difficult to assess whether we will succeed in implementing our mobile strategy and developing commercially viable games for mobile devices and platforms. A failure or delay in our efforts to implement our mobile strategy will materially and adversely affect our business and growth prospects.

We work with game distribution platforms to distribute our games, and our business may be materially and adversely affected if they breach their contractual obligations, or if we fail to maintain relationships with a sufficient number of platforms, or if the platforms lose popularity among Internet users.

We utilize various third-party game distribution platforms, including major integrated social networking websites, such as Facebook, and major online App marketplaces, such as Apple Inc.'s App Store and Google Play, for the distribution and promotion of our games and the collection of proceeds from in-game purchases. See "Business — Game Publishing." We derived approximately 46.1%, 35.9%, 31.2% and 32.7% of our revenue in 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, from Facebook, Apple Inc.'s App Store, and Google Play, our three largest game distribution platforms, during these periods.

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These game distribution platforms, however, have strong bargaining power in dealing with game publishers like us. We are subject to their standard service terms and conditions with regard to the promotion, distribution, operation and payment methods for our games. Our business may be materially and adversely affected if these game distribution platforms discontinue or limit access to their platforms by us and other game developers, fail to effectively promote our games or otherwise fulfill their contractual obligations, establish more favorable relationships with one or more of our competitors, or do not obtain or maintain relevant government licenses to distribute our games. Moreover, these game distribution platforms have broad discretion to change their term of service and other policies with respect to us and other publishers, and those changes may be unfavorable to us. For example, in 2010, Facebook adopted a policy requiring applications on Facebook to accept only its virtual currency, Facebook Credits, as payment from users. As a result of this policy, Facebook receives a greater share of payments made by web game users than it did when other payment options were allowed. Any change in the terms of service or policies of the game distribution platforms could significantly alter how users experience our games or interact within our games, which may harm our business.

Disputes with game distribution platforms, such as disputes relating to game IPs and revenue sharing arrangements, may also arise from time to time, and we cannot assure you that we will be able to resolve such disputes amicably or at all. If our collaboration with a major game distribution platform terminates for any reason, we may not be able to find a replacement in a timely manner or at all, and the distribution of our games may be adversely affected. Any failure on our part to maintain a stable business relationship with a sufficient number of popular platforms for the distribution of our games could cause the number of our game downloads, if required, and activations to decrease, which will have a material adverse effect on our business, financial condition and results of operations.

In addition, we have benefited from the widely recognized brand names and large user bases of game distribution platforms. If any of them loses its market position or otherwise falls out of favor with users, or any other factor causes its user base to stop growing or shrink, or if any of them fails to perform its contractual obligations to us, we would need to identify alternative platforms for marketing, promoting and distributing our games, if available at all, which would consume substantial resources and adversely affect our business.

We rely on a small portion of our total users for substantially all of our revenue, and may not be able to monetize our users effectively.

During the Track Record Period, we generated substantially all of our revenue from online games. As all of our games are free to play, we generate revenue primarily from the in-game sale of virtual items. Consistent with the industry norms, a relatively small portion of users who play our games within a certain period are paying users. As of December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, our average MPUs for online games were approximately 68,343, 73,125, 76,331 and 84,773, respectively, representing approximately 5.8%, 6.1%, 6.1% and 5.4% of the average MAUs for the same periods, respectively. As a result, the numbers of our cumulative registered users, MAUs and MPUs do

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not necessarily indicate our actual and potential revenue generating capabilities. Our sustainable revenue growth, therefore, largely depends on the effective monetization of our user base by converting active users into paying users.

We invest in user data mining and analysis to better understand our users' in-game consumption patterns, which allows us to create localized and culturally-adapted versions of games originally designed by China-based game developers and design virtual items that are particularly desirable to users in our targeted countries and regions and properly deploy and price them. Our users are willing to pay for virtual items in the games because of the perceived value of these items, which is dependent on the in-game benefits such items confer upon the users. Spending in our games is discretionary and our users can be sensitive to the price, restricting our ability to convert active users to paying users. It is crucial to balance, on the one hand, creating sufficient in-game monetization opportunities, which enhances the profitability of our games, with, on the other hand, engaging our users even without their paying for extra items. To stimulate in-game spending, we need to constantly launch marketing and promotional activities to drive user interest. We must also provide easy, fast and safe payment solutions to our users to facilitate in-game purchases so that they are not discouraged or inconvenienced by online payment processing procedures. If we fail to effectively monetize our users, our revenues and profit margin may be materially and adversely affected.

Our businesses rely on our data analysis capabilities, any impact on which would materially and adversely affect our ability to form appropriate business strategies.

Our game redesign, localization and publishing are data driven, and we rely on our data analysis capabilities to continue to publish popular games, improve user experience, and eventually enhance monetization of our games. We assess our business performance using a set of key performance indicators, such as MAUs, MPUs and ARPPU. Capturing accurate data is subject to various limitations. For example, we may need to collect certain data from our third-party distribution and publishing platforms or other third parties, which is available upon our request and we do not need to pay for the access to such data, but our ability to verify such data is limited if we are able to collect any data from such third parties at all. Therefore, the key performance indicators we use may not always reflect our actual performance, and we cannot assure you that we will be able to capture accurate user information in the future. Similarly, we may incorrectly assess our key performance indicators and in turn make incorrect operational and strategic decisions. Failure to capture accurate data or an incorrect assessment of this data may adversely affect our ability to form appropriate business strategies.

In addition, our game development and publishing teams are required to collect and store all user behavior data using our data analysis engine in a timely manner. However, any failure to collect or retain certain data may lead to a lack of data necessary for our data analysis, and any delay in collecting user behavior data may render the data an inaccurate or unfair reflection of the up-to-date user behavior, which could be meaningless or even misleading in our game redesign and localization process. In addition, we cannot assure you that our data will not be damaged or lost due to technical errors, security breaches or hacking incidents. Nor can we assure you that our data analysis methodology will be as effective as expected and continue to capture the latest market trends and user preferences. If any of the foregoing occurs, our business, financial condition and results of operation may be materially and adversely affected.

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

We launched our first web game in 2011. Although we experienced steady growth in the number of registered and paying users and revenue in the Track Record Period, we have a limited history upon which to evaluate the viability and sustainability of our business. Our growth rate during the Track Record Period should not be considered indicative of our future performance. Instead, you should consider our future prospects in light of the risks and uncertainties regarding our ability to:

- manage our expanding business, including attracting and retaining talents;
- continue to offer new games and enhance existing games to attract and retain users and increase user activity level and monetization;
- maintain and expand our collaboration with game distribution platforms to deepen the penetration in existing markets and expand into new markets globally and in China; and
- anticipate and adapt to evolving user interests and preferences, industry trends, market conditions and competition.

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

We operate in a rapidly evolving industry, which makes it difficult to evaluate our business and prospects.

Online games, particularly web games and mobile games from which we derive substantially all of our revenue, is a rapidly evolving industry. The growth of the online game industry and the level of demand and market acceptance of our games are subject to a high degree of uncertainty. Our future results of operations will depend on a number of factors affecting the online game industry, many of which are beyond our control, including:

- continued worldwide growth in the adoption and use of Facebook, Google Play and other social networks;
- changes in user demographics and user tastes and preferences;
- the availability and popularity of other forms of interactive entertainment;
- the worldwide growth of PC, broadband Internet and smartphone users, and the rate of any such growth; and
- general economic conditions, particularly economic conditions adversely affecting discretionary user spending.

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Our ability to plan for game development, distribution and promotional activities will be significantly affected by our ability to anticipate and adapt to relatively rapid changes in the tastes and preferences of our existing and prospective users. Other forms of entertainment may emerge and become popular at the expense of online games. A decline in the popularity of online games in general, or our games in particular, would harm our business and prospects.

We are subject to risks relating to our third-party online payment channels.

We primarily utilize third-party payment channels, including integrated distribution platforms, PayPal and Skrill, and other online payment services, to facilitate in-game purchases of virtual items. Any scheduled or unscheduled interruption in the ability of our users to use these and other third-party payment systems could adversely affect our payment collection, and in turn, our revenue. In all the online payment transactions through these channels, secured transmission of confidential information, including credit card numbers and critical personal information of the users over public networks, is essential to maintain their confidence in us and our games. We also rely on the stability of such payment transmissions to ensure the uninterrupted payment services available to our users. We do not have control over the security measures of third-party online payment channels. If any of these third-party online payment channels fails to process, or ensure the security of, user payments for any reason, our reputation will be damaged and we may lose our paying users and discourage the potential purchases, which in turn, will materially and adversely affect our business, financial condition and prospects.

As we collect revenues through a limited number of third-party payment channels, the concentration of our payment channels could lead to a short-term disruption in our collection of the gross billings if one or more of them were to narrow or terminate its business cooperation with us, or demand commercial terms that are less favorable to us. Such concentration also makes us more vulnerable to collection risks if one or more of these third-party payment channels become unable or unwilling to share the proceeds it receives with us. Our business and results of operation could be harmed if our relationships with any of these payment channels deteriorate, or if any of the key payment channels experiences a decrease in their business generally or an increase in non-payment from users.

Furthermore, our payment channels are subject to various rules and requirements from local governments regulating electronic funds transfers and virtual currencies, which could change or be reinterpreted to make it difficult or impossible for them to comply with. If our payment channels fail to comply with these rules or requirements, they may be subject to fines and higher transaction fees and even lose their ability to accept credit and debit card payments, process electronic funds transfers or facilitate other types of online payments from our users, which in turn would materially and adversely affect our ability to monetize our users.

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Competition within the broader entertainment industry is intense and our existing and prospective users may be attracted to competing forms of entertainment such as client and console games, television, movies and sports, as well as other entertainment options on the Internet.

Our users face a vast array of entertainment choices. Other forms of entertainment, such as client and console games, television, movies, music, electronic books, sports and other entertainment options on the Internet, represent significantly larger and more well-established markets and may be perceived by our users to offer greater variety, affordability, interactivity and enjoyment. These other forms of entertainment compete for the discretionary time and income from our users. Although we have devoted significant time, resource and capital to developing technologies that engage our users with more appealing entertainment experience, including contents based on the advanced visual technologies, we cannot assure you that our future entertainment products will be compatible with our current game offerings, fit into our business models, or become popular among our users. If we are unable to sustain sufficient interest in our entertainment products in comparison to other forms of interactive entertainment, our business model may no longer be viable.

We may face increasing competition and there are low barriers to enter the online game industry, both of which could reduce our market share and materially and adversely affect our results of operations.

We are a global online game publisher. The industry in which we operate is highly competitive, characterized by the frequent introduction of new products and services, short product lifecycles, evolving industry standards, rapid adoption of technological and product advancements, as well as price sensitivity on the part of users. We compete with other online game publishers on the basis of a number of factors, including user base, game portfolio, user experience, brand awareness and reputation, and access to and relationships with distribution and payment channels.

We compete in our major target markets with other online game publishers, such as Perfect World, Kunlun.com and Elex and leading Internet and technology companies, such as Tencent and Netease, which have deployed their significant financial and technical resources and their large user bases to develop and publish online games. In addition, game developers, including our business partners, may build their own publishing capabilities, leveraging their experience and market position in game development, which may create considerable synergies between game development and publishing. Moreover, we compete more broadly with providers of other forms of interactive entertainment on the Internet or mobile platforms, including social networking services and other online activities or contents, such as video and music streaming services. Some of these current and potential competitors may have significant resources for developing or acquiring games, may be able to incorporate their own strong brands and assets into their games, may have a more diversified set of revenue sources than we do and may be less susceptible to changes in user preferences, regulations or other developments that may impact the online game industry.

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As there are relatively low entry barriers to develop and operate online games, we expect new competitors to enter the market and existing competitors to allocate more resources to develop and market competing games and applications. If there are new entrants or if the competition among existing competitors intensifies, we may have to offer more incentives to industry participants, such as game developers and distribution platforms, which could adversely affect our profitability. If we fail to compete cost-effectively, our market share could decline and our results of operations could be materially and adversely affected.

Our growth strategy of acquiring and investing in complementary businesses, assets, and technologies may result in operating difficulties, dilution to our investors and other negative consequences.

We have successfully acquired, and intend to selectively acquire and invest in, businesses, assets and technologies that complement our existing business. Going forward, we intend to selectively acquire, invest in or enter into strategic partnerships with qualified game developers in and outside China to enhance our capabilities to develop new games and other entertainment products in a cost-effective manner by creating considerable synergies that bridge production and publication. See “Business — Business Strategies — Pursue strategic alliance and acquisition opportunities.” Acquisitions and investments involve uncertainties and risks, including:

- accurately identifying and evaluating potential acquisition targets with operations complementary to our existing operations;
- potential ongoing financial obligations and unforeseen or hidden liabilities;
- retaining key employees and maintaining the business relationships with the businesses we acquire;
- failure to achieve the intended objectives, benefits or revenue enhancement;
- costs and difficulties of integrating acquired businesses and managing a larger business;
- failure to integrate an acquired company’s accounting, management information, human resource and other administrative systems to permit effective management and timely reporting;
- failure to discover important facts during pre-acquisition due diligence that could have a material adverse impact on the value of the businesses we acquire or invest in;
- significant accounting charges resulting from the completion and integration of a sizeable acquisition and increased capital expenditures; and
- diversion of resources and management attention.

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Our failure to address these uncertainties and risks may have a material adverse effect on our financial condition and results of operations. In addition, any such acquisition or investment may require a significant amount of capital investment, which would decrease the amount of cash available for working capital or capital expenditures. Furthermore, if we use our equity securities to pay for acquisitions, we may dilute the value of our Shares. Our Shareholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends.

If we fail to successfully execute our growth strategies, including launching games of new genres, themes or operating formats and investing in new technologies, our future results of operations and growth prospects may be materially and adversely affected.

We have expanded our product offerings to attract a demographically diverse user community. We must continue to identify and obtain licenses for games of new genres or themes with high monetization potential from game developers. We also rely on these game developers to provide technical support and develop updates and expansion packs to sustain user interest and attract new users. As we have recently enhanced our in-house development capabilities, we may not have sufficient experience in developing games of new genres or themes. We may have to devote substantial resources and time to this effort, and the new games we develop may not attract sufficient user interest as we expected.

Additionally, we are also building a cross-platform infrastructure, which allows our users to synchronize their accounts, information, and other personalized features in different platform-based versions of a game. Cross-platform games require a large amount of capital investment in hardware devices, software development technology and human resources.

We are also making, will continue to make, investments to develop or procure entertainment contents tailor-made for the advanced visual technologies, including VR and AR, which allow users to fully engage in a game, a film, or other forms of entertainment with simulated real-life experiences. Interactive entertainment supported by these technologies may enhance user engagement, promote our brand awareness and create additional monetization opportunities. However, these future products may not be effective in achieving these goals and we may not be able to recover costs incurred for developing and marketing these products or services. As a result, our future results of operations and growth strategies could be materially and adversely affected. If we are unable to successfully implement these growth strategies, our revenue and profitability may not grow as expected, and our competitiveness may be materially and adversely affected.

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As we expand to new geographical markets, we face additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs and hinder such growth.

Continuing to expand our business to attract users globally is a critical element of our business strategies. We have focused on and achieved steady growth in international markets during the Track Record Period. We have strategically focused on the English-speaking market in North America, the largest English-speaking online game market, and have gradually expanded to non-English-speaking markets with significant growth potential, such as Southeast Asia, South America and Europe. As of June 30, 2017, we offered our games in different language versions, reaching users in over 168 countries and regions on the basis of the IP addresses we recorded.

An important component of our strategies in expanding international markets is localizing our games for the users in those markets. We expect to continue to allocate significant resources to acquire local resources and increase our game offerings in more language versions. Our ability to expand our business and attract users in an increasing number of international markets requires considerable management attention and resources and is subject to the particular challenges of supporting a growing business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. Expanding our international focus may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- identifying appropriate international markets;
- recruiting and retaining talented and capable management and employees in foreign countries;
- challenges caused by distance, language and cultural differences;
- sourcing and customizing games and other offerings that appeal to the tastes and preferences of users in international markets;
- competition from local game makers with significant market share in those markets and with a better understanding of user preferences;
- protecting and enforcing our IPs;
- the inability to extend proprietary rights in our brand, content or technology into new jurisdictions;
- implementing alternative payment methods for virtual items in a manner that complies with local laws and practices and protects us from fraud;
- credit risk and higher levels of payment fraud;

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

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

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

Our technology infrastructure has experienced, and may in the future experience, website disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. For example, the operation of certain games, including *Hero Epoch* and *Epicx*, was interrupted for several hours in 2013 due to a server failure in Los Angeles, the United States. Our growing operations will place increasing pressure on our servers and network capacity as we launch more games and further expand our user base. In addition, we rely on third-party service providers for certain key aspects of our network infrastructure, including the storage and maintenance of our leased physical servers hosted in Los Angeles and Chicago, the United States, areas known for natural disasters, such as earthquakes and hurricanes, and therefore, our network infrastructure may be vulnerable to damage. Furthermore, as we operate our games in a number of markets, we highly depend on the performance and reliability of the Internet infrastructure in each market, which is maintained by telecommunications carriers owned by either the state or private parties with various levels of technology. Any disruptions or other problems with these services are out of our control and may be difficult for us to remedy. In addition, a significant portion of our game traffic is hosted by a data server provider, Cogeco Peer 1, which has the right, pursuant to its standard master service agreement, to terminate its services for any reason by giving a 30-day advance notice. If our arrangements with Cogeco Peer 1 or any other third party are terminated, invalidated, or modified against our interest, we may not be able to find alternative services or solutions on a timely basis or on terms favorable to us, or at all. If a particular game is unavailable when users attempt to access it or navigation through a game is slower than they expect, users may stop playing the game and may be less likely to return to the game as often, if at all. Any failure or significant interruption in our game service would harm our reputation and operations.

We expect to continue to make significant investments to our technology infrastructure to maintain and improve all aspects of user experience and game performance. To the extent that our disaster recovery systems are not adequate, or we do not effectively address capacity

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constraints, upgrade our systems as needed and continue to develop our technology and network architecture to accommodate increasing traffic, our business and results of operations may suffer. We do not maintain insurance policies covering losses relating to our systems and we do not have business interruption insurance.

Violations of our game policies, such as sales and purchases of virtual items used in our games through unauthorized third parties or cheating practices and scam offers that seek to exploit the vulnerabilities in our games, may impede our users' gameplay experience and our revenue growth.

We have established game policies against unauthorized and inappropriate user behaviors. Under such policies, we do not allow users to sell or transfer virtual items, among other things. Virtual items offered in our games have no monetary value outside of our games. Nonetheless, some of our users or third parties sell or purchase our virtual items through unauthorized third parties in exchange for real money or other real-world properties. To our knowledge, these unauthorized transactions are usually arranged through third-party channels or platforms and the virtual items offered may have been obtained through unauthorized means, such as through cheating or from scamming our users with fake offers or virtual items or other in-game benefits. We generate no revenue from these unauthorized transactions and do not permit, or facilitate in any manner, these unauthorized transactions. We have game policies in place to impose sanctions upon the user accounts found to have engaged in transactions of virtual items directly or through unauthorized third parties, including suspension and permanent termination of accounts.

Notwithstanding our measures and efforts, we do not have effective control over these unauthorized transactions. During the Track Record Period, we recorded one incident of unauthorized transfers of virtual items. Any such unauthorized purchase and sale could impede our revenue and profit growth by (1) decreasing revenue from authorized transactions, (2) creating downward pressure on the prices we charge users for our virtual items, (3) increasing costs we incur to develop technological measures to curtail unauthorized transactions, and (4) increasing customer support costs to respond to dissatisfied users. In addition, transactions through unauthorized third-party channels may involve fraud that is beyond our control, and we may face potential claims from our users in connection with their losses resulting from third parties' fraudulent activities by third parties. Such claims, regardless of merit, may harm our reputation, divert our management's attention and cause additional expenses in defending against these claims.

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

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The performance and reliability of the Internet infrastructure and wireless and landline telecommunications networks in China will affect our operations and growth, including our ability to accommodate additional users in the future.

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

Breaches of security measures of our website, games and third-party payment systems and unintended leakage of confidential information may materially and adversely affect our reputation and business.

As we conduct our business, we process, store and analyze a large amount of gameplay data, including users' personal information, user names and passwords. We rely on encryption and authentication technology to provide the security and authentication necessary for secure transmission of game data. However, our security control may not prevent the improper leakage of gameplay data. Anyone may circumvent our security measures and misappropriate proprietary information or cause interruptions in our operations. A security breach that leads to leakage of users' personal information, such as mobile numbers or other personally identifiable information, could harm our reputation. Our actual or perceived failure to comply with governmental regulation and other legal obligations related to user privacy could harm our business. We may be required to expend significant capital and other resources to prevent such security breaches or alleviate problems caused by such breaches. We may also lose current or prospective users that grant us access to their personal information due to the impression that we cannot adequately protect our users' privacy.

Additionally, our business operation may be harmed by users' concerns over playing games on their smartphones. Hackers may modify our games to charge our users for virtual items that they did not purchase. We can typically identify hacked game applications after our users start playing the game and alert users of the situation and urge them to uninstall the game application. However, such users may become hesitant to download the game again or other games operated by us in the future as a result of their experience. Concerns over the security and privacy of user information may inhibit the wireless business generally, and our mobile games in particular. Our security measures may not prevent security breaches and our users' interest in playing mobile games may decrease if malware spreads to their smartphones. Failure

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to prevent security breaches or respond to abuse or users' concerns over development of smartphone malware may have a material adverse effect on our business, prospects, financial condition and results of operations.

In addition, secure transmission of users' confidential information, such as users' bank card numbers and expiration dates, personal information and billing addresses, over public networks, including our website, is essential for maintaining user confidence. We do not have control over the security measures of our third-party payment platform partners, and their security measures may not be adequate at present or may not be adequate with the expected increased usage of online payment systems. We could be exposed to litigation and possible liability if we fail to safeguard users' confidential information, which could harm our reputation and our ability to attract or retain users and may have a material adverse effect on our business.

Our actual or perceived failure to comply with the laws, regulations and other legal obligations concerning data privacy could harm our business, and the continual evolution of such obligations could prevent us from providing our current games to our users or require us to modify our games, thereby harming our business.

We process, store and use personal information and other user data, and we enable our users to share their personal information with each other and with third parties, including on the Internet and mobile platforms. We therefore are subject to laws from a variety of jurisdictions regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other user data on the Internet and mobile platforms, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. For example, PRC laws and regulations require our PRC subsidiaries to keep our users' personal information confidential and not to disclose such information to any third parties without users' consent. In addition, the European Union has traditionally taken a broader view than the United States and certain other jurisdictions as to what is considered personal information and has imposed greater obligations under data privacy regulations. The U.S. Children's Online Privacy Protection Act, also regulates the collection, use and disclosure of personal information from children under 13 years of age. While none of our games are specifically directed at children under 13 years of age, if this law were to apply to us, failure to comply with it may increase our costs, subject us to expensive and distracting government investigations and could result in substantial fines.

Data privacy protection laws are rapidly changing and likely will continue to do so for the foreseeable future. The U.S. government, including the Federal Trade Commission and the Department of Commerce, continues to review the need for greater regulation over the collection of personal information and information about user behavior on the Internet and on mobile devices and the European Union has proposed reforms to its existing data protection legal framework. In addition, in some cases, we are dependent upon third-party game distribution platforms to solicit, collect and provide us with information regarding our users that is necessary for compliance with these various types of regulations.

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We strive to comply with all applicable laws, regulations, policies, legal obligations and certain industry codes of conduct relating to privacy and data protection, to the extent reasonably attainable. While our administrative systems have developed rapidly, during our earlier history our practices relating to IP, data privacy and security, and legal compliance may not have been as robust as they are now, and there may be unasserted claims arising from this period that we are not able to anticipate. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our users to lose trust in us, which could have a material adverse effect on our business. Even concerns raised by regulators, the media or users about our privacy and data protection or consumer protection practices could result in fines or judgments against us, damage our reputation, and adversely affect our financial condition and damage our business. In addition, if third parties we work with, such as users, vendors or developers, violate applicable laws or our policies, such violations may also put our users' information at risk and could in turn have a material adverse effect on our business.

Furthermore, our business, including our ability to operate and expand internationally, could be adversely affected if laws, regulations, policies or legal obligations are adopted, interpreted, or implemented in a manner inconsistent with our current business operations and that require changes to these practices, the design of our websites, games, features or our privacy policy. In particular, the success of our business has been, and we expect will continue to be, driven by our ability to responsibly use the data that our users share with us. Therefore, our business could be harmed by any significant change to applicable laws, regulations, policies or industry practices regarding the use or disclosure of data our users choose to share with us, or regarding the manner in which the express or implied consent of users for such use and disclosure is obtained. Such changes may require us to modify our games and features, possibly in a material manner, and may limit our ability to develop new games and features that make use of the data that our users voluntarily share with us.

Companies and governmental agencies may restrict access to Facebook, our website or the Internet generally, which could lead to the loss or slower growth of our user base.

Our users need to access the Internet, in particular, Facebook and our websites, to play our games. Companies and governmental agencies could block access to Facebook, our websites or the Internet generally for a number of reasons such as security or confidentiality concerns or regulatory reasons, or they may adopt policies that prohibit employees from accessing Facebook, our websites or other social platforms. For example, the PRC government has blocked access to Facebook in China. If companies or governmental entities block or limit access to Facebook or our websites or otherwise adopt policies restricting users from playing our games, our business could be adversely affected and could lead to the loss or slower growth of our user base.

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

The boundless nature of Internet-based business generally allows access to our games by users from all over the world, and we do not restrict access from any specific jurisdiction unless the local regulators so require. In our standard user agreement for games published on our own websites, we normally require prospective users to represent that they must not be barred from receiving our services under the local laws before accepting our services. To date, we are not aware of any regulatory regime, nor have we received any notice from local regulators or major distribution platforms, which requires us to restrict access to or take down our games in any specific jurisdiction. Although we do not believe that the mere fact that our games are accessible in a particular jurisdiction necessarily follows that we conduct business in that jurisdiction and are subject to the local laws and regulations, we cannot assure you that the local regulators will not hold a contrary view. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services from the local users may subject us to regulatory risks, including monetary penalty or injunctions, which may adversely affect our business operations.

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

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

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

As confirmed by our legal advisers, we are generally not required to hold any special license, permit or approval for publishing online games in the international markets, and in jurisdictions where the local regulators require operating licenses, we have adopted a co-distribution business model to authorize qualified third parties to publish and operate our games. Under the co-distribution arrangements, we are primarily responsible for offering game contents and related technical support and our co-publishers are primarily responsible for marketing and distributing the games within their authorized distribution territories. We pre-screen our regional co-publishers to ensure that they have the required licenses to publish online games in the relevant jurisdictions. As we have adopted a business model to authorize third parties to publish and operate our proprietary mobile games in China, we are advised by

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our PRC legal advisers that, we are also currently not required to hold any special license, permit or approval from the PRC regulatory authorities. However, the licensing requirements within the online game industry, particularly in China, are constantly evolving, and we may be subject to more stringent regulatory requirements due to changes in the political or economic policies in the relevant jurisdictions. We cannot assure you that we will be able to satisfy such regulatory requirements and as a result we may be unable to retain, obtain or renew relevant licenses, permits or approvals in the future. For example, the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) (the “Catalogue”) promulgated by the NDRC and the MOFCOM which lists the encouraged, restricted and prohibited categories of foreign investment industries in the PRC may be amended and re-promulgated from time to time. Although the current businesses of our PRC subsidiaries do not fall into any of the restricted or prohibited foreign investment industries according to the Catalogue that is currently effective, any amendments to the Catalogue may restrict our business operations in China in the future. This may, in turn, hinder our business operations and materially and adversely affect our results of operations and financial condition. Historically we had instances of non-compliance with the applicable laws and regulations. See “Business — Legal Proceedings and Compliance — Non-compliance Incidents.” We may be subject to administrative penalties or sanctions, including suspension or revocation of our licenses, permits or approvals necessary for our operation, due to such non-compliance.

We may be subject to additional social insurance and housing reserve fund contributions and late payments or fines imposed by relevant regulatory authorities.

During the Track Record Period, we did not make adequate social insurance and housing reserve fund contributions for all of our employees or make timely registration with the social insurance and housing reserve fund authorities. As advised by our PRC legal advisers, we may be subject to late fees and fines for such non-compliance. As of Latest Practicable Date, we did not receive any notice from the local authorities on any claim from our current and former employees regarding our inadequate contributions or non-registration. See “Business — Legal Proceedings and Compliance — Non-compliance Incidents — Social insurance plans and housing reserve fund” for further details. We made adequate provision for the shortfall amounts in social insurance and housing reserve fund contributions during the Track Record Period. However, our provision does not anticipate and thus does not include fines that may be imposed by the competent government authorities if we fail to rectify the non-compliance within a prescribed timeframe or the late fees. If we are ordered to pay fines or late fees, we may need to make additional provision to make up for the shortfall, which may adversely affect our results of operations and financial condition.

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

The reputation of our “Game Hollywood” brand is growing among users globally, especially in North America, as a publisher of fun and exciting online games. Promoting the “Game Hollywood” brand and enhancing its recognition is an integral part of our growth

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strategies. However, we may not be able to effectively promote or develop our brand and, if we fail to do so, our growth may be adversely affected. In addition, negative publicity or disputes regarding our brand, games and services, company or management could materially and adversely affect public perception of our brand and other products and services we offer. Any negative publicity in relation to us, regardless of its veracity, could harm the image of our Company and the games we publish, which in turn would decrease the number of active users from the operation of our games. Any impact on our ability to effectively promote our brand and any significant damage to the public perception of our brand or our products could materially and adversely affect our prospects and results of operations.

Unauthorized use of our IPs may adversely affect our business and reputation.

We regard our proprietary domain names, copyrights, trademarks, trade secrets and other IPs, as well as those of our game developer partners and IP providers, critical to our business operations. We have historically relied on trademark and copyright laws, trade secret protection, restrictions on disclosure, and other agreements that restrict the use of our IPs to protect our IPs. For our in-house developed games, we register software in China for copyright protection and take various measures to protect our source codes, including confidentiality agreements and segregation of source codes. However, we may fail to protect the IPs related to our games. Any failure to register trademarks or patents in any country or region may limit our ability to protect our rights in such country or region under relevant trademark or patent laws, and we may even need to change the name or the relevant trademark in certain cases, which may adversely affect our branding and marketing efforts. Any failure to protect the IPs owned by our game developer partners and IP providers will also subject us to severe consequences, including loss of game distributorships IP licenses and/or payment of damages.

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

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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.

Although we are not the developer of the games that we license, third parties may claim that, as the publisher of the games, we are also liable for any infringement upon the third parties' rights jointly with the developer. We typically rely on representations from our game developer partners that their games do not infringe upon third parties' IPs and on indemnification should any such representations become inaccurate and we suffer damage as a result, including any damages resulting from third-party claims. For example, pursuant to our content distribution agreements with game developers, a developer is typically obligated to indemnify us for any losses that we may incur if the game infringes upon any third party's IPs. However, games we license may from time to time infringe upon valid patents, trademarks, copyrights or other IPs held by third parties and indemnification may not be adequate in recovering our loss. Game features redesigned by us may also be claimed to have infringed upon third parties' rights. 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, enter into royalty or licensing arrangements, or satisfy indemnification obligations that we have with some of our users. 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 to include in our products from third parties, our exposure to infringement actions may increase because we must rely upon these third parties to verify the origin and ownership of such technology. This exposure to liability could result in disruptions in our business that could materially and adversely affect our results of operations.

Some of our employees were previously employed at other companies, including our current and potential competitors. We also intend to hire additional personnel to expand our development team and technical support team. To the extent these employees are involved in the development of content or technology similar to ours at their former employers, we may become subject to claims that these employees or we have appropriated proprietary information or intellectual properties of the former employers of our employees. If we fail to successfully defend such claims against us, we may be exposed to liabilities which could have a material adverse effect on our business.

We depend heavily on our key personnel and our ability to attract and retain talented personnel.

We have been, and will continue to be, heavily dependent on the continued efforts of our senior management team and other key employees for our success. In particular, we rely on the expertise and experience of Mr. LU Yuanfeng, our chairman and chief executive officer, who together with other members of our senior management team, has formulated our strategies and been instrumental to our achievements to date. The loss of our senior management members or several of our other key employees could impair our ability to operate and impede the

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execution of our business strategy. We may not be able to replace such persons within a reasonable period of time or with another person of equivalent expertise and experience, in which case our business may be severely disrupted and our financial condition impaired.

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

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

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

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

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

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

Our ultimate 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 ultimate Controlling Shareholders will hold 989,226,387 Shares representing 49.46% 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 ultimate Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our ultimate 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.

We could be adversely affected as a result of our operations and sales in countries that are subject to evolving economic sanctions by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organizations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries. These sanctions programs are reviewed or amended by sanctions authorities from time to time, and new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. If we were required to pay penalties as a result of any sanctions violations, or alter our business to prevent violation of sanctions rules or regulations, it could adversely impact our results of operations.

We generated revenue from three Russian-version mobile games of nil, approximately US\$20,622, US\$51,664 and US\$31,288 in 2014, 2015, 2016 and in the six months ended June 30, 2017, representing nil, approximately 0.1%, 0.2% and 0.2% of our revenue during the same periods, respectively. All the games in Russian version ceased operation in June 2017. In addition, we also generated revenue⁽¹⁾ from users in the Relevant Countries through our websites and distribution platform and co-publisher partners of approximately US\$86,000, US\$103,000, US\$194,000 and US\$129,000 in 2014, 2015, 2016 and in the six months ended June 30, 2017, representing approximately 0.38%, 0.37%, 0.69% and 0.93% of our revenue during the same periods, respectively.

(1) Calculated based on revenue derived from the IP addresses from Countries subject to International Sanctions which we identify from our web-game operation. We are otherwise unable to collect any such information for our mobile games.

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Except as disclosed in the section headed “Business,” our Group has not had during the Track Record Period and up to the Latest Practicable Date, any activities in connection with any countries, governments, entities or individuals sanctioned by the United States, the European Union, the United Nations or Australia. In relation to our sales to customers in the Relevant Countries during the Track Record Period, we have not been notified and have no reason to believe that any sanctions will be imposed on us. None of the contracting parties are specifically identified on the Specially Designated Nationals and Blocked Persons List or the Sectoral Sanctions Identifications List maintained by OFAC or other restricted parties lists, including those maintained by the European Union, the United Nations or Australia. In the absence of any information to the contrary, we have no reasonable grounds to believe that any of the owners, controllers or directors of the contracting parties are on such lists either. Further, our sales do not involve industries or sectors that are currently subject to specific sanctions imposed by the United States, the European Union, the United Nations or Australia. Therefore, none of our sales to parties located in or other activities in the Relevant Countries would be prohibited activities under the relevant sanctions laws and regulations.

We cannot predict the interpretation or implementation of government policies in the United States at the federal, state or local levels or any policy by the European Union, the United Nations, Australia and other applicable jurisdictions with respect to any current or future activities by us or our affiliates in the Countries subject to International Sanctions and with Sanctioned Persons. We intend not to undertake any future business that would cause our Group, the Stock Exchange, HKSCC, HKSCC Nominees, or our Shareholders or investors to violate or become a target of sanctions laws of the United States, the European Union, the United Nations or Australia. However, we cannot assure you that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the United States authorities or the authorities of any other government that may not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the government of the United States, the European Union, the United Nations or Australia or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provide a basis for a sanctions designation of our Company. In addition, as many sanction programs are constantly evolving, new requirements or restrictions could come into effect, which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

We are exposed to credit risk in relation to our trade and other receivables.

Our trade receivables were primarily due from the third-party distribution platforms, certain payment channels and co-publishers in cooperation with us. We had trade receivables of US\$6.0 million, US\$5.6 million, US\$3.8 million and US\$4.4 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. We made provisions for impairment of US\$0.5 million, US\$0.7 million, US\$1.4 million and US\$1.7 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively, on receivables primarily from certain distribution platforms and co-publishers which we then believed could not be collected due to

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the lapse of time. Our other receivables primarily include receivables from Paypal accounts. We had receivables from Paypal accounts of US\$3.4 million, US\$7.5 million, US\$9.4 million and US\$10.4 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. We may withdraw the funds accumulated in our Paypal accounts at any time.

Although we maintain strict control over outstanding receivables, our business operation and financial condition could be adversely affected if the strategic relationships with the platforms and payment channels are terminated or scaled-back, or if the platforms and payment channels alter their cooperative arrangements with us, or if they experience financial difficulties in paying us.

RISKS RELATING TO OVERSEAS MARKETS AND CHINA

Our business is subject to various laws and regulation in the United States, the European Union, China and other relevant jurisdictions applicable to operations of online games, many of which are unsettled and still developing, and which could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the United States, the European Union, China and other relevant jurisdictions, which are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting. For example, in the United States, laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement, and other theories based on the nature and content of the materials searched, the advertisement posted or the content provided by users. It is also likely that as our business grows and evolves and our games are played in a greater number of countries, we will become subject to laws and regulations in additional jurisdictions. We are potentially subject to a number of laws and regulations in the jurisdictions in which we operate that affect the offering of certain types of content, such as the depiction of violence, many of which are ambiguous, still evolving and could be interpreted in ways that could harm our business or expose us to liability. In addition, certain of our games, including *Stallion Race*, may become subject to gambling-related rules and regulations and expose us to civil and criminal penalties if we do not comply. It is difficult to predict how existing laws will be applied to our business and the new laws to which we may become subject.

If we are not able to comply with these laws or regulations or if we become liable under these laws or regulations, we could be directly harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to modify our games, which would harm our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business. Any costs incurred as a result of this potential liability could harm our business and results of operations.

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It is possible that a number of laws and regulations may be adopted or construed to apply to us in the jurisdictions in which we operate that could restrict the online and mobile industries, including user privacy, advertising, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce and virtual items may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through the Internet and mobile devices. For example, the European Union has stated that it intends to meet with the industry and consumer-protection groups to discuss certain aspects of free-to-play games. We anticipate that scrutiny and regulation of our industry will increase, and we will be required to devote legal and other resources to addressing such regulation. For example, existing or new laws regarding the regulation of currency, banking institutions, unclaimed property and money laundering may be interpreted to cover virtual items, or laws regarding the regulation of gambling may be interpreted to encompass our games. We have structured and operate our sport games, including *Stallion Race*, with gambling laws in mind and believe that playing these games does not constitute gambling. However, our horse racing and other skill tournament games could in the future become subject to gambling-related laws and regulations and expose us to civil and criminal penalties. We also sometimes offer our users various types of contests and promotion opportunities. We are subject to laws in a number of jurisdictions concerning the operation and offering of such activities and games, many of which are still evolving and could be interpreted in ways that could harm our business. If these were to occur we might be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may be subject to additional regulation and oversight, such as reporting to regulators, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the jurisdictions in which we operate regarding these activities may lessen the growth of online game services and impair our business.

A change in the application of the tax laws of various jurisdictions could result in an increase to our worldwide effective tax rate and a change in how we operate our business.

Our corporate structure and intercompany arrangements, including the manner in which we develop and use our intellectual properties and the transfer pricing of our intercompany transactions, are structured to provide us with worldwide tax efficiencies. The application of the tax laws of various jurisdictions, including the United States, the European Union and China, to our international business activities is subject to interpretation and depends on our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. Due to the complex tax regulatory environment, we did not timely make adequate tax filings and/or payments in the United States, the European Union and China during the Track Record Period. As the implication of global and local tax regulations on our operations became increasingly complicated, we engaged an external tax consultant in May 2014 to provide professional tax compliance and consulting services. As advised by our tax consultant, we made full tax provisions for PRC enterprise income tax, EU value-added tax and U.S. state sale tax for 2013, 2014 and 2015. As confirmed by our legal advisers, our Directors are of the view that the delayed tax payments and our transfer pricing arrangements within our

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Group would not subject us to criminal prosecution for tax evasion. For details, see “Business — Taxation and Related Arrangements.” However, in light of the complex tax regulatory environment and the ambiguity in international coordination in the context of digital economy, the taxing authorities of the jurisdictions in which we operate may challenge our methodologies for our intercompany arrangements, or determine that the manner in which we operate our business is not consistent with the manner in which we report our income to the jurisdictions, which could increase our overall effective tax rate or subject us to administrative penalties. Should any of the foregoing events occur, our financial position and results of operations will be materially and adversely affected.

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

As part of our business strategy, we are now targeting China’s mobile game market by devoting a large amount of resources. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social conditions in China. The Chinese economy differs from the economies in developed countries in many respects, including the degree of government involvement, control of capital investment, as well as the overall level of development. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China’s economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot predict future changes in China’s economic, political and social condition and the effect that new government policies will have on our business and future prospects. Any actions and policies adopted by the PRC government or any prolonged slowdown in China’s economy, in particular the mobile applications industry, could have a negative impact on our business, operating results and financial condition in a number of ways. For example, our users may decrease spending on our offerings, while we may have difficulty expanding our user base fast enough, or at all, to offset the impact of decreased spending by our existing users.

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

We are a holding company incorporated under the laws of the Cayman Islands and indirectly hold interests in a Hong Kong-incorporated subsidiary, which in turn directly or indirectly hold interests in our PRC subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), effective in January 2008, as amended on February 24, 2017, and its implementation rules, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC-resident enterprise are subject to a 10.0% withholding tax, unless such foreign investor’s

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jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Under an arrangement between China and Hong Kong, effective in January 2007, such dividend withholding tax rate is reduced to 5.0% for dividends paid by a PRC company to a Hong Kong-resident enterprise if such Hong Kong entity is a “beneficial owner” and such entity directly owns at least 25.0% of the equity interest of the PRC company. The Notice of the SAT on How to Comprehend and Determine the “Beneficial Owners” in Tax Treaties (國家稅務總局關於如何理解和認定稅收協定中「受益所有人」的通知), effective in October 2009, provides certain conditions under which a company cannot be defined as a “beneficial owner” under the treaty, and further provides that an agent or “conduit company” (defined as a company registered in the country of domicile to satisfy the organizational form as required by law, but it does not engage in such substantial business operations as manufacturing, distribution and management) shall not be deemed a “beneficial owner.” If the PRC tax authorities determine that our Hong Kong subsidiary is a “conduit company,” we may not be able to enjoy a preferential withholding tax rate of 5% and dividend payable by our PRC subsidiaries to our Hong Kong subsidiary will be subject to withholding tax at the rate of 10.0%.

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

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

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

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

During the course of playing mobile games, some virtual assets, such as special equipment, user experience grades and other features of our users’ game avatars, are acquired and accumulated. Such virtual assets can be important to users and have monetary value and in some cases are sold among users for actual money. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the game account of one user by other users and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. Currently, there is no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who is the legal owner of virtual assets, whether and how the ownership of virtual assets is protected by law, and whether a developer of mobile games such as us would have any liability to users or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. In case of a loss of virtual assets, we may be sued by our users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We have not been involved in any virtual assets related law suits. However, we cannot assure you that such law suits will not be brought against us in the future.

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

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

China has enacted laws and regulations governing Internet access and the distribution of news and other content, as well as products and services, through the Internet. The PRC government prohibits information that it believes to be in violations of PRC laws from being distributed through the Internet. The MIIT, MOC and other competent government authorities have promulgated regulations that prohibit games from being distributed through the Internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise state security or secrets. If any of the games we offer were deemed to violate any such content restrictions, we would not be able to obtain the necessary government approval to continue such offerings and/or could be subject to penalties, including confiscation of income, fines, suspension of business, which would materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for unlawful actions of our users or for content we distribute that is deemed inappropriate. We may be required to delete content that violates PRC laws and report content that we suspect may violate PRC laws, which may reduce our user base, the amount of time our games are played or the purchases of virtual items in our games. It may be difficult to determine the type of content that may result in liability for us, and if we are found to be liable, we may be prevented from offering our online games or other related services in China.

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

In April 2007, several governmental authorities, including the SAPPRFT and the MOC, jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (關於保護未成人身心健康實施網絡遊戲防沉迷系統的通知) (the "Anti-addiction Notice"), which is annexed to the Standards Regarding the Development of Anti-addiction System on Online Games (網絡遊戲防沉迷系統開發標準) and the Proposal Regarding the Authentication of Real Names for Anti-addiction System on Online Games (網絡遊戲防沉迷系統實名認證方案). According to the Anti-addiction Notice, an anti-fatigue system monitoring the playing time and minimum age of online game users is required to be installed in all existing online games since July 16, 2007, as well as in all online games to be operated in China. Our co-publishers have installed the anti-fatigue system in all of our mobile games offered in China, including certain of our proprietary mobile *DDTank* series. However, we cannot assure you that such anti-fatigue system will be regarded as sufficient by relevant government authorities in China. Failure to comply with the requirements under the Anti-addiction Notice may subject us to penalties, including without limitation suspension or restriction of our games to be operated by our co-publishers, rejection to or suspension of the application for approval or filing of our games in China.

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

We are based in China and our PRC subsidiaries generate revenue primarily from providing consulting and technology services to our overseas companies that publish games in the international markets. Our business in China are governed by PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

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 retroactive effect. As a result, we may not be aware of our violations of these policies and rules until the violations have occurred. Furthermore, the PRC administrative and court authorities have significant discretions in interpreting and implementing or enforcing statutory rules and contractual terms, and it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we may enjoy in China versus other more developed legal systems. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to enforce our contractual or tort rights. Such uncertainties may result in substantial operating expenses and costs, and any litigation in China may result in diversion of resources and management's attention, and therefore materially and adversely affect our business and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorizations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorizations may materially and adversely affect our business, financial condition and results of operations.

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

The PRC government extensively regulates the Internet industry, including the foreign ownership of, and the licensing and permit requirements pertaining to, companies in the Internet industry. These Internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. With regard to the mobile game industry in China, various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the State Administration for Industry & Commerce of the PRC (the "SAIC"), the MOC, the SAPPRFT, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the Internet and the mobile game industries. There exist inconsistencies and ambiguities in the regulations promulgated by different government authorities. Our co-publisher partners are required to

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obtain applicable permits or approvals from different regulatory authorities in order to provide mobile game services. As a result, it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations, and we must screen our co-publishers' qualifications before entering into co-distribution arrangements.

Risks and uncertainties relating to PRC regulation of Internet businesses include 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.

There are uncertainties relating to the regulation of the Internet industry in China, including evolving licensing requirements. This means that permits, licenses or operations of some of our companies may be subject to 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.

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

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

As we expand our China operations, we expect to incur more expenditures denominated in Renminbi, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar or U.S. dollar may affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar may affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

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Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. The Renminbi has been unpegged from the U.S. dollar since July 2005 and, although the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market in the future.

We also generate large revenue from users in countries and regions outside China, who make in-game purchases in foreign currencies through third-party payment channels. As a result, we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollars and also including Euro, Vietnamese dong and Malaysian Ringgit.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

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

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

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

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises, capital contributions by an offshore holding company to its wholly-owned subsidiary in China shall obtain approvals from or make record filings with MOFCOM or its local counterpart and register with the SAIC or its local counterpart to make capital contributions to the foreign-invested enterprises. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE or its local branches, and our PRC subsidiaries may not procure loans exceeding the difference between its registered capital and its total investment amount as approved by or registered with MOFCOM or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of the Global Offering to fund our operations in China may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

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

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicle (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the “Circular 37”), which was promulgated by SAFE, and became effective on 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 things, a change in the Overseas SPV’s PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Additionally, pursuant to the Circular of SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “Circular 13”), which was promulgated on 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 SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

As confirmed by our PRC legal advisers, each of Messrs. LU Yuanfeng, HUANG Guozhan and HUANG Deqiang has completed the initial foreign exchange registration on December 15, 2014 with the Beijing branch office of SAFE, and each of Ms. LUO Simin, Messrs. CAI Feng and LUO Weiyuan has completed the initial foreign exchange registration on September 16, 2015 with the Century City Branch of Bank of Beijing (北京銀行世紀城支行). As Circular 37 and Circular 13 were recently promulgated, it remains unclear how they will be interpreted and implemented, and how or whether SAFE will apply them to us. Therefore, we cannot predict how they will affect our business operations or future strategies. For example, the ability of our present and prospective PRC subsidiaries to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 37 and Circular 13 by our PRC resident beneficial holders. In addition, as we have little control over either our present or prospective, direct or indirect Shareholders or the outcome of such registration procedures, we cannot assure you that these Shareholders who are PRC residents will amend or update their registration as required under Circular 37 and Circular 13 in a timely manner or at all. Failure of our present or future Shareholders who are PRC residents to comply with Circular 37 and Circular 13 could subject these Shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

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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.

On August 8, 2006, six PRC regulatory authorities, including MOFCOM, the State Assets Supervision and Administration Commission, SAT, SAIC, CSRC and SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which became effective on September 8, 2006 and was amended in June 2009. The M&A Rules, governing the approval process by which a PRC company may participate in an acquisition of assets or equity interests by foreign investors, requires the PRC parties to make a series of applications and supplemental applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Accordingly, due to the M&A Rules, our ability to engage in business combination transactions has become significantly more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

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

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

SAT released a circular on December 15, 2009 that addresses the transfer of shares by nonresident companies, generally referred to as Circular 698. Circular 698, which became effective retroactively to January 1, 2008, may have a significant impact on many companies that use offshore holding companies to invest in China. Circular 698 has the effect of taxing foreign companies on gains derived from the indirect sale of a PRC company. Where a foreign investor indirectly transfers equity interests in a PRC resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction that has an effective tax rate less than 12.5% or does not tax foreign income of its residents, the foreign

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investor must report this indirect transfer to the tax authority in charge of that PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of up to 10.0%.

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

There is little guidance and practical experience regarding the application of Circular 698 and the related SAT notices. For example, while the term “indirectly transfer” is not defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions. As a result, due to our complex offshore restructuring, we may become at risk of being taxed under Circular 698 and the related SAT notices and we may be required to expend valuable resources to comply with Circular 698 and the related SAT notices or to establish that we should not be taxed under Circular 698 and the related SAT notices, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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Our business operations are conducted in several jurisdictions. It is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our Shareholders may be regarded as income derived from sources within China and we may be required to withhold a 10.0% PRC withholding tax for the dividends we pay to our investors who are non-PRC corporate Shareholders, or a 20.0% withholding tax for the dividends we pay to our investors who are non-PRC individual Shareholders, including the holders of our Shares. In addition, our non-PRC Shareholders may be subject to PRC tax on gains realized on the sale or other disposition of our Shares, if such income is treated as sourced from within China. It is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their tax residence and China in the event that we are considered as a PRC resident enterprise. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

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

We are incorporated in the Cayman Islands. Almost all of our assets and some of the assets of our Directors are located in China. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 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 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, China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in China of judgments of a court in any of these jurisdictions may be difficult or impossible.

RISK FACTORS

Inflation in China could negatively affect our profitability and growth.

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

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

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

RISKS RELATING TO THE GLOBAL OFFERING

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

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

RISK FACTORS

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse development, that could occur between the time of sale and the time trading begins.

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

The Offer Price of the Shares is higher than the net tangible book value per Share as of June 30, 2017. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value of HK\$8.89 per Share based on our pro forma net tangible book value per Share as of June 30, 2017 (assuming an Offer Price of HK\$0.74, which is the mid-point of our indicative Offer Price range, and assuming the Over-allotment Option is not exercised), and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interests if the Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

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

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return. For details of our intended use of proceeds, see “Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

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

Future sales of a substantial amount of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of our Shares from time to time. See “Underwriting — Underwriting Arrangements and Expenses” for a more detailed discussion of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales of a substantial

RISK FACTORS

amount of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could negatively affect the market price of our Shares and our ability to raise equity capital in the future.

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

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable. For details, see “Financial Information — Dividend.”

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

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

Certain facts, forecasts and statistics in this prospectus relating to various countries and regions and the economic conditions thereof and the industry of Chinese game overseas publishing derived from official government publications, market data providers and other independent third-party sources may not be reliable.

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

RISK FACTORS

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

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

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

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

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

Our Company's headquarters and our principal business operations are based outside of Hong Kong. All of our executive Directors spend the majority of their time supervising our Company's principal business operations out of Hong Kong and do not ordinarily reside in Hong Kong. We consider that it would be more efficient and effective for our executive Directors and our management being based outside of Hong Kong to supervise and manage our daily business operations.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules, and the following arrangements have been made for maintaining regular and effective communication with the Stock Exchange:

- (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 appointed authorized representatives are Mr. LU Yuanfeng and Ms. HUI Yin Shan, who will be readily contactable by the Stock Exchange and can meet with the Stock Exchange on reasonable notice. Their contact details (including office and mobile phone numbers, facsimile numbers, email addresses and business addresses) have been provided to the Stock Exchange.
- (b) We have retained the services of a compliance adviser, Messis Capital Limited, in compliance with Rule 3A.19 of the Listing Rules. Messis Capital Limited, in addition to our Company's authorized representatives, act as an additional channel of communication of our Company with the Stock Exchange and be available to answer enquiries from the Stock Exchange.
- (c) Each of our Directors, including the executive Directors, has provided their respective contact details (including office, facsimile and mobile phone numbers, and email addresses) to the authorized representatives and the Stock Exchange. Our authorized representatives have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. Each of our Directors either possesses, or can apply for, valid travel documents to visit Hong Kong in order to meet with the Stock Exchange within a reasonable period upon the Stock Exchange's request.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER IN RELATION TO OUR JOINT COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the secretary of our Company must be a person who has the requisite academic or professional qualifications or relevant experience to discharge the functions of a company secretary.

We have appointed Mr. YU Ching Ming as one of our joint company secretaries. Mr. YU does not possess a qualification as stipulated in Rule 3.28 of the Listing Rules, and therefore he does not meet all the requirements under Rules 3.28 and 8.17 of the Listing Rules. We have appointed Ms. HUI Yin Shan, who possesses the qualification required under Rule 3.28, to act as another joint company secretary to provide assistance to Mr. YU for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Ms. HUI will work closely with Mr. YU to jointly discharge duties and responsibilities as joint company secretaries and assist Mr. YU to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, we will ensure Mr. YU has access to relevant training and support to familiarize himself with the Listing Rules and the duties required for a company secretary of a company listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the Listing Date. Before the end of such three-year period, the Stock Exchange will reevaluate the experience of Mr. YU to consider whether he will then have acquired the relevant experience within the meaning of Rules 3.28 and 8.17 of the Listing Rules and decide whether a further waiver will be necessary.

WAIVER IN RELATION TO 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 us, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. For further details in this respect, see the section headed “Connected Transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the 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 with regard to us. The 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.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth 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 any information or representation not contained herein must not be relied upon as having been authorized by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of our or their respective directors, officers, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Public Offer Shares are set out in the section headed "How to Apply for the Hong Kong Public Offer Shares" in this prospectus and in the relevant Application Forms.

UNDERWRITING

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 set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. 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 us and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to the Offer Price being agreed.

If, for any reason, the Offer Price is not agreed among us and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes 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 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 and 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 granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option, and the Shares to be issued upon the exercise of options granted under the Post-IPO Share Option Scheme).

No part of our share 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 in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, December 15, 2017. The Shares will be traded in board lots of 4,000 Shares each. The stock code of the Shares will be 2022.

SHARES WILL BE ELIGIBLE FOR ADMISSION 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 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. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of us, the Sole Global Coordinator, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

REGISTER OF SHAREHOLDERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Conyers Trust Company (Cayman) Limited in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on our Hong Kong register of members. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB, Hong Kong dollars and U.S. dollars have been translated into other currencies in this prospectus, for the purpose of illustration only, at the following exchange rates:

RMB1.00: HK\$1.1867 (set by the PBOC for foreign exchange transactions prevailing on November 24, 2017);

US\$1.00: RMB6.581 (set by the PBOC for foreign exchange transactions prevailing on November 24, 2017); and

US\$1.00: HK\$7.8087 (set forth in the weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on November 24, 2017).

No representation is made that any amounts in RMB, Hong Kong dollars and U.S. dollars were or could have been or could be converted into each other at such rates or any other exchange rates on such date or any other date.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ROUNDING

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.

LANGUAGE

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. LU Yuanfeng (陸源峰)	Room 3004, No. 300 Kangwang South Road Liwang District Guangzhou China	Chinese
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Mr. HUANG Guozhan (黃國湛)	Room 603, Unit 2 No. 2, Mianfang Road Haizhu District Guangzhou China	Chinese
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Mr. HUANG Deqiang (黃德強)	Room 1105, No. 1, Fuze Second Street Gexin Road Zhuhai District Guangzhou China	Chinese
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Non-executive Directors

Mr. MENG Shuqi (孟書奇)	No. 231, Building 230-231 Xicheng The Investment of Overseas Chinese Town Xin'an Section, Guangshen Road Bao'an District Shenzhen China	Chinese
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**Independent
Non-executive
Directors**

Mr. Darren Raymond SHAW (邵在純)	House 3, 1 Jade Lane Silver View Lodge Clear Water Bay Sai Kung, New Territories Hong Kong	Austrian
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Mr. LI Yi Wen (李毅文)	Room 3004, C2, Xurixuan Zhujiang New Town Tianhe District Guangzhou China	Canadian
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Ms. Imma LING Kit-sum (凌潔心)	Flat H, 11/F, Block 7 Site 3, Willow Mansions Whampoa Garden, Hung Hom Kowloon Hong Kong	Canadian
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See "Directors and Senior Management" for further information with respect to our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator	China Securities (International) Corporate Finance Company Limited 18/F Two Exchange Square 8 Connaught Place Central Hong Kong
Joint Bookrunners and Joint Lead Managers	China Securities (International) Corporate Finance Company Limited 18/F Two Exchange Square 8 Connaught Place Central Hong Kong CSC Securities (HK) Limited Unit 3204-07, 32F, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong China Galaxy International Securities (Hong Kong) Co., Ltd 20/F Wing On Centre 111 Connaught Road Central Hong Kong GF Securities (Hong Kong) Brokerage Limited 29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong CMB International Capital Limited 45th Floor, Champion Tower 3 Garden Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to our Company

as to Hong Kong and U.S. law:

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15F, Jardine House
1 Connaught Place
Central
Hong Kong

*as to Hong Kong law in respect of our
certain operation in Hong Kong:*

Ms. Isabel Tam
1501 Two Pacific Place
88 Queensway
Admiralty
Hong Kong

as to PRC law:

Beijing Dacheng Law Offices, LLP
7/F, Building D
Parkview Green FangCaoDi
No. 9 Dongdaqiao Road
Chaoyang District
Beijing
China

as to Cayman Islands and BVI law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to EU tax law:

Matheson
70 Sir John Rogerson's Quay
Dublin 2
Ireland

as to U.S. tax law:

Wilson Law Group LLC
34 E. Main Street
Somerville, NJ 08876
United States

as to Vietnamese law:

Frasers Law Company
Unit 1501, 15th Floor
The Metropolitan
235 Dong Khoi Street
District 1
Ho Chi Minh City
Vietnam

as to International Sanctions law:

Hogan Lovells
11th Floor, One Pacific Place
88 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Underwriters

as to Hong Kong and U.S. law:

O'Melveny & Myers
31/F, AIA Central
1 Connaught Road Central
Hong Kong

as to PRC law:

Jingtian & Gongcheng
34/F, Tower 3, China Central Place
No. 77 Jianguo Road
Chaoyang District
Beijing
China

Auditor and Reporting Accountant

PricewaterhouseCoopers
22/F, Prince's Building
Central
Hong Kong

Receiving banks

Wing Lung Bank Limited
Wing Lung Bank Building
45 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	11/F, Tai Sung Bank Building 784 Nathan Road Kowloon Hong Kong
Headquarters and principal place of business in China	No. 134, Xiaogang Middle Road, Haizhu District Guangzhou China
Joint company secretaries	Mr. YU Ching Ming Room 242, Block 9 Pak Tin Estate Kowloon Hong Kong Ms. HUI Yin Shan (<i>HKICS, ICSA</i>) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorized representatives	Mr. LU Yuanfeng Room 3004, No. 300 Kangwang South Road Liwan District Guangzhou China Ms. HUI Yin Shan (<i>HKICS, ICSA</i>) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Audit committee	Ms. Imma LING Kit-sum (<i>Chairman</i>) Mr. Darren Raymond SHAW Mr. LI Yi Wen
Remuneration committee	Mr. LI Yi Wen (<i>Chairman</i>) Mr. Darren Raymond SHAW Mr. LU Yuanfeng

CORPORATE INFORMATION

Nomination committee	Mr. LU Yuanfeng (<i>Chairman</i>) Mr. Darren Raymond SHAW Mr. LI Yi Wen
Compliance adviser	Messis Capital Limited <i>A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO</i> Room 1606, 16th Floor, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong
Principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal banks	Hongkong and Shanghai Banking Corporation 2/F, 673 Nathan Road Mong Kok, Kowloon Hong Kong BBVA Compass Bank Plaça de Tetuan, 26 08010, Barcelona Spain Bank of Guangzhou Taojin Branch 1/F-2/F, Dijing Tower No. 33-36, Taojin Road Yuexiu District Guangzhou China
Company website	www.gamehollywood.com (<i>information contained in this website does not form part of this prospectus</i>)

REGULATORY OVERVIEW

PRC LAWS AND REGULATIONS

Our business and operations in China are subject to laws and regulations issued by various PRC government authorities. Set forth below is the principal laws and regulations applicable to our current business and operations in China.

Regulations Relating to the Industry

Regulations on the Catalogue of Industries for Guiding Foreign Investment

For the purposes of guiding foreign investment, the Provisions on Guiding Foreign Investment Direction (指導外商投資方向規定) were promulgated by the State Council on February 11, 2002 and became effective on April 1, 2002 and foreign-invested industries generally fall into four categories pursuant to it: encouraged, permitted, restricted and prohibited. The encouraged, restricted and prohibited categories are listed in the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) (the “Catalogue”) and those not listed in the Catalogue would fall into the permitted category. The Catalogue was jointly promulgated by the NDRC and the MOFCOM and such Catalogue will be amended and re-promulgated from time to time by these two government authorities. According to the current effective version of the Catalogue promulgated on March 10, 2015 and effective on April 10, 2015 and the version promulgated on June 26, 2017, which will come into effect on July 28, 2017, the industries in which the PRC subsidiaries of our Company engage do not fall in any of the restricted foreign investment industries or prohibited foreign investment industries.

Regulations on Software Products

Software products developed in the PRC which have been registered with the provincial counterpart of the MIIT and filed with MIIT, will be granted the Software Product Registration Certificates and are entitled to the encouragement policies under the Notice of the State Council on Issuing Several Policies on Encouraging the Development of the Software and Integrated Circuit Industries (國務院關於印發鼓勵軟件產業和集成電路產業發展若干政策的通知) (the “Industries Policies”) which was issued on June 24, 2000 and Notice of the State Council on Issuing Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries (國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知) (the “Further Policies”) which was issued on January 28, 2011. The registration of software products was cancelled by the State Council on February 24, 2015.

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Regulations on Software Enterprises

On October 16, 2000, the Ministry of Information Industry (as superseded by MIIT in 2008), Ministry of Education of the PRC, Ministry of Science and Technology of the PRC, the SAT jointly issued the Certifying Standard and Managing Measures for Software Enterprises (Trial) (軟件企業認定標準及管理辦法(試行)) (the “Software Enterprises Measures”), which was abolished on June 2, 2016. On February 24, 2015, the State Council issued the Decision On Cancelling and Adjusting a Batch of Administrative Examination and Approval items (國務院關於取消和調整一批行政審批項目等事項的決定), which cancelled the certification and annual examination of software enterprises. However, according to the Notice On Relevant Matters of 2014 Annual Software Enterprise Income Tax Preferential Policies (工業和信息化部、國家稅務總局關於2014年度軟件企業所得稅優惠政策有關事項的通知) jointly issued by MIIT and SAT on May 27, 2015, the enterprise income tax preferential policies related to certified software enterprise under Industry Policies is still valid for the time being.

Regulation on Internet-based Information Services

On September 25, 2000, the State Council issued the Administrative Measures on Internet-based Information Services (互聯網信息服務管理辦法) (the “Internet-based Information Services Measures”), and amended it on January 8, 2011. Under the Internet-based Information Services Measures, the entity which intends to engage in commercial internet-based information services (which refers to the activities of compensatory services which provide information to or create web pages for online users through the Internet), shall apply to the administrative organ in charge of telecommunications in the relevant province, autonomous region or directly administered municipality, or to the State Council department in charge of the information industry, for a Value-added Telecommunication Service license (the “ICP License”) in internet-based information services.

The abovementioned regulation is applicable to entities which are engaged in the business of providing information or websites for online users in exchange for the compensation, since our PRC subsidiaries focus on the design and development of mobile games in the PRC and do not directly publish or operate any of our games through the Internet, our PRC subsidiaries are not subject to the ICP License under the abovementioned regulation.

Regulations on Internet Publication

On June 27, 2002, SAPPRFT and MIIT jointly issued the Interim Regulations on Administration of Internet Publication (互聯網出版管理暫行規定) (the “Internet Publication Regulations”), which became effective from August 1, 2002. Pursuant to the Internet Publication Regulations, any act by an Internet information service provider to select, edit and process content or programs and to make such content or programs available on the Internet for the public to read, use and download shall constitute an Internet publication.

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On February 4, 2016, SAPPRFT and MIIT jointly issued the Administrative Provisions on Online Publishing Services (網絡出版服務管理規定) (the “Online Publishing Provisions”), which became effective from March 10, 2016 and replaced Internet Publication Regulations. Pursuant to Online Publishing Provisions, the term “online publishing services” refers to the provision of online publications to the public through information networks. The term “online publications” refers to digitized works with characteristics of publishing such as editing, production or processing provided to the public through information networks, which includes games. To engage in online publishing services, an entity or individual must be approved by SAPPRFT in accordance with the law and acquire an Online Publishing Service License.

On May 24, 2016, SAPPRFT issued the Circular on the Administration over Mobile Game Publishing Services (關於移動遊戲出版服務管理的通知) (the “Mobile Game Circular”), effective as of July 1, 2016. According to the Mobile Game Circular, Mobile Game Publishing Services refer to the activities of publishing and operating mobile games that are available for the public to download and play online through the information network. Game publishing service entities shall be responsible for examining the contents of their games, applying for publication and applying for the game publication number. Mobile games joint operation entities, while operating mobile games with joint efforts, must verify whether such games have gone through all relevant approval formalities and whether relevant information has been displayed clearly, and shall not jointly operate any mobile game that has not been approved, or whose relevant information has not been clearly displayed.

The abovementioned regulations are applicable to entities which are engaged in online game publishing and/or operation activities. Since we focus on the design and development of mobile games in the PRC and do not publish or operate any of our games, we are not subject to the legal obligation and liabilities under the abovementioned regulations.

Regulations on Online Mobile Games

On June 3, 2010, the MOC promulgated the Provisional Measures for 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. The Online Game Measures governs the research, development and operation of online games, including mobile games operated through wireless telecommunication networks, and the issuance and trading services of virtual currency. Under the Online Game Measures, all operators of online games, issuers of virtual currencies and providers of virtual currency trading services, or Online Game Business Operators, must obtain Internet Culture Operation Licenses. On July 2, 2015, the MOC promulgated the Circular of the Ministry of Culture on Implementing the “Business License before Operating Permit” to Improve the Administrative Examination and Approval for the Cultural Market (關於落實“先照後證”改進文化市場行政審批工作的通知), effective as of July 2, 2015, which cancelled the requirement that any entity engaging in online game business operations shall have registered capital of not less than 10 million yuan under Article 6 of the Online Game Measures.

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The Online Game Measures also provides that the MOC is responsible for the censorship of imported online games and the filing of records for domestic online games. In regard to domestic online games, the filing of records for such games must be conducted with the MOC within 30 days after the commencement of the online operation of such online games or the occurrence of any material alteration of such online games. The filing numbers of the games must be displayed at designated places of the websites on which the games are operated or at a prominent place in the games.

The abovementioned regulations are applicable to entities which are engaged in online game operation activities. Since we focus on the design and development of mobile games in the PRC and do not publish or operate any of our games, we are not subject to the legal obligation and liabilities under the abovementioned regulations.

Regulations on Intellectual Property Rights

Copyright

The Copyright Law of the PRC (中華人民共和國著作權法), promulgated on September 7, 1990 and became effective on June 1, 1991, and amended on October 27, 2001 and February 26, 2010, protects copyright and explicitly covers computer software copyright. The Regulations on Computer Software Protection of the PRC (中華人民共和國計算機軟件保護條例), promulgated on December 20, 2001 and became effective on January 1, 2002, and amended on January 30, 2013, protects the rights and interests of the computer software copyright holders and encourages the development of software industry and information economy. In the PRC, software developed by PRC citizens, legal persons or other organizations is automatically protected immediately after its development, without an application or approval. Software copyright may be registered with the designated agency and if registered, the certificate of registration issued by the software registration agency will be the preliminary evidence of the ownership of the copyright and other registered matters. On February 20, 2002, the National Copyright Administration of the PRC issued the Measures on Computer Software Copyright Registration (計算機軟件著作權登記辦法), which outlines the operational procedures for registration of software copyright, as well as registration of software copyright license and transfer contracts. The Copyright Protection Center of the PRC is mandated as the software registration agency under the regulations.

Trademarks

The Trademark Law of the PRC (中華人民共和國商標法) (the “Trademark Law”) was promulgated on August 23, 1982 and became effective on March 1, 1983, and amended respectively in 1993 and 2001, and was further amended on August 30, 2013, protects registered trademarks. The Implementation Regulations on the Trademark Law of the PRC (中華人民共和國商標法實施條例) was promulgated on August 3, 2002 by the State Council, and amended on April 29, 2014 and became effective on May 1, 2014. These current effective laws and regulations provide the basic legal framework for the regulations of trademarks in the PRC, where registered trademarks include commodity trademarks, service trademarks, collective

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marks and certificate marks. The Trademark Office under SAIC is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted for a term of ten years. 12 months prior to the expiration of the ten-year term, the trademark registrant shall apply for the renewal of registration; if the trademark registrant does not make the renewal during the foregoing period, another six months extension can be granted. Upon the registration of a trademark, the register will have the right to exclusively use the trademark.

Under the current effective Trademark Law, any of the following acts may be regarded as an infringement of the exclusive right to use of a registered trademark:

- use of a trademark that is identical with a registered trademark on the same commodities without the licensing of the trademark registrant; or
- use of a trademark that is similar to a registered trademark of the same kind of commodities of the trademark registrant's or use of a trademark that is identical with or similar to a registered trademark on similar commodities of the trademark registrant's which may be easily confusing without the authorization of the trademark registrant.

Domain Names

Internet domain name registration and related matters are primarily regulated by the Implementing Rules on Registration of Domain Names (域名註冊實施細則) issued by China Internet Network Information Center (the "CNNIC"), the domain name registrar of the PRC, which became effective on May 29, 2012, 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, and the Measures on Domain Name Disputes Resolution (域名爭議解決辦法) issued by CNNIC which became effective on November 21, 2014. 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.

Regulations on Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules of the PRC (中華人民共和國外匯管理條例) promulgated by the State Council on January 29, 1996 and amended on January 14, 1997 and August 5, 2008, and various regulations issued by SAFE and other PRC regulatory agencies, payment of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, may be made by conversion of Renminbi into foreign currencies without approval of SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with SAFE or its local branch for conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

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SAFE Circular 59

On November 19, 2012, SAFE promulgated the Circular of SAFE on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (關於進一步改進和調整直接投資外匯管理政策的通知) (the “Circular 59”), effective as of December 17, 2012 and subsequently amended on May 4, 2015. Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to Circular 59, the opening of various special purpose foreign exchange accounts (e.g. pre-investment expenses account, foreign exchange capital account, asset realization account, guarantee account) no longer requires the approval of SAFE. Furthermore, multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. Reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) no longer requires SAFE’s approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign invested enterprise no longer requires SAFE’s approval.

SAFE Circular 37

On July 4, 2014, SAFE promulgated the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicle (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”), effective as of July 4, 2014. Under Circular 37, (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV’s PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Additionally, pursuant to the Circular of SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知), or 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 SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

SAFE Circular 19

On March 30, 2015, SAFE promulgated the Circular of SAFE on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the “Circular 19”), effective as of June 1, 2015.

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Under the Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the discretionary foreign exchange settlement, which refers to that foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises. The capital in Renminbi obtained by foreign-invested enterprises from the discretionary settlement of foreign exchange capital shall be managed under the account pending for foreign exchange settlement payment. Circular 19 also allows the domestic equity investment made with the capital obtained from foreign exchange settlement so long as the relevant enterprises conduct corresponding procedures.

Regulations on Dividend Distribution

According to the Company Law of the PRC (中華人民共和國公司法), as amended on December 28, 2013, the Foreign Invested Enterprise Law of the PRC (中華人民共和國外資企業法), promulgated in 1986 and was amended on October 31, 2000 and October 1, 2016, and the Implementation Rules of the Foreign Invested Enterprise Law (外資企業法實施細則), as amended on April 12, 2001 and March 1, 2014, wholly foreign owned enterprises in the PRC may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign owned enterprises in the PRC are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. And these reserves cannot be distributed as dividends in cash.

On August 21, 2006, the SAT promulgated the Agreement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “Hong Kong Tax Agreement”), effective as of August 21, 2006. Under Hong Kong Tax Agreement, if the recipient is the beneficial owner of the dividends the tax so charged shall not exceed 5 percent of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 25 percent of the shares of the company paying the dividends, or the tax so charged would be 10 percent if the beneficial owner is a company which holds directly less than 25 percent of the shares of the company paying the dividends.

According to Circular of the SAT on Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties (關於執行稅收協議股息條款有關問題的通知), promulgated by the SAT on February 20, 2009, as provided in dividend clauses in the Hong Kong tax agreement, where a fiscal resident of the other party to the tax agreement directly owns a certain percentage or more (generally 25% or 10%) of the capital of a Chinese resident company which pays dividends to such a fiscal resident, dividends obtained by such a fiscal resident may be taxed at a tax rate specified in the tax agreement. Where such a fiscal resident needs to be entitled to such tax agreement treatment, all of the following requirements should

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be satisfied (1) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement (2) owner's equity and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (3) the capital of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the acquisition of the dividends, reaches a percentage specified in the tax agreement.

Regulations on Taxation

Enterprise Income Tax

The Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "EIT Law"), promulgated by the National People's Congress on March 16, 2007, effective as of January 1, 2008 and amended on February 24, 2017, and the Regulations to the Enterprise Income Tax Law of PRC (企業所得稅法實施條例) (the "EIT Law Regulations"), promulgated by the State Council on December 6, 2007 and effective as of January 1, 2008, provides that the EIT rate applicable to all enterprises, resident or non-resident, shall be 25% generally except for individual-invested single-proprietorship and partnership established under PRC laws and regulations. Resident enterprises, including but not limited to companies, institutes, associations, and other entities established under PRC laws and regulations, should pay EIT in connection with their income from PRC and abroad; non-resident enterprises with branch(es) within PRC, including but not limited to companies and other entities established under laws of foreign countries/regions, should pay EIT in connection with any income of such branch(es) from PRC, or out of PRC but of substantial connection with such branch(es); non-resident enterprises without any branch in PRC should pay EIT in connection with their income from PRC, at the tax rate of 10%.

According to Notice of the SAT on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises' Equity Transfer Income (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知), promulgated by SAT on December 10, 2009 (the "Circular 698") and Announcement of the SAT on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告), promulgated by SAT on February 3, 2015 (the "SAT Notice 7"), where a non-resident enterprise indirectly transfers equities and other properties of a Chinese resident enterprise to evade its obligation of paying enterprise income tax by implementing arrangements that are not for bona fide commercial purpose, such indirect transfer shall, in accordance with the provisions of Article 47 of the EIT Law, be re-identified and recognized as a direct transfer of equities and other properties of the Chinese resident enterprise. The articles under Circular 698 are largely replaced by SAT Notice 7, such as article 5 and article 6.

The indirect transfer of Chinese taxable property refers to the transaction which produces a result identical or similar substantially to direct transfer of Chinese taxable property by a non-resident enterprise through transfer of equities and other similar interests (hereinafter referred to as the "equities") of foreign enterprises directly or indirectly holding Chinese

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taxable properties (excluding Chinese resident enterprises registered outside China, and hereinafter referred to as the “foreign enterprises”), including the circumstances under which changes in foreign enterprises’ shareholders due to restructuring of the non-resident enterprise occur. A non-resident enterprise indirectly transferring Chinese taxable property is known as an equity transferor. SAT Notice 7 also provides that, the above provisions shall not apply to the overall arrangements that are in relation to indirect transfer of Chinese taxable property and meet any of the following circumstances (1) a non-resident enterprise buys and sells equity of the same listed foreign enterprise in the open market and obtains the proceeds from indirect transfer of Chinese taxable property; or (2) under the circumstance that a non-resident enterprise directly hold and transfer Chinese taxable property, the proceeds from transfer of such property can be exempted from enterprise income tax in China in accordance with the applicable provisions of tax conventions or arrangements.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (中華人民共和國增值稅暫行條例) promulgated by the State Council on December 13, 1993 and subsequently amended on November 10, 2008 and February 6, 2016 respectively, and its Implementation Rules (中華人民共和國增值稅暫行條例實施細則) promulgated by the Ministry of Finance of the PRC (中華人民共和國財政部) (the “MOF”) on December 25, 1993 and amended on December 15, 2008 and October 28, 2011 respectively, tax payers engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax (the “VAT”).

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

The Measures for the Exemption of Value-Added Tax from Cross-Border Taxable Services in the Collection of Value-Added Tax in Lieu of Business Tax (for Trial Implementation) (營業稅改徵增值稅跨境應稅服務增值稅免稅管理辦法(試行)), which was promulgated on August 27, 2014 by the SAT and effective on October 1, 2014, provides that if a domestic enterprise provides cross-border taxable services such as technology transfer, technical consulting, software service etc., the above mentioned cross-border taxable services shall be exempt from the value-added tax.

On March 23, 2016, the PRC Ministry of Finance and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (關於全面推開營業稅改徵增值稅試點的通知) (the “Circular 36”) which confirms that business tax will be completely replaced by VAT from May 1, 2016.

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Employment Laws

Pursuant to the PRC Labor Law (中華人民共和國勞動法), which became effective on January 1, 1995 and was amended on August 27, 2009, the PRC Labor Contract Law (中華人民共和國勞動合同法), which became effective on January 1, 2008 and was amended on December 28, 2012, and the Implementing Regulations of the Labor Contract Law (勞動合同法實施條例), which was promulgated by the State Council and became effective on September 18, 2008, (a) labor contracts in written form shall be executed to establish labor relationships between employers and employees, (b) wages cannot be lower than local minimum wage standards, (c) the employer must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. The PRC Labor Law and the PRC Labor Contract Law provide for collective contracts to be developed through collaboration between the labor union (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The laws also permit workers and employers in all types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract. The PRC Labor Contract Law has enhanced rights for the nation's workers, including permitting open-ended labor contracts and severance payments. The legislation requires employers to provide written contracts to their workers, restricts the use of temporary labor and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an indefinite-term contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period.

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法) (the "New Social Insurance Law") promulgated on October 28, 2010 by the Standing Committee of the National People's Congress of China and implemented on July 1, 2011, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums promulgated and implemented (社會保險費徵繳暫行條例) on January 22, 1999 by the State Council, the Interim Measures Concerning the Maternity Insurance of Employees of an enterprise (企業職工生育保險試行辦法) promulgated on December 14, 1994 and implemented on January 1, 1995 by former Ministry of Labor, the Regulation on the Administration of Housing Provident Fund (住房公積金管理條例) promulgated and implemented on April 3, 1999 and amended on March 24, 2002 by the State Council, the Regulation on Occupational Injury Insurances (工傷保險條例) promulgated on April 27, 2003 by the State Council and implemented on January 1, 2004 and amended on December 20, 2010 by the State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

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IMPACT OF INTERNATIONAL SANCTIONS LAWS

We publish online games primarily through third-party distribution platforms and co-publishers globally and may incur sales through our websites or business partners from the Relevant Countries. In light of this, we have appointed our International Sanctions legal advisers to determine whether our sales during the Track Record Period violate the international sanctions laws.

As advised by our International Sanctions legal advisers, our sales incurred in such Relevant Countries during the Track Record Period do not implicate any applicable sanctions on our Group, or any person or entity, including our Group's investors, our Shareholders, the Stock Exchange, the HKSCC and the HKSCC Nominees. For details on our sales and impact of sanctions laws, see "Business — Historical Business Activities in Countries Subject to International Sanctions."

LAWS AND REGULATIONS IN OVERSEAS COUNTRIES

We have a massive global user base and are subject to certain overseas laws and regulations. The following are the principal laws and regulations applicable to our overseas business and operation.

International Coordination

The Task Force on the Digital Economy ("TFDE"), a subsidiary body of the Committee on Fiscal Affairs ("CFA") of Organisation for Economic Co-operation and Development ("OECD"), was established in September 2013 to develop the *BEPS Action 1: Addressing the Tax Challenges of the Digital Economy*. It issued an interim report in September 2014 and a final report in October 2015. Furthermore, OECD well understands that the conclusions made in the final report may evolve in the future given the rapid development of digital industry and thus stated in the Executive Summary of the final report that a detailed mandate will be further developed in the context of designing an inclusive post-BEPS monitoring process and another report reflecting the outcome of the continued work in relation to the digital economy should be produced by 2020. Therefore no conclusion has been reached globally.

Although the tax environment of digital economy has been continuously evolving and developing, the final report of BEPS Action 1 has made a conclusion in Chapter 6: Tackling BEPS in the digital economy, "*The BEPS work on transfer pricing addresses BEPS issues that commonly arise among companies active in the digital economy as well as other taxpayers. Taken together, the overall objective of the transfer pricing actions is to bring the allocation of income within a multinational group of companies more directly in line with the location of the economic activity that gives rise to that income (Aligning Transfer Pricing Outcomes with Value Creation, OECD, 2015c). This objective is pursued by focusing on key transfer pricing issues including issues related to global value chains and transactional profit split methods.*"

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In view of the above, implementation becomes key at this stage. As stated in the Foreword of the final report, “*The BEPS package is designed to be implemented via changes in domestic law and practices, and via treaty provisions, with negotiations for a multilateral instrument under way and expected to be finalised in 2016. OECD and G20 countries have also agreed to continue to work together to ensure a consistent and co-ordinated implementation of the BEPS recommendations.*”

European Union

Consumer protection

Extensive consumer protection rules may apply to games depending on the target group of customers. In some cases, strict rules exist concerning the protection of minors (for example, limits on purchases by minors or on advertising targeted at minors). Rules on providing mandatory information during the online order process or on pricing limits also should be taken into account. In addition, some EU Member States have requirements as regards in-game purchases, including purchases of “virtual currency”, which should be adhered to.

Data protection and privacy

Any usage of personal identifiable data (for example, access to users’ contacts, provision of cookies or the use of analytic tools and targeted or behavioural advertising) is subject to a strict regime of data protection rules. In addition, new requirements for data privacy will have to be implemented due to the EU General Data Protection Regulation which comes into force with direct effect across the EU on the May 25, 2018, replacing the existing data protection framework under the EU Data Protection Directive. Accordingly, organisations involved in data processing of any sort need to be aware of the requirements with respect to transparency, security and accountability by data controllers and processors.

EU VAT Legislative Framework

The VAT framework in all EU Member States is derived from the EU Directive 2006/112/EC, as amended (the VAT Directive). The VAT Directive is not directly effective and therefore, has been enacted into the domestic law of each EU Member State by way of local legislation.

Enactment of the VAT Directive by EU Member States

The VAT Directive has been implemented in each EU Member State in a manner that is substantially uniform, though some local variations apply. In particular, as criminal law is not an EU competence, any penalties for failure to comply with VAT legislation will be individual to each EU Member State. In this regard, the VAT Directive provides each Member State the discretion to “impose obligations which they deem necessary to ensure the correct collection of VAT.” In particular, as the place of supply of electronically supplied services (as detailed below) is where the consumer is located, strictly speaking the EU Member State in which the consumer is located may apply local VAT rules with respect to any applicable interest and/or penalties.

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VAT on Electronically Supplied Services

The supply of online content such as games is an “electronically supplied service” for EU VAT purposes. The place of supply of electronically supplied services supplied by a non-EU service provider to consumers located in the EU is the EU Member State where the consumer is located and such supplier should account for VAT in that EU Member State.

Prior to January 1, 2015, such VAT could be accounted for under a special scheme known as the VAT on eServices Scheme (“VOES”) or the Electronic Services Scheme (i.e. scheme for the taxation of electronically supplied services provided for, pre-January 1, 2015, in Articles 358 to 369 of the VAT Directive and implemented in each EU Member State). Under VOES, suppliers could choose an EU Member State in which to register for and pay the VAT due in all EU Member States by reference to the location of the consumers (rather than registering in every relevant EU Member State). This scheme operated from 2003 to 2014. As such, Proficient City has an obligation to register to enable it to account for historic VAT due from the date it first made sales to consumers located in the EU till the end of 2014.

United States

Regulations on Intellectual Property Rights

Trademark law in the United States is governed by both federal and state law. The main federal statute is the Lanham Act which governs trademarks, service marks, collective marks, certification marks, and unfair competition. Upon the registration of a trademark, the trademark owner will have the right to exclusively use the trademark for the specific registered goods and services. When a trademark owner files for a trademark, it can be based on use of the trademark or an intent to use the trademark. The priority date will be determined by the earlier date, whether that date is the date of first use or the date the trademark application was first filed. Once the trademark is registered, the trademark owner must maintain the trademark by submitting evidence of use between the fifth and sixth year of registration, and then every ten years after registration.

The test for infringement is whether consumers are likely to be confused by the source, sponsorship, or approval of the goods and services. Although the test varies slightly between federal and state courts located in different jurisdictions, in general the following factors are considered when determining whether there is a likelihood of confusion between two marks: (1) The similarity of the marks in their entireties as to appearance, sound, connotation and commercial impression; (2) The relatedness of the goods or services of the marks; (3) The similarity of the channels of trade; (4) The sophistication of consumers; (5) The number and nature of similar marks in use on similar good; (6) The existence of a valid consent agreement between the parties. When a trademark owner alleges trademark infringement against a defendant, the defendant can raise a number of defenses, including fair use and parody, among others. Trademark rights can be lost through abandonment, improper licensing, or genericide.

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Regulations on Data Protection and Privacy

In the United States, there is no single national law regulating the collection and use of personal data, while there are hundreds of different federal and state laws which address particular industries or issues, and businesses should take notice of both the applicable federal and state laws. However, the most prominent authority is the Federal Trade Commission (“FTC”), which is the government agency that works to protect consumers by preventing deceptive and unfair business practices. The FTC uses its authority to pursue companies that fail to implement reasonable data security measures, fail to abide by its privacy policies, and for the unauthorized disclosure of personal data. The FTC defines personal data as any information that can reasonably be used to contact or distinguish a person, including device identifiers and IP addresses. Examples of sensitive personal data include financial data and any information that can be used to carry out identity theft or fraud. In addition, there are many more industry regulators which have authority to issue and enforce privacy regulations. Examples of regulations include the requirement to take reasonable technical, physical, and organizational measures to protect the security of sensitive personal information and security breach notification requirements. Violations of such requirements are enforced by the FTC, the government, or the regulator for the industry in question.

Regulations on Children’s Privacy

The Children’s Online Privacy Protection Act of 2000 (“COPPA”) applies to operators of commercial websites and online services that (1) are directed to or targeted to children under the age of 13 and through which the operator collects, uses, or discloses personal information from children under 13; and (2) through which the operator has actual knowledge that it collects, uses, or discloses personal information from children under the age of 13. The FTC, which has authority to enforce COPPA, has explicitly stated that “network-connected games” are considered to be online services.

Among other requirements, operators subject to COPPA must provide parents with a notice about the website or online service’s practices with regard to collecting personal information from children under 13, obtain the parents’ consent to such collection of personal information, give parents a choice as to whether their child’s personal information will be disclosed to third parties, and provide parents with the opportunity to delete their child’s personal information. In addition, operators may not condition a child’s participation in a game on the child’s disclosing more personal information than is reasonably necessary to participate in that activity and must maintain the confidentiality, security, integrity of children’s personal information.

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Regulations on Taxation

“Nexus” is a constitutional standard established under the Due Process and Commerce Clauses of the U.S. Constitution. It is a fundamental concept of state taxation which describes the minimum contact necessary to establish a state’s right to impose a tax obligation on an individual, corporation, or any type of business organization. A certain level of nexus is required between a taxpayer’s activities and a taxing state in order for a state to impose an indirect tax (the most common of which is the sales and use tax) collection requirement on an out-of-state company. Nexus for sales tax purposes is based on a business’ in-state presence or activities. It is determined on a legal entity basis and is defined as sufficient connection of the taxpayer with the state so as to require registration and collection of that state’s sales tax. An interstate seller of tangible personal property will have established nexus in a state if the seller’s activities constitute a substantial physical presence in the taxing jurisdiction. *Quill Corporation v. North Dakota, 112 S.Ct. 1904 (1992)*. Pursuant to the decision, in *Quill*, examples of those activities that constitute nexus in the state can be any one of the following: having property, inventory or employees in the state; soliciting business either by employees, independent contractors, agents or other representatives; providing services in the state; and delivery of tangible personal property in company owned vehicles into the state.

Agency Nexus

General nexus can be expanded to the acts of an agent. If acts of an agent, broker, partner or subsidiary constitute a physical presence, nexus may be determined by the state, even where the company itself does not maintain a place of business. The U.S. Supreme Court, in *Scripto v. Carson*, confirmed that the activities of third party agents may create nexus. *Scripto v. Carson, 362 U.S. 207 (1960)*. It was determined that if the agent had physical presence, that this agency was enough for the state to consider that the principal had physical presence (since the agent was acting on behalf of the principal).

Click-through Nexus

Certain states have taken the concept of agency nexus (discussed above) and applied it to online platforms, otherwise known as “click-through nexus.” Note that these rules can also apply to traditional brick and mortar agents, but the facts in this matter focus on how the states have identified these platforms as internet agents. These states generally create a rebuttable presumption of nexus when a seller makes sales via a commissioned independent contractor (i.e., the platform) who directly or indirectly refers potential customers, by a link on an internet website or otherwise, to the seller. Generally, the presumption applies when the seller has cumulative gross receipts in excess of a certain amount (usually US\$10,000) from sales to in-state customers resulting from such agreements during the preceding four quarterly periods. Typically, these statutes also provide that the presumption can be rebutted if the seller demonstrates that the in-state persons did not engage in any solicitation activities on behalf of the seller that would satisfy the nexus requirements of the U.S. Constitution during the time period in question; however, challenges to these presumptions are highly scrutinized. The States that have adopted click-through nexus are (21 states): Arkansas, California, Connecticut,

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Georgia, Illinois, Kansas, Louisiana, Maine, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Tennessee, Vermont, and Washington. Since Proficient City does not have any property or employees in the United States in any way (not even if through an affiliate or otherwise), then Proficient City's only connection to the United States is through the online platforms. However, these platforms in general are already sufficient to create a connection to the state that would qualify for the "click through nexus" rules. Any state that has a click through nexus rule must be considered for nexus purposes.

Vietnam

Market Access for Foreign Investors in Online Game Industry

According to the Commitments of Vietnam on Services in the context of its accession to the World Trade Organization dated October 27, 2006, the market access for foreign investors engaging in electronic games business (CPC 964**) in the form of "cross-border supply" are "... unbound..." Vietnam remains free to introduce or maintain measures to restrict foreign investors from accessing the market within Vietnam on a discretionary and case-by-case basis. Under the laws of Vietnam, one of the prerequisite conditions for an enterprise to obtain the required license for operations of online electronic game services in Vietnam is that such enterprise has to be established under the laws of Vietnam engaging in online electronic games. Accordingly, from a strict legal perspective, Vietnam has not committed to open market access for foreign investors to undertake or provide the online gaming services on a cross-border basis. Instead, a business cooperation contract containing prescribed contents or a foreign-owned enterprise in association with a qualified Vietnam partner is required (with foreign capital contribution not exceeding 49% of the charter capital of the joint venture), together with the satisfaction of various business conditions. A business cooperation contract or foreign investment in the form of a joint venture is required to be registered to obtain an Investment Registration Certificate for its establishment with the relevant licensing authority.

Classification of Online Games

According to Decree No. 72/2013/ND-CP of the Government of Vietnam, dated July 15, 2013, online electronic games are classified, by method of service provision and use, as follows: electronic games which have simultaneous interactions among various players via the game server system ("G1 Games"); electronic games which have interactions only between players and the game server system ("G2 Games"); electronic games which have interactions among various players but no interaction between players and the game server system ("G3 Games"); and electronic games which are downloaded via the network with no interaction among players or between players and the game server system ("G4 Games"). Enterprises providing G1 Games services shall obtain: a license for the provision of electronic game services, the duration of which is not more than ten (10) years; and an approval for the content and script of each electronic game issued by the Vietnamese Ministry of Information and Communications (the "MIC"). Enterprises providing G2 Games, G3 Games or G4 Games services shall obtain: a certificate of registration for the provision of electronic game services; and notice for service provision for each electronic game.

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An enterprise engaging in online electronic game services shall also satisfy various operational requirements, inter alia: (1) have at least one server system located in Vietnam; (2) set up a website for the provision of electronic game services which includes certain required information; (3) apply certain measures to limit negative effects of the games; (4) complying with the regulations on virtual artefacts and reward points; and (5) reporting periodically and as required in accordance with relevant regulations.

MIC Governance

According to Circular No. 38/2016/TT-BTTTT of the MIC, dated December 26, 2016, the offshore individuals and organisations providing public information in the form of cross-border supply (the “Offshore Provider”), regardless of whether or not such information is relating to the online electronic games services, in the case of engaging in a server location leasing arrangement in Vietnam or having one million Vietnam-domiciled users or more, shall comply with, inter alia, the following requirements: (1) notify the contact details of the Offshore Provider to the MIC; and (2) cooperating with the MIC to deal with the violations in relation to the use of internet services and online information.

Civil Code

Pursuant to the Civil Code of the Socialist Republic of Vietnam, Vietnamese courts may overrule the choice of foreign law as the governing law for a contract if: (1) such choice of foreign law is contrary to the fundamental principles of Vietnamese Law; or (2) it is impossible for the Vietnamese courts to determine the contents of the foreign law although necessary measures have been applied.

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Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the prospectus contains information extracted from a report commissioned by us (the “Analysys Report”⁽¹⁾), prepared by Analysys, an independent third party, for purposes of this prospectus. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the Analysys Report which may qualify, contradict or have an adverse impact on the quality of information in this section. However, the information has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering. Except as otherwise noted, all the data and forecast in this section are derived from the Analysys Report.

WHAT ARE ONLINE GAMES

Online games refer to game activities conducted on PCs or other devices using the Internet or mobile Internet as operating platforms. Online games can be categorized primarily into client games, web games and mobile games: (1) client games are games that can be played by first downloading the client base from game providers’ websites and then connecting to the servers through Internet browsers, (2) web games are games that are played in a web browser on PC without downloading any client base or application, and (3) mobile games are games that can be played on mobile devices.

⁽¹⁾ This “Industry Overview” section contains information extracted from the Analysys Report prepared by Analysys for purposes of this prospectus. We expect to pay a total of RMB360,000 to Analysys for the preparation and use of the Analysys Report.

Method and Research Scope

Analysys undertook both primary and secondary research methods through various resources. It mainly studied the market situation, development prospects, competition pattern and key success factors of China’s overseas game publishing industry. Analysys’s research covered all China-based publishers in China’s overseas game publishing industry, including publishers that solely engage in game publishing and comprehensive publishers with integrated business of game development and publishing. Analysys relies on a variety of industry resources worldwide in determining its market data, including but not limited to, interviews with market participants, publicly released corporate information and the expertise of Analysys industry analysts.

Bases and Assumptions

Analysys has prepared the Analysys Report based on the following bases and assumptions:

- the social, economic and political environments of China will remain stable during the forecast period, which will ensure a sustainable and steady development of China’s online game industry;
- the online game industry of China will grow as expected with the rising demand and supply;
- the PRC government will continue to support the online game industry; and
- the respective online game market where our Group’s games are launched will grow during the forecast period.

Analysys believes that the basic assumptions used in preparing the Analysys Report, including those used to make future projections, are factual, correct and not misleading. Analysys has independently analyzed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected.

About Analysys

Analysys is a leading company providing Internet big data products and analysis in China. It assists the growth of companies operating Internet business through products, tools and analysis of big data. Analysys provides credible, reliable and effective data products and services to enterprises, investment institutions and government on a regular basis.

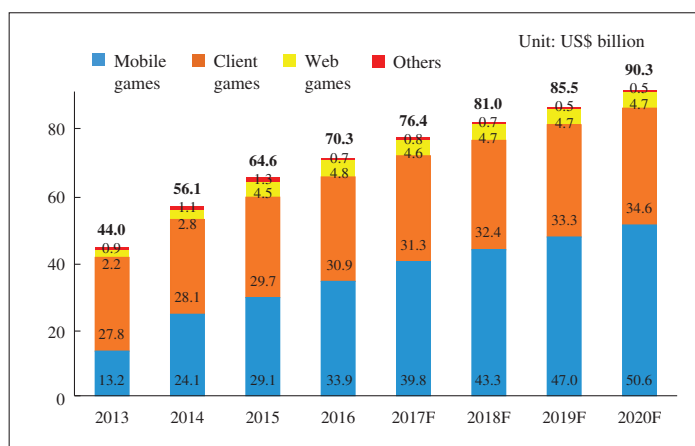
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OVERVIEW OF GLOBAL ONLINE GAME MARKET

Market Size

The global market size of online games was US\$70.3 billion in 2016 and is expected to reach US\$90.3 billion in 2020, representing a CAGR of 6.5%. The overall global online game market is expected to continue to grow, primarily due to the advancement of hardware and Internet technology, interactivity and social networking opportunities, and a diversity of game themes and gameplay styles.

The web game market has experienced significant growth in the past, primarily due to the popularity of social media platforms. The mobile game market began to grow since 2010, driven by the advancement of mobile technology. The global market size of web games was US\$4.8 billion in 2016 and is expected to remain relatively stable through 2020. The global market size of mobile games was US\$33.9 billion in 2016 and is expected to reach US\$50.6 billion in 2020, representing a CAGR of 10.5%. The mobile game market became the largest market in the global online game market in 2016. The following chart shows the historical and forecast global market size of online games by segment for the periods indicated.

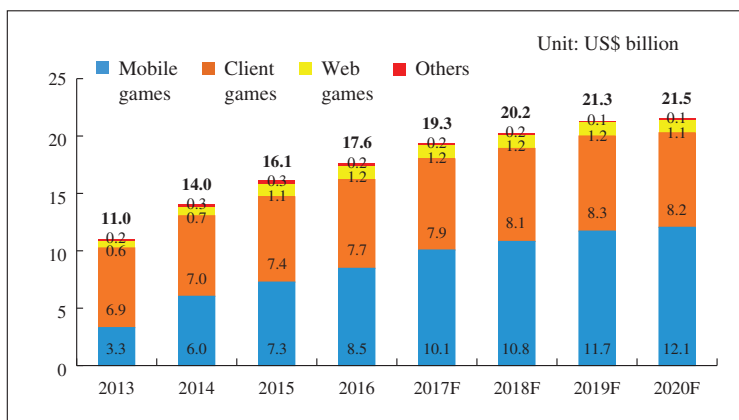


North America

North America has the largest video game market in the world in 2016. The market size of online games in North America was US\$17.6 billion in 2016 and is expected to reach US\$21.5 billion in 2020, representing a CAGR of 5.1%. North America's online game market demonstrated a strong growth trend since the economic recession and is expected to have a higher growth rate than those of other segments of the video game market, primarily due to the development of both social network and mobile devices in North America.

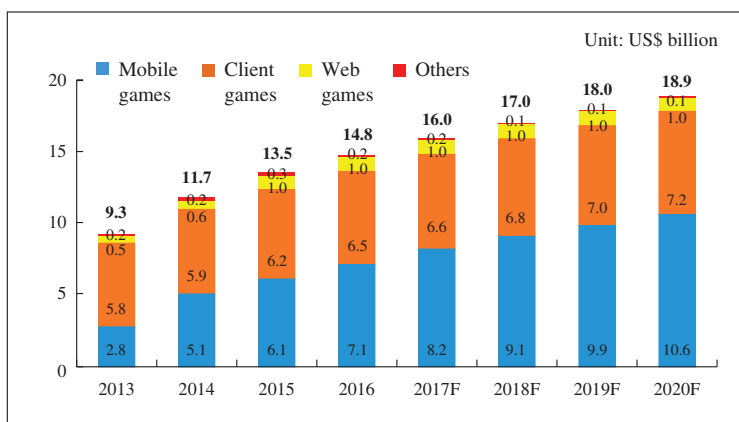
In 2016, the market size of North America's client games, web games and mobile games was US\$7.7 billion, US\$1.2 billion and US\$8.5 billion, respectively. With the rising popularity of the mobile Internet, North America's web game market and mobile game market experienced rapid growth, primarily due to (1) the high purchasing power of North America's online game users contributing approximately 90.0% of the revenue generated in its video game market; and (2) North America's traditional position as the largest client game market, where a large number of client game users flow into the web game and mobile game markets. The following chart shows the historical and forecast market size of online games by segment in North America for the periods indicated.

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Europe

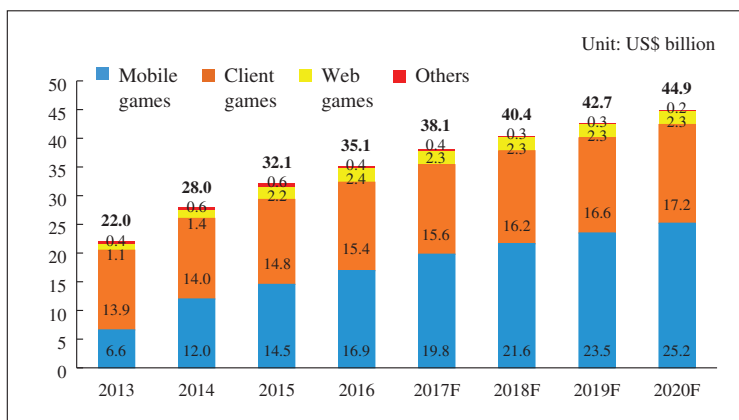
The market size of online games in Europe was US\$14.8 billion in 2016 and is expected to reach US\$18.9 billion in 2020, representing a CAGR of 6.3%, which will be primarily driven by the high purchasing power of European users and the high acceptance level of mobile devices in Europe. European users have the highest consuming capacity in the world. In 2016, the market size of European client games, web games and mobile games was US\$6.5 billion, US\$1.0 billion and US\$7.1 billion, respectively. The web game market and mobile game market in Europe are expected to be US\$1.0 billion and US\$10.6 billion in 2020, respectively. The following chart shows the historical and forecast market size of online games by segment in Europe for the periods indicated.



Asia

The market size of online games in Asia currently accounts for nearly half of the market size of global online games. The market size of online games in Asia was US\$35.1 billion in 2016 and is expected to reach US\$44.9 billion in 2020, representing a CAGR of 6.3%. The development of online games in China, South Korea, Japan and Southeast Asia is significant. The mobile game market is currently the largest market of online games in Asia. In 2016, the market size of Asia's mobile game was US\$16.9 billion and is expected to reach US\$25.2 billion in 2020, representing a CAGR of 10.5%, primarily due to (1) the popularity of low-priced mobile devices, and (2) the vast user base in Asia. The following chart shows the historical and forecast market size of online games by segment in Asia for the periods indicated.

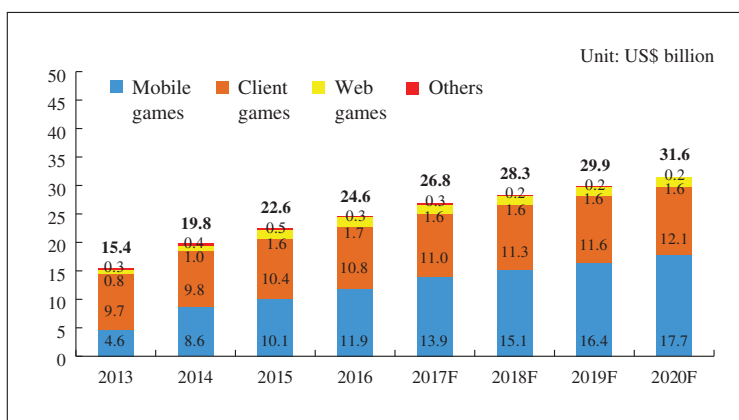
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OVERVIEW OF CHINA'S ONLINE GAME MARKET

China is currently the largest online game market in Asia. China's online games have made considerable progress both in terms of user base and revenue. China's online game operators have passed beyond the phase of introducing online games from other countries to the Chinese market and have dominated the Chinese market with the self-developed games and have begun to publish online games in overseas markets. In the web game market, certain Chinese operators have almost monopolized the supply of all web games in Southeast Asia.

The market size of online games in China was US\$24.6 billion in 2016 and is expected to reach US\$31.6 billion in 2020, representing a CAGR of 6.5%. The web game market in China has slowed down in recent years after a rapid growth. The market size of web games in China was US\$1.7 billion in 2016 and is expected to decrease to US\$1.6 billion in 2020. In 2016, the market size of mobile games in China became significantly larger than that of client games in China. Following the significant growth in 2014, the mobile game market in China has gradually shifted its focus from increasing the user base to increasing the monetization level. The market size of mobile games in China was US\$11.9 billion in 2016 and is expected to reach US\$17.7 billion in 2020, representing a CAGR of 10.4%. The following chart shows the historical and forecast market size of online games by segment in China for the periods indicated.



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CHINA'S OVERSEAS GAME PUBLISHING MARKET

Overview

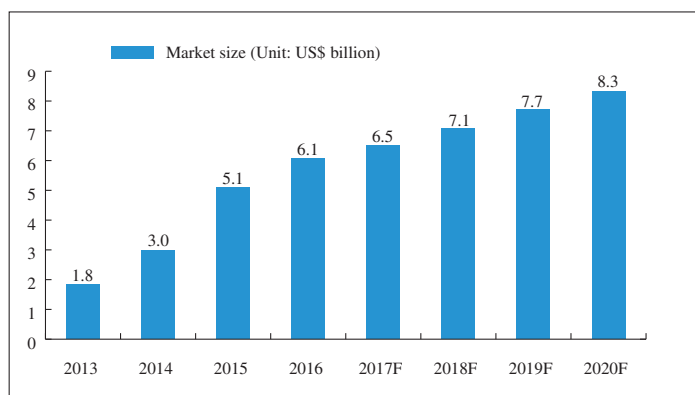
The history of China's overseas game publishing market is more than 10 years. On September 10, 2009, the PRC Ministry of Culture released the Guidance on Accelerating the Development of Cultural Industry, encouraging Chinese companies to promote domestic game IPs in the overseas markets. Since 2009, with the rapid development of the web game market, the publishing of web games has been booming in the overseas markets. Many Chinese game companies expanded their operations to Europe, America, Southeast Asia, Japan and South Korea, along which a marketing network is gradually established for domestic games to go aboard. Certain large Chinese game companies also established overseas offices or subsidiaries to facilitate their globalization effort.

Since 2012, following the significant growth of the global mobile game market, a large number of domestic mobile game developers and mobile games emerged. Major distribution platforms for mobile games, including Apple Inc.'s App Store, Google Play and other App marketplaces, have significantly lowered the bar to distribute mobile games as compared with client and web games, and allowed more small and medium-sized developers to publish their games in the overseas markets. Competition has also become increasingly intense as the mobile game market grows. As overseas publishing involves multi-party cooperation and multiple geographical markets, it has gradually become a professional industrial segment. The game publishers emerging during the period when web games went aboard began to act as an important bridge between the overseas markets and the domestic web and mobile games, leveraging their experience in publishing games in the overseas markets.

Globally, the client and web games have entered into a maturity stage with limited growth potential, while the mobile games are growing rapidly. China's mobile games have positive prospects in the overseas game publishing market driven by (1) the improving quality of domestic mobile games; and (2) demand from overseas users with significant purchasing power.

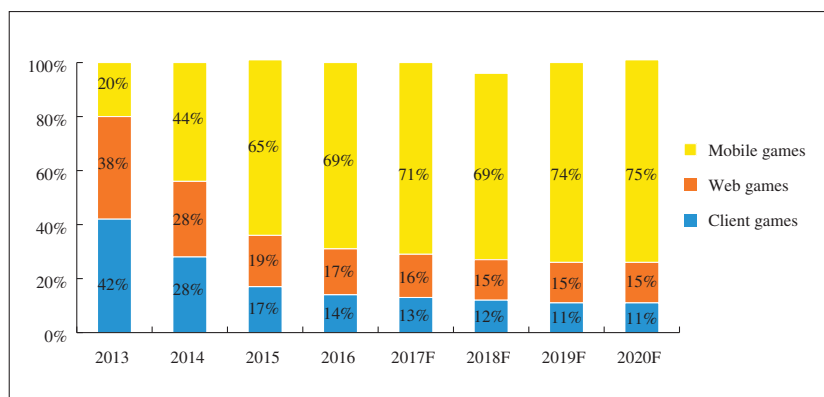
Market Size

The market size of China's overseas game publishing market was US\$6.1 billion in 2016 and is expected to reach US\$8.3 billion in 2020, representing a CAGR of 8.2%, exceeding the growth rate of the domestic game market. The growth of China's overseas game publishing market in the foreseeable future will be primarily driven by mobile games, as client and web games will grow at a slower pace. The following chart shows the historical and forecast market size of China's overseas game publishing market for the periods indicated.



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Mobile games accounted for approximately 69% of the revenue from online games published overseas in 2016 and is expected to account for approximately 75% in 2020. The following chart shows the historical and forecast revenue contribution breakdown by segment of China's overseas game publishing market for the periods indicated.



Industry Chain

The industry chain of China's overseas game publishing market mainly includes the following.

- *Online game developers.* Online game developers develop the contents for games and provide version updates and technical support based on feedback from users and the market.
- *Online game overseas publishers.* Online game overseas publishers redesign, port and localize game contents for targeted overseas markets, select appropriate distribution platforms and payment channels, coordinate with game developers on updates and modifications based on user or market feedback, and conduct online and offline marketing activities and customer services.
- *Online game distribution platforms.* Online game distribution platforms are the key link to access the users. Game distribution platforms vary in different overseas markets and include Apple Inc.'s App stores, Google Play, social networks, game platform and telecom operator platform, advertising promotion platform, game media and offline media, and other supporting links.

During the recent years, the percentage of gross billings shared by the market participants of China's online game industry has remained relatively stable. Approximately 20% to 40% of the gross billings derived from China's online games are charged by distribution platforms (such as Facebook). After deducting the fees paid to such distribution platforms, approximately 70% to 80% of the remaining net billings are shared by publishers and approximately 20% to 30% of the net billings are shared by game developers. There will not be any material change to such sharing percentage in the foreseeable future.

Business Model

The following table sets forth the various business models of China's overseas game publishing market.

Business Model	Publishing Channel	Operation	Revenue Sharing	Types of Game Developers
Licensing	• License to local publishers in the overseas markets	• Local publishers are licensed to operate the games in the overseas markets	• License fees plus revenue-sharing	• Small and medium domestic game developers
	• License to publishers in China for overseas publishing	• Publishers in China are licensed to operate the games overseas	• License fees plus revenue-sharing	• Small and medium domestic game developers with limited overseas resources

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Business Model	Publishing Channel	Operation	Revenue Sharing	Types of Game Developers
Joint Operation	<ul style="list-style-type: none"> Cooperate in game development and overseas operation 	<ul style="list-style-type: none"> Domestic game developers participate in the game development and operation in overseas markets in cooperation with overseas game companies 	<ul style="list-style-type: none"> License fees plus revenue-sharing 	<ul style="list-style-type: none"> Game developers targeting overseas markets with an aim to gain further understanding of the target market and achieve market recognition through joint operation
Self-operation	<ul style="list-style-type: none"> Establish overseas subsidiaries or offices for self-operation Establish overseas studios for game development and global operation 	<ul style="list-style-type: none"> Self-operation is achieved by establishing a subsidiary or acquiring an overseas game company The overseas studios of domestic game developers are responsible for game development and global operation 	<ul style="list-style-type: none"> No revenue sharing No revenue sharing 	<ul style="list-style-type: none"> Large game developers, capable of globalized development and publishing, with an aim to explore overseas markets and achieve long-term profits

Market Drivers of China's Overseas Game Publishing Market

The following factors will drive the growth of China's overseas game publishing market.

- Huge demands from global users.* With the penetration of the Internet in emerging markets and the growth of online games in traditional markets, the demand from overseas online game users is fast growing. China-based online game developers are expanding internationally as they are no longer satisfied with mere domestic development.
- Development of emerging economies.* The increase in entertainment consumption among developing countries lays the economic foundation for the development of online games. The penetration of the Internet in those countries also provides the requisite infrastructure for online games.
- Underserved markets in the United States and Europe.* The online game market have grown significantly as the markets of console and arcade games in the United States and Europe decline. Local game developers, however, cannot fully satisfy the growing market demand. The United States and Europe have become the key markets for China's game companies considering their in-game spending convention, strong demand for social networking and high Internet penetration rates.
- Increased experience in global operations.* Since 2010, China-based developed online games under global operation have increased significantly. China-based game companies gradually accumulated more experience in redesigning and optimizing game contents for different geographical markets based on localized gameplay needs.
- Well-established publishing channels for overseas publishing.* The development of social media and global popularity of smartphones has facilitated the publishing of online games. Facebook, Apple Inc.'s App Store, Google Play and other similar platforms have reduced the cost of game publishing and made it convenient to publish games globally.

Obstacles to China's Overseas Game Publishing

The main obstacles for China's online games to be published overseas include the following.

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- *Cultural difference.* Cultural difference is reflected mainly in game contents and gameplay preferences. For example, online game users in China generally prefer martial arts contents, which are less popular for users in the United States and Europe. Although this type of game is more profitable than casual games, it is difficult to become a market hit in the overseas markets, so many Chinese game companies chose to start with social or card games to establish brand awareness.
- *Non-replicability of localized games.* The overseas markets are fragmented in terms of, among other things, language, culture, device configuration, user preference and spending habit. Therefore, for an online game to be published in multiple overseas markets, its localization process is not replicable and must be adjusted case by case to meet the specific conditions of each market. The localization process involves modifications related to translation, user guidelines, user interface and transformation of game system, in addition to in-game changes in response to local policies and user preference. The localization of a game is critical to its success in overseas markets.
- *Development capability and marketing strategies.* The development capability of China's online game developers still falls behind the competitors in Japan and South Korea, the United States and Europe. In addition, marketing strategies and promotion methods differ among overseas markets.
- *Cost of payment channels.* The revenue model for most games is the in-game sale of virtual items, which is facilitated by online payment channels. In the United States, Europe and other mature markets, in-game payments are primarily through official payment methods. In markets such as Southeast Asia, Hong Kong, Macau, Taiwan, Japan, Korea, in-game payments through unofficial payment methods, including pre-paid game cards and pre-collection by distribution channels, also play an important role. Such unofficial payment methods require game publishers to incur additional costs for sales channels of prepaid game cards and distribution channel fees, or to experience delayed payments from distribution channels.

These obstacles make it difficult for China-based game developers to enter the overseas markets without the assistance of game publishers specialized in publishing online games in the target overseas markets.

Key Success Factors of China's Overseas Game Publishing

An overseas game publisher must have the following capabilities to compete effectively.

- *Development and screening capabilities.* An overseas game publisher must be able to rapidly adjust its game development scheme or game publishing plan to meet the evolving market demands and promptly identify and modify product types and game themes.
- *Localization capability of cross-region operation.* For an online game to enter into a new market, a publisher must consider the differences in both hardware, such as Internet speed and operation system, and game contents, such as cultural background, language and local laws and regulations. These factors require a publisher to have strong capabilities in localizing its cross-region operation under various cultural backgrounds, gained through years of experience.
- *Platform selection and control.* The differences in the advertising methods and the local laws and regulations in each country may cause significant alteration among distribution platforms. Therefore, it is important to establish a wide range of contacts with local distribution platforms and select appropriate distribution

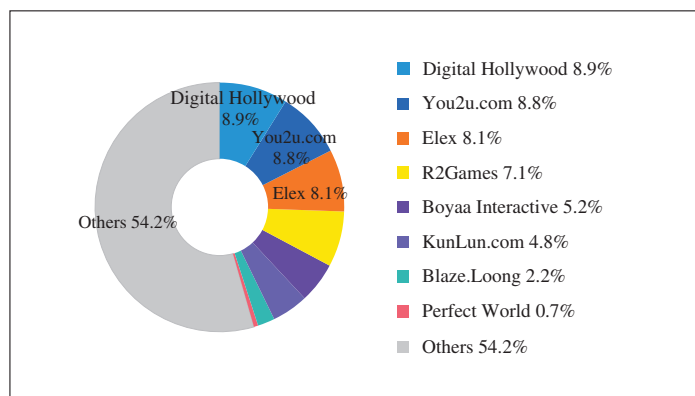
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platforms and advertising methods in each market. To get the recognition of the global users, it is also important to establish stable relationship with large platforms, such Facebook, Apple Inc.'s App Store and Google Play.

- *Ability to explore new markets.* As the global online game market is relatively mature, a game publisher must be able to explore new, emerging markets to gain competitive advantages.
- *Brand promotion.* A game publisher must own at least one successful game in the market to gain market reputation. A recognized brand may facilitate the popularity of its subsequent publishing.

Competitive Landscape

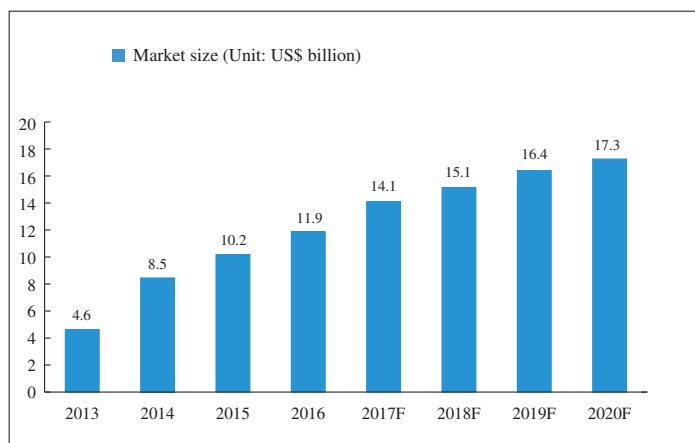
In 2016, Digital Hollywood had the largest market share of 8.9% in terms of revenue generated from publishing web games developed by China-based game developers. The following chart sets forth the respective market share of overseas web game publishers in China for 2016.



CHINA'S MOBILE GAME MARKET

Market size

The market size of China's mobile game market increased from US\$11.9 billion in 2016 and is expected to continue and reach US\$17.2 billion in 2020, representing a CAGR of 9.8%. The following chart shows the historical and forecast market size of China's mobile game market for the periods indicated.



INDUSTRY OVERVIEW

Industry Chain and Competitive Landscape

The industry chain of China's mobile game market mainly includes developers, publishers, distribution platforms and payment channels, among which developers are the key participants. Game publishers and distribution platforms dominated China's mobile game market at its early stage while developers have played an increasingly important role in China's mobile game market since 2016. Game developers in China publish mobile games either (1) through third-party publishers, especially to redesign and optimize the games for the overseas markets or (2) directly through online App marketplaces. It is consistent with the market trend to integrate in-house development and publishing of mobile games in China.

Except for the Internet entertainment powerhouses, such as Tencent and Netease, which accounted for more than half of the market size of China's mobile game market in terms of revenue in 2016, China's mobile game market is highly fragmented and competitive with a large number of game developers.

Market Drivers of China's Mobile Game Market

The following factors will drive the growth of China's mobile game market.

- *Government support and favorable policy.* Chinese governments support the development of game and entertainment industry. In October 2016, the PRC Ministry of Culture issued a notice to encourage the introduction and upgrade of 3D, VR and AR technologies, the capital injection in culture and entertainment industry, the consumption of culture products and the development of game industry.
- *Growth of general economy.* The consumption of entertainment products by Chinese people has increased continuously as a result of the increase in their disposable income driven by the growth of general economy of China. Capital investment in mobile game industry has also increased in recent years.
- *Increased usage of smartphones and technical upgrade of mobile Internet.* The increasing popularity of mobile Internet in China has created remarkable growth opportunities for various Internet-related industries such as the online game industry. The user base of mobile games is expected to grow further as a result of the significant increase in the usage of smartphones in China.

Key Success Factors of China's Mobile Game Market

A participant of China's mobile game market must have the following capabilities to compete effectively.

- *Research and development ability.* With the mobile game market getting mature, mobile game users are paying more attention to the quality of games. Market participants mainly compete based on their ability to develop and launch high-quality games.
- *Capability of utilizing IPs.* Some popular IPs have gained extraordinary attention in China in recent years. A successful participant of China's mobile game market must have strong in-house development capabilities to develop and launch mobile games that properly utilize and monetize popular IPs.
- *Capability of developing mid- and hardcore games.* Compared with casual games, mid- and hardcore games are gaining more popularity among young mobile game users of China. Mid- and hardcore games also have longer lifecycles and generate higher gross billings compared to casual games.
- *Capability of international operation.* China's mobile game industry is highly competitive. With an increasing number of participants entering the market, a global vision and strong capability to explore overseas markets will enable a participant to maintain its competitive edge.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

We are a leading global online game publisher for China-based game developers, with fast-growing in-house development capabilities for mobile games. Our Company was incorporated in the Cayman Islands on November 24, 2014 as an exempted company with limited liability. Our history can be traced back to June 12, 2010 when our Founders, Mr. LU Yuanfeng, Mr. HUANG Guozhan and Mr. HUANG Deqiang, became beneficial owners of our first operating entity, Guangzhou SYND, in Guangzhou to develop and operate web games in the PRC. For further details of the background and experience of our Founders, see “Directors and Senior Management.”

To cope with our rapid business expansion and to meet the demands from the overseas markets, on January 25, 2011, our Founders incorporated Proficient City to serve as our main overseas operating platform providing core services to our clients, including marketing and distributing domestically-developed games and other related services, while Guangzhou SYND continued to provide domestic support services for our overseas operation such as game redesign and optimization and focus on operating online games. Following the establishment of Proficient City, we have further established several operating entities or branch office in the BVI, Hong Kong and Spain to expand our overseas operation and certain PRC operating companies to provide support to our overseas operation. In particular, we have commenced our mobile game business through Angame and Zhang Ying Kong. Since then, we have commenced our development and operation of mobile games and have successfully launched 26 mobile games in various regional markets.

OUR BUSINESS MILESTONES

The following table illustrates the key milestones of our business development since inception:

- | | |
|------|---|
| 2010 | <ul style="list-style-type: none">• Our Founders became the beneficial shareholders of our first operating entity, Guangzhou SYND |
| 2011 | <ul style="list-style-type: none">• Proficient City was established to develop overseas operation |
| 2012 | <ul style="list-style-type: none">• Launched multiplayer web game <i>Wartune</i> with an exclusive license for overseas publishing in English-speaking markets |
| 2013 | <ul style="list-style-type: none">• Proficient City was granted the “Facebook’s Excellent Game-Advertiser Award”• <i>Wartune</i> was granted the “Facebook Staff Favorites Recognition”• Launched <i>Stallion Race</i> on Facebook• We were granted the “Best Overseas Publisher Award” by 7Road |

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- 2014 • Established Now To Play (Spain) as our liaison office in Europe
- 2015 • Launched several successful casual shooting games, including a special edition featuring sports figures and scenes licensed from Barcelona Football Club
- 2016 • Launched our cross-platform Wing SDK
 - Entered into the VR market with our investment in a VR studio in China
- 2017 • Launched *Lord of Star*, a mobile game in cross-platform format on Gameroom

INFORMATION ON MATERIAL SUBSIDIARIES OF OUR GROUP

As of the Latest Practicable Date, our Company had six subsidiaries that made material contribution to our results of operations during the Track Record Period and certain information regarding these entities are set forth below:

<u>Name</u>	<u>Place and Date of Establishment</u>	<u>Issued and paid-in capital/ Registered Capital</u>	<u>Equity Ownership as of the Date of this Prospectus</u>	<u>Principal Business Activities</u>
Angame	BVI/July 5, 2005 ¹	US\$100	100% directly held by our Company	Publishing and operation of mobile games overseas
Guangzhou SYND	PRC/June 12, 2010	RMB500,000	100% indirectly held by our Company	Marketing and technical support services
Guangzhou You Lai	PRC/May 13, 2015	US\$2,000,000	100% indirectly held by our Company	Technical support services
Hollywood HK	Hong Kong/ December 5, 2014	HK\$1.00	100% indirectly held by our Company	Operation of online games overseas and marketing
Proficient City	BVI/January 25, 2011	US\$50,000	100% directly held by our Company	Publishing and operation of online games in global markets
Zhang Ying Kong	PRC/March 6, 2013	RMB1,000,000	100% indirectly held by our Company	Development of mobile games

(1) Mr. LU Yuanfeng first acquired a majority stake in Angame on September 20, 2013 at nominal consideration as Angame had no operation by then.

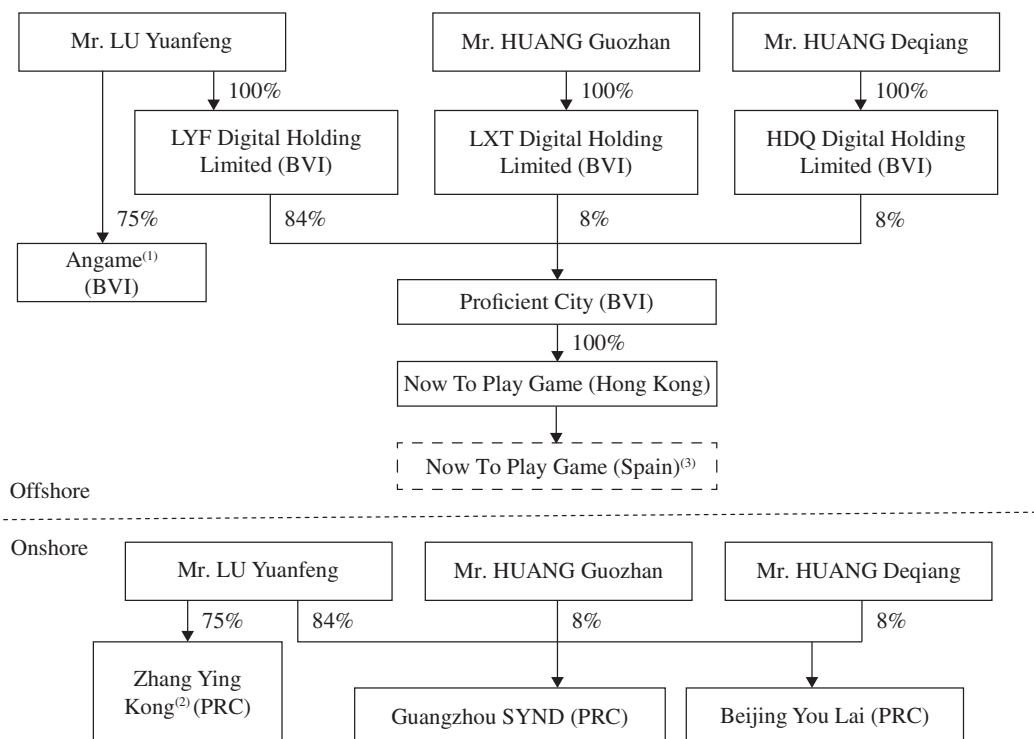
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

During the Track Record Period, our listing business was primarily carried out by the above six entities which were controlled collectively by our Controlling Shareholders.

As of the Latest Practicable Date, we have four other subsidiaries and one branch office which are not included in the list above and minimal business activities or ancillary services had been carried out by them during the Track Record Period. These entities or branch office were incorporated or established in Spain, BVI, Hong Kong, and the PRC as investment holding companies or for liaison purposes.

REORGANIZATION

To optimize the management of our business and prepare for the Listing, we have undertaken various steps for the Reorganization. The following chart illustrates the corporate structure of our Group immediately prior to the Reorganization.



(1) The remaining 25% equity interests of Angame were held as to 15% by Mr. CAI Feng and 10% by Mr. LUO Weiyuan. Mr. CAI is a director of Angame. Mr. LUO is a director of Angame and Zhang Ying Kong.

(2) The remaining 25% equity interests of Zhang Ying Kong were held as to 10% by Mr. CAI Feng and 15% by Mr. LUO Weiyuan. Mr. CAI is a director of Angame. Mr. LUO is a director of Angame and Zhang Ying Kong.

(3) Now To Play Game (Spain) is a branch office established by Now To Play Game under the laws of Spain.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The Reorganization involved the following steps.

Offshore Reorganization

(i) Incorporation of our Company, Hollywood BVI and Hollywood HK

On November 24, 2014, our Company was incorporated in Cayman Islands as an exempted company with limited liability. At the time of its incorporation, our Company had an authorized share capital of US\$50,000 divided into 50,000,000 shares of US\$0.001 each. A total of 8,582,420 Shares each were in issue and fully paid up, which were held as to 84% by LYF Digital Holdings Limited (a company wholly-owned by Mr. LU Yuanfeng), 8% by LXT Digital Holdings Limited (a company wholly-owned by Mr. HUANG Guozhan) and 8% by HDQ Digital Holdings Limited (a company wholly-owned by Mr. HUANG Deqiang).

On November 25, 2014, Hollywood BVI was incorporated in the BVI as a wholly-owned subsidiary of our Company.

On December 5, 2014, Hollywood HK was incorporated in Hong Kong as a wholly-owned subsidiary of Hollywood BVI. It was established as a holding company of our subsidiaries.

(ii) Acquisition of Proficient City through share swap

On August 28, 2015, we acquired all the issued shares of Proficient City from our Founders in consideration for allotting and issuing 35,760, 3,410 and 3,410 Shares to LYF Digital Holdings Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited, respectively. After the share swap, Proficient City became a wholly-owned subsidiary of our Company. Immediately after the share issuance and allotment, our Company had 8,625,000 Shares in issue and each Shareholder's shareholding percentage remained unchanged.

(iii) Acquisition of Angame through share swap

On September 7, 2015, our Company acquired all the issued shares of Angame by issuing and allotting 405,284, 81,057 and 54,038 Shares to the then shareholders of Angame, LYF Digital Holdings Limited, ACE MILLION Inc. (a company wholly-owned by Mr. CAI Feng) and Azure Rolle Limited (a company wholly-owned by Mr. LUO Weiyuan), respectively.

To increase our issued share capital in preparation for our Pre-IPO Investments, our Company further issued and allotted 747,516, 37,300, 37,300, 7,543 and 5,062 Shares to LYF Digital Holdings Limited, LXT Digital Holdings Limited, HDQ Digital Holdings Limited, ACE MILLION Inc. and Azure Rolle Limited, respectively on the same day. Mr. CAI Feng is a director of Angame, and Mr. LUO Weiyuan is a director of Angame and Zhang Ying Kong.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

After the share swap, Angame became a wholly-owned subsidiary of our Company. The following table set out the shareholding of the respective Shareholder upon completion of the aforesaid share issuance and allotment:

Name of Shareholder	Number of shares held	Shareholding percentage
LYF Digital Holdings Limited	8,397,800	83.978%
LXT Digital Holdings Limited	727,300	7.273%
HDQ Digital Holdings Limited	727,300	7.273%
ACE MILLION Inc.	88,600	0.886%
Azure Rolle Limited	59,100	0.591%
Total	10,000,100	100%

(iv) A series of share transfer

On September 8, 2015, LYF Digital Holdings Limited transferred 2,000,000 Shares to Angel Age Limited (a company wholly-owned by Ms. LUO Simin) at a nominal consideration of US\$2,000.00. Ms. LUO is the spouse of Mr. LU Yuanfeng, one of our Founders.

On November 2, 2015, LYF Digital Holdings Limited transferred 2,300,000 Shares to 7 Road International. For details of such share transfer, see “— Pre-IPO Investments” below.

On January 9, 2016, LYF Digital Holdings Limited transferred 2,500 Shares to Mr. YU Ching Ming. For details of such share transfer, see “— Pre-IPO Investments” below.

The following table sets out the shareholding of the respective Shareholders upon completion of the aforesaid share transfers:

Name of Shareholder	Number of Shares held	Shareholding percentage
LYF Digital Holdings Limited	4,095,300	40.952%
LXT Digital Holdings Limited	727,300	7.273%
HDQ Digital Holdings Limited	727,300	7.273%
7 Road International	2,300,000	23.000%
ACE MILLION Inc.	88,600	0.886%
Azure Rolle Limited	59,100	0.591%
Angel Age Limited	2,000,000	20.000%
Mr. YU Ching Ming	2,500	0.025%
Total	10,000,100	100%

(v) Establishment of the Post-IPO Share Option Scheme

On May 27, 2017, our Board passed a resolution to conditionally adopt the Post-IPO Share Option Scheme to attract, retain and motivate employees of our Group, and on the same date, our Company has allotted and issued a total of 1,111,122 Shares to Epic City Limited, a wholly-owned subsidiary of the trustee appointed for administration of the Post-IPO Share Option Scheme, at a nominal consideration of US\$1,111.122, such that a pool of Shares could be set aside for satisfying the options granted in accordance with the Post-IPO Share Option

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Scheme upon exercise. To the extent permitted under our share incentive scheme and applicable law and regulations, the trustee shall follow our instruction in respect of the exercise of voting rights (if any) and powers attaching to the Shares held by it. The trustee shall hold all dividends and distributions in whatever form received from the (1) Shares underlying the options on trust for the benefit of the grantees, and (2) Shares which have not been granted as income, which shall be dealt with in accordance with our instruction, subject to any applicable taxes and withholdings as may be required under applicable laws and regulations. For details of our share incentive scheme, see “Statutory and General Information — Other Information” in Appendix IV to this prospectus.

(vi) Share transfer to F.S. Management

On May 27, 2017, Angel Age Limited transferred 222,224 Shares of our Company to F.S. Management. For details of such share transfer, see “— Pre-IPO Investments” below.

The following table sets out the shareholding of the respective Shareholders upon completion of the aforesaid share allotment and issuance:

<u>Name of Shareholder</u>	<u>Number of Shares held</u>	<u>Shareholding percentage</u>
LYF Digital Holdings Limited	4,095,300	36.857%
LXT Digital Holdings Limited	727,300	6.546%
HDQ Digital Holdings Limited	727,300	6.546%
7 Road International	2,300,000	20.700%
ACE MILLION Inc.	88,600	0.797%
Azure Rolle Limited	59,100	0.532%
Angel Age Limited	1,777,776	16.000%
Mr. YU Ching Ming	2,500	0.022%
F.S. Management	222,224	2.000%
Epic City Limited	1,111,122	10.000%
Total	11,111,222	100%

Onshore Reorganization

(i) Establishment of Beijing You Tang

On July 17, 2015, Beijing You Tang was established in the PRC by the Founders and was owned as to 84%, 8% and 8% by Mr. LU Yuanfeng, Mr. HUANG Guozhan and Mr. HUANG Deqiang, respectively. Beijing You Tang was established for the purpose of holding our PRC operating entities. Subsequently, on September 9, 2015, Mr. YU Ching Ming invested RMB200,000 based on its then paid-up registered capital in Beijing You Tang which changed its nature from a PRC domestic entity to a sino-foreign entity. Mr. YU Ching Ming is a Hong Kong permanent resident and one of our Pre-IPO Investors and became one of our employees after the investment. Save as disclosed above, Mr. YU Ching Ming is independent from our Group and connected person of our Company. Since then and until October 20, 2015, Beijing You Tang was owned as to 75.6%, 7.2%, 7.2% and 10% by Mr. LU Yuanfeng, Mr. HUANG Guozhan, Mr. HUANG Deqiang and Mr. YU Ching Ming.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

(ii) Establishment of and investment in Beijing You Lai

On November 14, 2014, Beijing You Lai was established in the PRC by the Founders and was owned as to 84%, 8% and 8% by Mr. LU Yuanfeng, Mr. HUANG Guozhan and Mr. HUANG Deqiang, respectively. On August 5, 2015, Ms. LUO Simin (who is the spouse of Mr. LU Yuanfeng), Mr. CAI Feng and Mr. LUO Weiyuan invested RMB240,000, RMB5,000 and RMB5,000 in Beijing You Lai in exchange for 19.2%, 0.4% and 0.4% of its equity interest, respectively. Consequently, Beijing You Lai was owned as to 67.2%, 6.4%, 6.4%, 19.2%, 0.4% and 0.4% by Mr. LU Yuanfeng, Mr. HUANG Guozhan, Mr. HUANG Deqiang, Ms. LUO Simin, Mr. CAI Feng and Mr. LUO Weiyuan, respectively. Beijing You Lai had minimal business activities and none of the shareholders had paid up his or her part of the registered capital in Beijing You Lai, which, as advised by our PRC legal advisers, is not in violation with any applicable PRC laws.

(iii) Establishment of Guangzhou You Lai

On May 13, 2015, Guangzhou You Lai was established in the PRC by Hollywood HK and has been wholly-owned by Hollywood HK. Guangzhou You Lai was established for the purpose of development and operation of games to support our overseas operation.

(iv) Acquisitions of PRC operating entities by Beijing You Tang

On July 28, 2015, Beijing You Tang acquired the entire equity interest of Guangzhou SYND for a consideration of RMB500,000 based on its then paid-up registered capital.

On July 31, 2015, Beijing You Tang acquired the entire equity interest of Zhang Ying Kong from our Mr. LU Yuanfeng, Mr. CAI Feng and Mr. LUO Weiyuan, for a consideration of RMB1,000,000.

On September 11, 2015, Ms. LUO Simin, Mr. CAI Feng, Mr. LUO Weiyuan and our Founders transferred their equity interest of Beijing You Lai to Beijing You Tang at nil consideration as the paid-up registered capital of Beijing You Lai is nil.

(v) Acquisitions of Beijing You Tang by Hollywood HK

On October 20, 2015, Hollywood HK acquired the entire equity interest of Beijing You Tang from the Founders and Mr. YU Ching Ming for a total consideration of RMB2,000,000 based on its then paid-up registered capital. After the acquisition, Beijing You Tang became the wholly-owned subsidiary of Hollywood HK.

Save as disclosed otherwise, the considerations for the transactions in connection with the Reorganization were determined on an arm's length basis with reference to the then paid-up registered capital or equity valuation of the relevant companies. All the aforementioned transactions have been properly and legally completed and settled prior to the Listing.

Upon the completion of the Reorganization, our Company became the holding company of the other companies comprising our Group. As advised by our PRC legal advisers, we have complied with applicable PRC laws and regulations and have obtained necessary approvals from and/or registrations with PRC government authorities for the onshore reorganization for the purpose of the Listing.

PRC LEGAL COMPLIANCE

M&A Rules

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which were jointly promulgated by MOFCOM, SASAC, SAT, SAIC, CSRC and SAFE on August 8, 2006, came into effect on September 8, 2006 and subsequently amended on June 22, 2009, require that foreign investors acquiring domestic companies by means of asset acquisition or equity acquisition shall comply with relevant foreign investment industry policies and shall be subject to approval by the relevant commerce authorities. Article 11 of the M&A Rules stipulates that an offshore special purpose vehicle, or a SPV, established or controlled by a PRC company or individual shall obtain approval from the MOFCOM prior to the acquisition of any domestic enterprise related to such company or individual. The M&A Rules, among others, also require that an offshore SPV 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 SPV’s securities on an overseas stock exchange, especially in the event that the SPV acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

As advised by our PRC legal advisers, (i) given that Mr. YU Ching Ming is a natural person of foreign nationality and was not connected with our Group before his investment, no approval from the MOFCOM is required in respect of his investment in Beijing You Tang as the investment was not subject to relevant articles under the M&A Rules; and (ii) the acquisition of Beijing You Tang by Hollywood HK was not subject to the M&A Rules, because the target, Beijing You Tang, was a Sino-foreign joint venture at the time of acquisition. Accordingly, this acquisition set forth above is not subject to approval from MOFCOM under the M&A Rules and the Listing is not subject to a prior approval from CSRC under the M&A Rules. However, as advised by our PRC legal advisers, as there has been no official interpretation or clarification of CSRC approval requirement under the M&A Rules, there is uncertainty as to how this clause will be interpreted or implemented. If the CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. See “Risk Factors — Risks Relating to Overseas Markets and China — We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations” for details.

SAFE Circular 37

As disclosed in the section headed “Regulatory Overview — Regulations on Foreign Currency Exchange — SAFE Circular 37” in this prospectus, the Circular 37 requires PRC residents to register with local branches of SAFE with regards to their direct establishment or indirect control of an offshore entity established for the purpose of overseas investment and financing and hold such PRC residents’ legally owned assets or equity investments in domestic enterprises or offshore assets or interests (referred to as a “special purpose vehicle” in SAFE Circular 37). Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle. Our PRC legal advisers has confirmed that each of the Founders, Ms. LUO Simin, Mr. CAI Feng and Mr. LUO Weiyan, all being PRC residents and beneficial owners of our Company, has registered at SAFE in respect of his or her investment in our Group and as a result of the Reorganization of our Group in accordance with PRC laws on or before September 16, 2015.

PRE-IPO INVESTMENTS

Principal terms of each investment by the Pre-IPO Investors are set forth below:

Name of investor	7 Road International	Mr. YU Ching Ming	F.S. Management
Background of investor	7 Road International is a limited liability company incorporated under the laws of BVI which is beneficially owned by 7Road, a leading game developer in the PRC. Other than the investment in our Group as disclosed in this prospectus, 7 Road International and its ultimate beneficial owner are independent from our Group and connected persons of our Company.	Mr. YU Ching Ming is a Hong Kong resident and one of our employees. Save as disclosed above and the investment in our Group, Mr. YU Ching Ming is independent from our Group and connected persons of our Company.	F.S. Management is wholly-owned by Mr. LEE Kok Wai, who has years of investment experience. Other than the investment in our Group as disclosed in this prospectus, F.S. Management and its ultimate beneficial owner are independent from our Group and connected persons of our Company.
Date of investment	November 2, 2015	January 9, 2016	May 27, 2017
Amount of consideration paid	US\$27,600,000	US\$30,000	US\$2,400,000

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

<p>Basis of determination of the consideration</p>	<p>The consideration was determined based on arm's length negotiations between the parties after taking into consideration the valuation of our Company, timing of the share transfer and the illiquidity of our shares as a private company when the share purchase agreements were entered into</p>	<p>The consideration was determined based on arm's length negotiations between the parties after taking into consideration the valuation of our Company upon 7 Road International's Pre-IPO Investment</p>	<p>The consideration was determined based on arm's length negotiations between the parties after taking into account the valuation of our Company upon 7 Road International's Pre-IPO Investment</p>
<p>Payment date of the consideration</p>	<p>The first installment of US\$14,075,893 was paid on September 1, 2015, the second installment of US\$8,399,895 was paid on September 14, 2015, and the third installment of US\$5,124,200 was paid on September 24, 2015</p>	<p>November 18, 2015</p>	<p>June 1, 2017</p>
<p>Cost per Share and discount to the Offer Price (based on Shares held by each Pre-IPO Investors immediately after the Capitalization Issue but before the Global Offering)</p>	<p>HK\$0.47 per Share, representing a discount of 36.5% to an Offer Price of HK\$0.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)</p>	<p>HK\$0.47 per Share, representing a discount of 36.5% to an Offer Price of HK\$0.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)</p>	<p>HK\$0.47 per Share, representing a discount of 36.5% to an Offer Price of HK\$0.74 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)</p>

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Use of Pre-IPO Investment proceeds	N/A (the Pre-IPO Investments do not involve any issuance of Shares)	N/A (the Pre-IPO Investment do not involve any issuance of Shares)
Strategic benefits	Our Directors are of the view that our business will be benefited by introducing 7 Road International as a strategic investor. 7Road, the sole shareholder of 7 Road International, is a leading game developer in China	Our Directors are of the view that our Company can benefit from the investor's commitment to our Company and facilitate our operation in Hong Kong
Shareholding in our Company upon Listing	15.52%	1.50%
Lock-up	7 Road International undertakes that it will not dispose of, lend, offer, pledge, hedge or swap or enter into similar arrangement in respect of any of such Shares during the six months commencing from the Listing Date.	N/A

Public float

Since 7 Road International will become a substantial shareholder of our Company, the Shares held by 7 Road International Limited will not be counted as public float.

Since (i) Mr. YU Ching Ming is not a core connected person of our Company; (ii) the acquisition of our Shares is not financed directly or indirectly by a core connected person of our Company; or (iii) a person who is accustomed to take instructions from a core connected person of the Company in relation to the acquisition, disposal, voting or other disposition of the Shares registered in his or her name or otherwise held by him or her, the Shares held by Mr. YU Ching Ming will be counted as public float.

Since (i) F.S. Management is not a core connected person of our Company; (ii) the acquisition of our Shares is not financed directly or indirectly by a core connected person of our Company; or (iii) a person who is accustomed to take instructions from a core connected person of the Company in relation to the acquisition, disposal, voting or other disposition of the Shares registered in his or her name or otherwise held by him or her, the Shares held by F.S. Management will be counted as public float.

Special rights

7 Road International has been granted the following rights, each of which will be automatically terminated upon the completion of the Global Offering:

N/A

N/A

Board Appointment Right

The investor shall be entitled to appoint one director in our Company and our major subsidiaries.

Information and Inspection Rights

The investor is entitled to have access to our financial and accounting information and other books and records.

Reserved Matters

Certain corporate actions may not be undertaken without the prior consent of the investor.

Right of First Refusal and the Right of Co-Sale

The investor shall have a right of first refusal to purchase certain portion of the ordinary shares that any other ordinary shareholder may propose to transfer, directly or indirectly, in whole or in part, to any potential third party transferee.

The investor that has not exercised its right of first refusal shall have the right to participate in the transferor's sale of transfer shares to the potential transferee.

Priority in Business Development and Cooperation

The investor shall have the right of priority to cooperate with the companies of our Group on the business related to all the game products researched and developed by such companies.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Sole Sponsor Confirmation

The Sole Sponsor is of the view that the investments made by each of the Pre-IPO Investors are in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12) and the Guidance on Pre-IPO investments (HKEx-GL43-12).

Acting in Concert

Mr. LU Yuanfeng, Ms. LUO Simin (the spouse of Mr. Lu), Mr. HUANG Guozhan, Mr. HUANG Deqiang and their respective wholly-owned companies holding the Shares (the “Concert Parties”) have been the Controlling Shareholders of our Group. Our Founders had held interests in our Group’s subsidiaries and acted in concert in the management, operation and all major decisions of our Group based on mutual trust, cooperation and agreement since our Group was founded. Ms. LUO has also been acting in concert with the Founders since she became interested in our Group. The Concert Parties entered into a parties acting in concert deed on June 27, 2017 to confirm and record this arrangement. Pursuant to the aforesaid deed, the Concert Parties agreed that (1) this arrangement will continue after Listing; and (2) each Concert Party will continue to exercise his or her voting rights based on mutual trust, cooperation and agreement with each other, and in the event of any dispute among the Concert Parties, based on the instructions of the Concert Party holding the largest number of Shares.

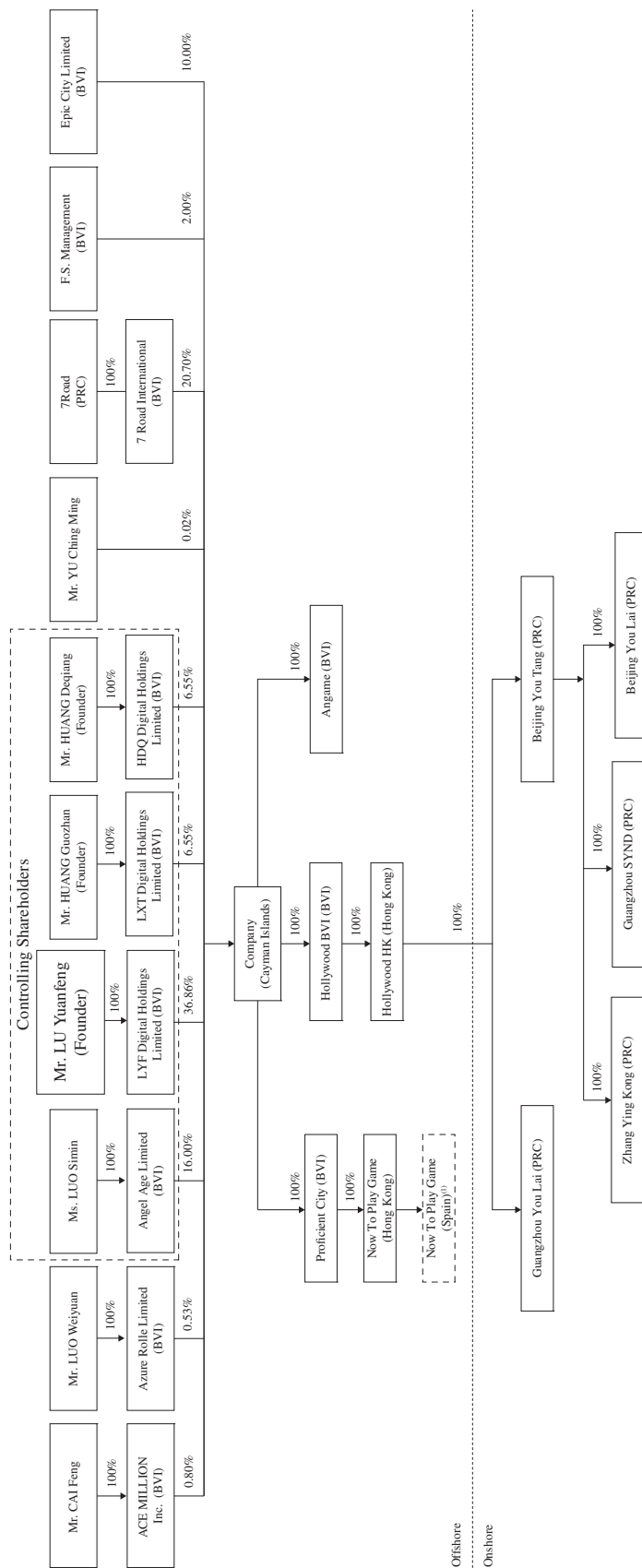
Capitalization Issue

Subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors shall be authorized to allot and issue a total of 1,488,888,778 Shares credited as fully paid at par value to the Shareholders on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as it/they may direct) in proportion to their respective shareholdings in our Company (as nearly as possible without fractions) by way of capitalization of the sum of US\$1,488,888.78 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares.

SHAREHOLDING STRUCTURE

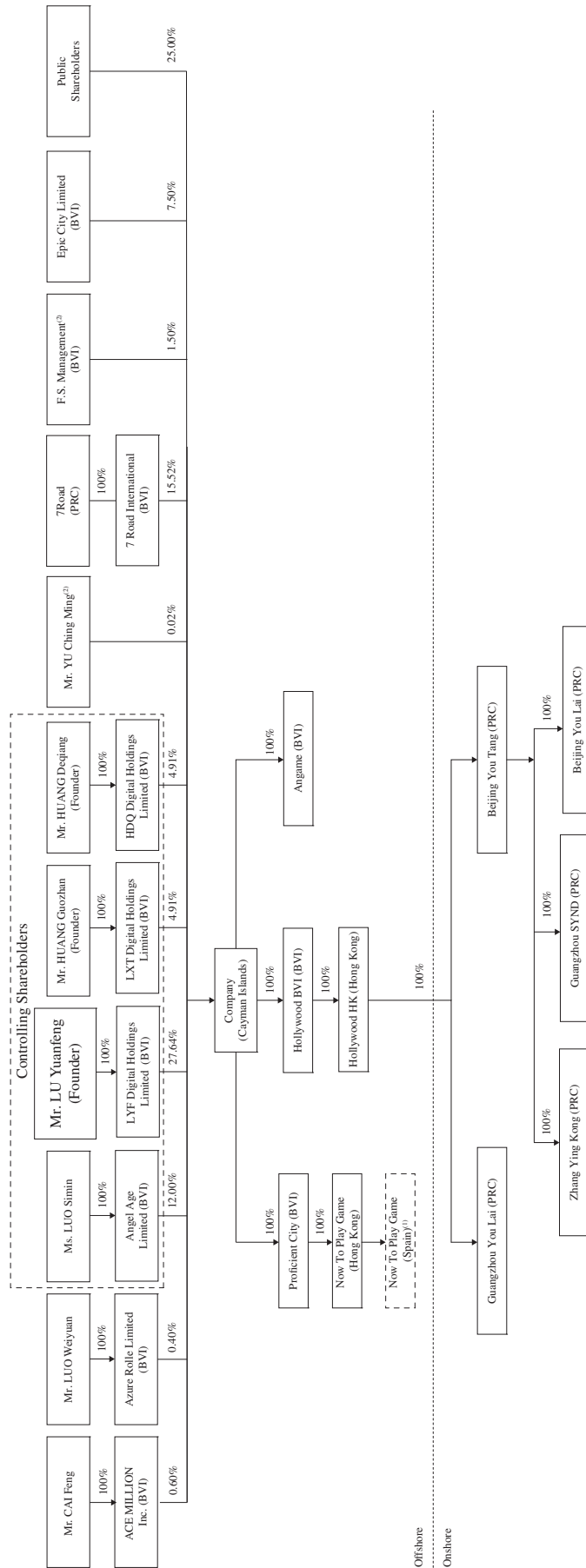
The following chart illustrates the corporate structure of our Group (1) immediately after the Pre-IPO Investments and the Reorganization but prior to the completion of the Global Offering and (2) immediately upon the completion of the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Post-IPO Share Option Scheme are not exercised):

Immediately after the Pre-IPO Investments and the Reorganization but prior to the completion of the Capitalization Issue and the Global Offering:



(1) Now To Play Game (Spain) is a branch office established by Now To Play Game under the laws of Spain.

Immediately upon the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Post-IPO Share Option Scheme are not exercised):



- (1) Now To Play Game (Spain) is a branch office established by Now To Play Game under the laws of Spain.
- (2) The Shares held by Mr. YU CHING MING and F.S. Management will be counted towards our public float.

OVERVIEW

We are a leading global online game publisher for China-based game developers, with fast-growing in-house development capabilities for mobile games. Our mission is to bring engaging, differentiated gameplay experience to users across languages, cultures and borders. We began our business as an international web game publisher and grew quickly to become the No. 1 web game publisher with a market share of 8.9% in terms of revenue generated from publishing web games developed by China-based game developers in the international markets in 2016, according to the Analysys Report. In recent years, we strategically expanded our business focuses to develop and launch mobile games by enhancing in-house development capabilities to capture the market opportunity from the fast-growing smartphone users, and our mobile games immediately achieved considerable success in a number of regional markets. As of June 30, 2017, we had approximately 47.8 million cumulative registered users worldwide, including approximately 21.4 million from web games and approximately 26.4 million from mobile games, located in more than 168 countries and regions on the basis of the IP addresses we recorded.

Leveraging our in-depth understanding of the international markets, extensive publishing experience and proprietary technical know-how, we offer compelling value proposition to game developers by helping them penetrate the international markets with one-stop solutions, including game redesign, optimization, marketing, distribution, monetization, payment support and other user-related services. We achieved immediate success from our 2012 title, *Wartune*, which was our first game to generate over US\$10 million gross billings and achieved considerably higher longevity among web games of the same genre to date. We continue to vigorously select viable web games created by China-based game developers for our international users, offering differentiated redesign and optimization to meet the localized gameplay needs. As of the Latest Practicable Date, we had launched 25 web games in the international markets of which nine games are currently in operation.

As we strategically expanded our business focuses to develop and launch mobile games, our experience and technical know-how accumulated from publishing web games have allowed us to leverage our established market leadership and cost-effectively develop or outsource viable mobile games to engage and monetize smartphone users. We developed and launched various casual shooting games for iOS and Android platforms and immediately achieved considerable success in a number of regional markets, including Southeast Asia and South America. As of the Latest Practicable Date, we had launched 26 mobile games worldwide, of which 14 titles were developed in-house and 14 games are currently in operation. As of the same date, we had also built a robust pipeline with two licensed web games and two proprietary mobile games for launch by the first quarter of 2018.

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We are committed to building a strong technical team to support game publishing and in-house development. As of June 30, 2017, our technical team consisted of 77 members specialized in game redesign and optimization, overseas game operation and other supporting services, with an average of four years of relevant experience. According to the Analysys Report, customized localization is critical to penetrating the international markets which vary geographically in terms of languages, cultures, gameplay preferences and consumption habits. With this mindset, we make structural modifications to games launched in different regional markets to acquire and engage our users with differentiated gameplay preferences. For example, as of the Latest Practicable Date, we released several casual shooting games in mobile formats in a number of regional markets, with differentiated features, graphics and virtual merchandising designs. We also release frequent fixes and updates to our existing games to maintain user interest and enhance user satisfaction. As of June 30, 2017, out of our technical team, we had 27 research and development personnel, with an average of five years of relevant experience, and created a number of popular titles, including *Gunny Mobi* in Vietnam and *MMOG* in Malaysia. We have also sought to embed popular cultural elements into our games to enhance the gameplay experience we offer. For example, in 2015, we obtained an IP license to launch mobile games featuring sports figures and scenes licensed from Barcelona Football Club.

We have forged stable partnerships with a number of reputable game developers in China. As of the Latest Practicable Date, 18 out of our 24 game developer partners had granted us an exclusive license for international publishing, and 10 of them had worked with us for over two years. Among our partners, 7Road, the original developer of our flagship web titles, including *Wartune* and *DDTank*, has worked with us since our inception as their exclusive partner to launch their games in certain major English-speaking countries and regions. In November 2015, a subsidiary of 7Road became a substantial Shareholder by acquiring a 23.0% interest in our Company, which we believe reflects an affirmation to our growth prospects. We have also maintained stable partnership with global leading distribution platforms that own large user bases, including major social networks and App marketplaces worldwide, such as Facebook, Apple Inc.'s App Store, Google Play and Huawei App Store. Since May 2012, we have published most of our web games on Facebook, gaining an instant access to its 1.9 billion active users globally. Our web games captured an aggregate of 17.2 million registered users through Facebook and generated an aggregate channel fee of US\$12.2 million for Facebook during the Track Record Period. In recognition of our collaboration, Facebook granted us the Appreciation Award for Partnership and Contribution in 2014.

We grew during the Track Record Period, primarily driven by the significant growth of our mobile games as a result of our strategic business expansion. Our average MAUs for online games were approximately 1,182,399, 1,205,078, 1,258,360 and 1,555,705 in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Our mobile game business grew substantially during the Track Record Period. Our average MAUs for mobile games increased from approximately 165,445 in 2014 to approximately 646,966 in 2015 and further to approximately 749,236 in 2016, representing a CAGR of 112.8%. Our average MAUs for mobile games further increased by 20.3% to approximately 901,402 in the six months ended June 30, 2017. Our revenue was US\$22.8 million, US\$28.0 million, US\$28.4 million, US\$14.7 million and US\$13.8 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our net profit was US\$7.1 million, US\$4.6 million, US\$6.9 million, US\$2.5 million and US\$2.3 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our adjusted net profit was US\$7.3 million, US\$6.2 million, US\$7.6 million, US\$3.0 million and US\$3.1 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. See “Financial Information — Principal Income Statement Components — Non-IFRS Measures” for details.

COMPETITIVE STRENGTHS

We believe that the following strengths of our Company differentiate us from our competitors and help us compete effectively in the industry.

Leading global online game publisher for China-based game developers with in-house development capabilities

We are a leading global online game publisher for China-based game developers, with fast-growing in-house development capabilities for mobile games. Our services and products include primarily web games and mobile games. We are the No. 1 web game publisher with a market share of 8.9% in terms of revenue generated from publishing web games developed by China-based game developers in the international markets in 2016, according to the Analysys Report. In recent years, we strategically expanded our business focuses to develop and launch mobile games by enhancing in-house development capabilities to capture the market opportunity from the fast-growing smartphone users, and our mobile games immediately achieved considerable success in a number of regional markets. Since then, we have built an integrated business model which creates considerable synergies to improve our overall performance. Our extensive experience from publishing web games allows us to effectively identify key successful drivers for mobile games and create game contents that appeal to our users.

We help China-based game developers penetrate the international markets with one-stop solutions, including game redesign, optimization, marketing, distribution, monetization, payment support and other user-related services. Leveraging our in-depth understanding of the international markets, extensive publishing experience and proprietary technical know-how, our solutions bring compelling value to our game developer partners by allowing them to access and monetize a worldwide user base. We have strategically focused on the English-speaking market in North America, the largest English-speaking online game market, and have gradually expanded to non-English-speaking markets with significant growth potential, such as Southeast Asia, South America and Europe. We achieved immediate success from our 2012 title, *Wartune*, which was our first web game to generate over US\$10 million gross billings and achieved considerably higher longevity among web games of the same genre to date. We continue to launch successful web games to engage our users. Our latest web title, *Dragon Awaken*, was featured on the front pages of Facebook and Gameroom shortly following its launch in March 2017. As of the Latest Practicable Date, we had launched 25 web games in the international markets.

As we strategically expanded our business focuses to develop and launch mobile games, our experience and technical know-how accumulated from publishing web games have allowed us to leverage our established market leadership and cost-effectively develop or outsource viable mobile games to engage and monetize smartphone users. We developed and launched various casual shooting games for iOS and Android platforms and immediately achieved considerable success in a number of regional markets, including Southeast Asia and South America. From time to time, our mobile games were featured in the top rankings maintained

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by major App marketplaces, including Apple Inc.'s App Store and Google Play. For example, our *MMOG* topped the download chart of strategy games on Apple Inc.'s App Store in Malaysia within 24 hours following its launch in 2015, and our *Gunny Mobi* maintained one of the top 10 games on the download chart of strategy games on Apple Inc.'s App Store in Vietnam one year after its launch in 2014. As of the Latest Practicable Date, we had launched 26 mobile games worldwide and had built a robust pipeline with two licensed web games and two proprietary mobile games for launch by the first quarter of 2018.

Diversified portfolio of entertainment products powered by continuous creation and innovation

We offer diversified gameplay experience to attract and retain users. Leveraging the collective vision and experience of our management team, we have successfully navigated through the evolving market trends and demands by launching entertainment products that continue to engage and monetize users with different entertainment needs and from different markets. We commenced our business as a publisher of web games developed by China-based game developers and had launched 25 web games in the international markets as of the Latest Practicable Date. We strategically expanded our business focuses in recent years and launched 26 mobile games worldwide as of the Latest Practicable Date.

Our game offerings span a variety of genres that appeal to a demographically diverse user community. We classify our game offerings broadly into casual games and mid- and hardcore games. Our casual games are easy and fun to play, allowing us to accumulate a large active user base over a short period of time due to their broad appeal, flexible gameplay style and social connectivity. Our mid- and hardcore games provide users with a more immersive gameplay experience and present higher monetization potential. Many of our games, however, do not neatly fit into any single category due to their complex gameplay style. For example, *Stallion Race*, set in a popular horse racing context, offers an exciting mix of casual gameplay and mid-core level competition. Our games also encompass a broad range of gameplay styles, such as role-playing games, action games, strategy games and shooting games, with themes covering a number of settings, including Western myths, fantasy and history. As of the Latest Practicable Date, we had launched 20 casual games and 31 mid- and hardcore games, and had a robust pipeline of four mid- and hardcore games for launch by the first quarter of 2018.

We launch frequent fixes and updates to our existing games with new features, levels and characters to enhance user satisfaction and increase retention rate, which helps extend the lifecycle of our games. Through our cross-promotion efforts, we are able to present game recommendations to our users based on their interests and profiles. To meet the increasing user demand for gameplay flexibility, we are developing a cross-platform infrastructure to allow our users to play wherever they are and switch seamlessly between devices and platforms. Leveraging our cross-platform technology, we launched several role-playing or simulation games, including *Devil Age* and *Lord of Star*, and received positive user feedback. We also continue to enhance the user experience by embedding popular cultural elements into our games and implementing the advanced visual technologies in our latest entertainment products.

Robust technical capabilities to support game publishing and in-house development

We believe that our ability to continuously identify, develop and publish viable games is the foundation for our sustainable growth in the future, and therefore, we are committed to building a strong technical team to support game publishing and in-house development. As of June 30, 2017, our technical team consisted of 77 members specialized in game redesign and optimization, with an average of four years of relevant experience. According to the Analysys Report, customized localization is critical to penetrating the international markets which vary geographically in terms of languages, cultures, gameplay preferences and consumption habits. With this mindset, we make structural modifications to games launched in different regional markets to acquire and engage our users with differentiated gameplay preferences. For example, as of the Latest Practicable Date, we released several casual shooting games in mobile formats in a number of regional markets, with differentiated features, graphics and virtual merchandising designs. Our technical team also monitors user behavior by analyzing critical user metrics generated in our games, which allows us to identify key performance drivers, non-performing virtual items and other areas for improvement and refine our user retention and monetization strategies.

We sought to enhance our in-house capabilities to develop and launch mobile games since 2014, leveraging our game publishing experience and proprietary technical know-how, which allows us to analyze useful gameplay data and user feedback gathered from successful games and create new games with the themes, gameplay styles and virtual merchandising designs that appeal to our users. Headed by Mr. HUANG Deqiang, our chief technology officer, we had 27 research and development personnel as of June 30, 2017, with an average of five years of relevant experience, and created a number of popular titles, including *Gunny Mobi* in Vietnam and *MMOG* in Malaysia. We generated US\$0.5 million, US\$9.7 million, US\$16.7 million and US\$9.2 million in revenue from games developed in-house in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively, accounting for 2.4%, 34.6%, 58.8% and 66.5% of our revenue during the same periods, respectively.

According to the Analysys Report, the average salary for IT technicians in the United States is approximately US\$98,000 per annum, more than double that for their peers in China. Our technical team is based in Guangdong province, China, abundant of qualified, experienced technicians, which allows us to develop our technical capabilities cost-effectively and gain a competitive advantage over overseas online game publishers.

Strong and trusted partnership with game developers, distribution platforms and payment channels

We have maintained stable long-term partnership with reputable game developers in China. As of the Latest Practicable Date, 18 out of our 24 game developer partners had granted us an exclusive license for international publishing, and 10 of them had worked with us for over two years. Among our partners, 7Road, the original developer of our flagship web titles, including *Wartune* and *DDTank*, has worked with us since our inception as their exclusive partner to launch their games in certain major English-speaking countries and regions. In November 2015, a subsidiary of 7Road became a substantial Shareholder by acquiring a 23.0% interest in our Company, which we believe reflects an affirmation to our growth prospects. Our proven localization capabilities form the cornerstone for our stable relationship with game developers as localization improves the appeal of the games to users from the target markets and allows the games to perform better financially.

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We have also maintained stable partnership with global leading distribution platforms that own large user bases, including major social networks and App marketplaces worldwide, such as Facebook, Apple Inc.'s App Store, Google Play and Huawei App Store. Since May 2012, we have published most of our web games on Facebook, gaining an instant access to its 1.9 billion active users globally. Our web games captured an aggregate of 17.2 million registered users through Facebook and generated an aggregate channel fee of US\$12.2 million for Facebook during the Track Record Period. In recognition of our collaboration, Facebook granted us the Appreciation Award for Partnership and Contribution in 2014. We have also established trusted co-distribution relationships with leading local game publishers in certain regional markets to capitalize on their local resources and user bases. We believe our collaboration with leading distribution platforms and local game publishers worldwide serves to enhance our brand recognition and attract new users.

To offer our users convenient and flexible payment solutions, we cooperate with major online payment channels in North America and other international markets, including integrated distribution platforms, PayPal and Skrill, to collect proceeds from in-game purchases. As of the Latest Practicable Date, we had maintained business relationships with over 15 payment channel partners for one to six years, which facilitates our monetization efforts.

Visionary and experienced management team with a proven record of successful execution

We believe that our success would not have been possible without the cohesive collaboration of an experienced management team led by Mr. LU Yuanfeng, our founder, executive Director and chief executive officer, who has always envisioned the commercial value of the vast reservoir of Chinese game IPs. Mr. LU, together with our co-founders, Messrs. HUANG Guozhan and HUANG Deqiang, is among the pioneers that sought to introduce Chinese games to international users.

Mr. LU accumulated extensive experience and in-depth knowledge of the overseas game industry from his prior working experience. Prior to founding our Group in 2011, Mr. LU had worked for over 10 years in the game industry and had successfully launched several popular games within and outside China. The game industry worldwide experienced substantial changes over the past decades to keep pace with the fast developing Internet technologies, and Mr. LU was successful in making each turn in the evolution. In 2001, he started a company that successfully launched popular online client games in China. Mr. LU subsequently changed his focus to web games as the industry shifted and launched a successful web game developed in China and published in North America. Under Mr. LU's leadership, we are now exploring entertainment products featuring the advanced mobile Internet or visual technologies to meet the evolving user needs. We believe that Mr. LU will continue to guide us in our future operations in a rapidly evolving industry.

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Mr. LU brought together an experienced management team, including our co-founders, Mr. HUANG Guozhan, mainly in charge of our marketing and publication strategies, and Mr. HUANG Deqiang, mainly in charge of our game operations. Each of Messrs. HUANG Guozhan and HUANG Deqiang has over 10 years of relevant experience. They have worked closely together since our inception and developed strong synergies in their work and management style with their diverse and complementary skills and backgrounds. See “Directors and Senior Management — Board of Directors” for the qualifications and experience of our founders.

BUSINESS STRATEGIES

We aspire to become a pre-eminent global interactive entertainment provider and intend to pursue the following strategies to further grow our business.

Solidify our leading position as a global game publisher

We intend to further solidify our leadership as a global online game publisher by implementing the following measures.

- *Expand game offerings.* We seek to continue to maintain user interest by releasing frequent updates and launching special editions of our existing games. We also plan to launch new updates or games in more genres, themes and operating formats to reach a broader user base globally. As of the Latest Practicable Date, we had launched 25 web games and 26 mobile games and had a pipeline of two web games and two proprietary mobile games for launch by the first quarter of 2018. We also seek to further strengthen our game pipeline through cooperation with market leaders in the online game industry in China. For example, we entered into a binding framework cooperation agreement on July 25, 2017 with Guangzhou Aijiuyou Information Technology Company Limited (廣州愛九遊信息技術有限公司, commonly known as Ali Games (阿里遊戲)), to develop a proprietary casual shooting game incorporating certain famous IP elements licensed from Ali Games. Going forward, we will allocate approximately 40.0% of the net proceeds from the Global Offering to acquire viable online game licenses, popular IPs or other related assets from, or invest in or acquire, overseas or China-based online game developers or IP providers to continuously enlarge and diversify our game portfolio and sustain our business growth.
- *Enhance monetization.* We seek to optimize in-game virtual merchandising designs with popular virtual items and effective item pricing, leveraging our data analysis capabilities. From time to time, we also plan to launch special event-driven promotions to stimulate in-game spending.

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- *Strengthen collaboration with distribution platforms and payment channels.* We will continue to strengthen our collaboration with existing distribution platforms and seek collaboration with new reputable distribution platforms to make our games accessible to a broader user base. For example, we entered into collaboration with Gameroom, a leading gameplay platform powered by Facebook, in December 2016. We will also connect more payment channels to our games to make in-game purchases easier, faster and safer for our users in different regional markets.
- *Integrated technical support platform.* We plan to build an integrated technical support platform through our offshore subsidiaries outside China which will provide one-stop technical solution for game developers to efficiently optimize and upgrade their games to fit in the overseas markets. Leveraging on our in-depth understanding of overseas game markets, we aim to, through the technical support platform, provide game developers with various technical services such as analyzing and monitoring the key user metrics for their games published overseas and collecting feedbacks from the users of their games in the overseas markets. As of the Latest Practicable Date, the integrated technical support platform was still under development. We expect that the platform will be put to a test run in the first half of 2018, and we will plan for our official launch date after the testing. The expected capital expenditure for the development of this platform is approximately US\$1.5 million. The platform is designed as a technical service provider instead of a publishing platform for online games. As advised by our PRC legal advisers, the proposed platform is not subject to any laws and regulations in respect of special approvals, licenses and permits in China, and will not impact the legality of our corporate structure.
- *Promote brand recognition.* We seek to promote our brand “Game Hollywood” as a global interactive entertainment provider that speaks to industry insiders and users alike. We will continue to enhance our presence under this brand at international industry events, including the Game Developers Conference, the largest annual gathering of professional video game developers, and China Digital Entertainment Expo and Conference, the largest annual gaming and digital entertainment exhibition held in China and Asia. We also plan to invest in a number of advertising avenues, including the Internet, social media, industry magazines, and brick-and-mortar stores, and retain professionals with relevant experience in both marketing and game industries.

Strengthen our in-house game development capabilities

We believe that our ability to continuously launch new games is critical to attracting and retaining our users. To supplement our ability to outsource viable games from our game developer partners, we plan to strengthen our in-house game development capabilities by investing significantly in our research and development efforts through additional funds and recruits. We plan to expand our game development studio by continuing to attract and retain qualified personnel with competitive compensation packages, including performance-based bonus and equity awards. Leveraging our data analysis capabilities and insights into the market trends and demands, we also seek to develop game themes that appeal to our users and obtain licenses to develop new updates and games featuring IP-protected contents, including popular cartoons and sports themes.

Improve our technology infrastructure to support our business growth

Our technology is critical to the continued success of our business, and we seek to continue to invest in upgrading our technology infrastructure. Specifically, we plan to improve our cross-platform infrastructure to support game publishing. We believe cross-platform gameplay promotes user engagement, virality and monetization. Cross-platform technology allows users to switch seamlessly between devices, such as PCs, tablets and smartphones, and platforms, such as Facebook, Apple Inc.'s App Store and Google Play. We will also invest to refine our data analysis engine, which monitors and analyzes key user metrics, to better identify and meet user needs, drive distribution and marketing strategies and optimize user retention and monetization efforts. As our business operations and user base continue to grow, we seek to optimize our server systems to improve the efficiency of our network by allowing quicker response to a greater amount of data generated by a growing number of users and real-time data synchronization. To facilitate in-game purchases in different regional markets, we also plan to launch a proprietary payment processing interface that connects with all major payment channels.

Expand our product portfolio with advanced visual technologies

We believe that the advancement of visual technologies, including VR and AR, will revolutionize the game industry by providing users with more immersive entertainment experience. We have sought to invest in the commercialization of VR and AR technologies by developing interactive entertainment products including games, films and education materials. In 2016, we invested in a VR studio in China, which recently developed a VR-based game device ready for commercialization. This VR studio plans to install approximately 120 devices in game stores and shopping malls across China by the end of 2017. We have also sought collaboration with third parties, including a renowned studio in Hollywood, California, to make films viewable on VR displays. Based on further market studies, we may also develop remakes of our flagship games featuring VR technologies.

Pursue strategic alliance and acquisition opportunities

We have built our business so far primarily through organic growth. Going forward, we intend to selectively acquire, invest in or enter into strategic partnerships with qualified game developers and visual technology companies within and outside China. We believe that strategic alliance or acquisition will drive our business growth, enhance our development capabilities, supplement our game offerings, and expand our user base in a cost-effective manner. We had not identified any target for our strategic growth through mergers and acquisitions as of the Latest Practicable Date.

GAME PORTFOLIO

We generated a substantial majority of our revenue from online games during the Track Record Period. Our online game revenue was US\$21.9 million, US\$27.2 million, US\$27.6 million, US\$14.2 million and US\$13.6 million in 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 96.2%, 97.1%, 97.0%, 96.6% and 98.4% of our revenue in the same periods, respectively. We offer a diverse selection of games consisting primarily of casual games and mid- and hardcore games in both web and mobile formats to a demographically diverse user community. As of the Latest Practicable Date, we published 20 casual games and 31 mid- and hardcore games, developed either in-house or by China-based game developers. Many of our games, however, do not neatly fit into any single category due to their complex gameplay style.

Historically, most of our games experienced in their lifecycles (1) an early growth stage during which the user number and the revenue generated from such game tend to increase, (2) a stable and mature stage during which the user number and the revenue generated from such game tend to be stable and (3) a late stage during which the user number and the revenue generated from such game tend to decrease. See “— Game Publishing — Localization capabilities” for details. As we test the viability and build up the user base for a new game during the growth stage (approximately the first 30% of the time span for the game’s lifecycle, according to the Analysys Report) and gradually phase out an old game during the late stage (approximately the last 20% of the time span for the game’s lifecycle, according to the Analysys Report) when an increasing number of existing users begin to lose interest, we strive to maintain a game at the stable and mature stage (approximately 30% to 80% of the time span for the game’s lifecycle, according to the Analysys Report) within its lifecycle during which we are able to generate steady revenue from its paying users. We seek to extend the lifecycle of our games through launching frequent fixes and updates with new features, levels and characters to enhance user satisfaction and increase retention rate; and creating player-focused game environment that offers users a superior gameplay experience in order to retain longer-term users.

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Existing Game Portfolio

As of June 30, 2017, our game portfolio included 14 mobile games (of which 12 are proprietary and two are licensed) and nine web games (of which one is proprietary and eight are licensed). The following table sets forth certain information relating to our games that are currently in operation.

Title	Platform	Source	Official Launch Date	Lifecycle Stage as of June 30, 2017
DDTank	Web	Licensed	June 2012	Late Stage
Wartune	Web	Licensed	August 2012	Late Stage
Stallion Race	Web	Licensed	September 2013	Late Stage
League of Angels	Web	Licensed	March 2014	Late Stage
Legend Knight	Web	Licensed	September 2014	Stable and Mature Stage
Era of Empire	Web	Licensed	January 2015	Late Stage
Omega Zodiac ⁽¹⁾	Web	Proprietary	August 2016	Stable and Mature Stage
Dragon Awaken (English)	Web	Licensed	March 2017	Growth Stage
Dragon Awaken (Portuguese)	Web	Licensed	June 2017	Growth Stage
DDTank Pocket (Simplified Chinese)	Mobile	Proprietary	March 2014	Stable and Mature Stage
Gunny Mobi (Vietnamese)	Mobile	Proprietary	December 2014	Growth Stage
DDTank Barcelona (Android)	Mobile	Proprietary	June 2015	Stable and Mature Stage
DDTank Barcelona (iOS)	Mobile	Proprietary	June 2015	Stable and Mature Stage
DDTank (English)	Mobile	Proprietary	June 2015	Stable and Mature Stage
MMOG I (Simplified Chinese for Malaysia)	Mobile	Proprietary	July 2015	Late Stage
MMOG II (English for Malaysia)	Mobile	Proprietary	September 2015	Late Stage
DDTank Pocket (Traditional Chinese for Taiwan)	Mobile	Proprietary	November 2015	Late Stage
DDTank (Traditional Chinese for Hong Kong and Macau)	Mobile	Proprietary	January 2016	Late Stage
DDTank Brasil (Portuguese)	Mobile	Proprietary	March 2016	Growth Stage
Boomz (Thai)	Mobile	Proprietary	May 2016	Stable and Mature Stage
Devil Age	Mobile (in cross-platform format)	Proprietary	September 2016	Stable and Mature Stage
Lord of Star	Mobile (in cross-platform format)	Licensed	March 2017	Growth Stage
Heroes Crash	Mobile	Licensed	May 2017	Growth Stage

(1) Omega Zodiac became our proprietary web game since April 2017.

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Casual Games

We have a number of casual online games in diverse genres that are fun and easy to play. For example, in *DDTank* series, users take on the role of cartoon characters to engage in trajectory shooting battles either by themselves or with a league. We launched 20 casual games, including different language and regional versions, as of the Latest Practicable Date. The following table sets forth certain information regarding our major popular casual games currently in operation in reverse chronological order.

<u>Title (language)</u>	<u>Platform</u>	<u>Genre</u>	<u>Initial Launch Time</u>	<u>Source</u>
Heroes Crash (English)	Mobile	RPG	May 2017	Licensed
Boomz (Thai)	Mobile	Shooting	May 2016	Proprietary
DDTank Brasil (Portuguese)	Mobile	Shooting	March 2016	Proprietary
MMOG I (Simplified Chinese for Malaysia)	Mobile	Shooting	July 2015	Proprietary
DDTank Barcelona (Simplified Chinese)	Mobile	Shooting	June 2015	Proprietary
Gunny Mobi (Vietnamese)	Mobile	Shooting	December 2014	Proprietary
DDTank Pocket (Simplified Chinese)	Mobile	Shooting	March 2014	Proprietary
Stallion Race (English)	Web	Sports	September 2013	Licensed
DDTank (English)	Web	Shooting	June 2012	Licensed

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Some of our popular casual games are described below.

Heroes Crash



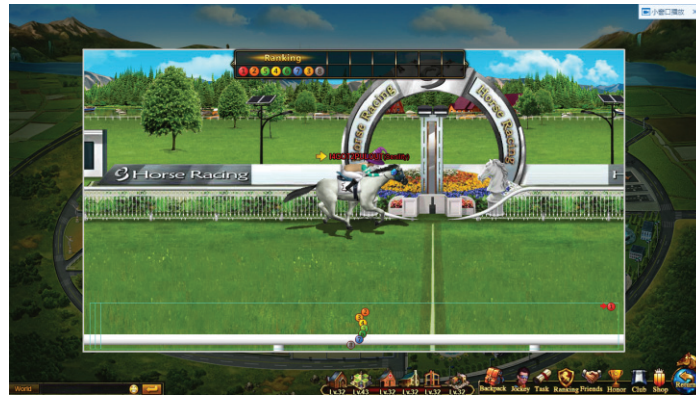
Heroes Crash is an RPG game which we launched in May 2017. In *Heroes Crash*, users can train and command a team of heroes in fast-paced combats and cast different spells in the battlefield with magic cards. The game offers in-game purchases of virtual items, such as gemstones and equipment.

Gunny Mobi



Gunny Mobi is a casual turn-based multiplayer online shooting game which we launched in December 2014. In *Gunny Mobi*, users play cartoon-style characters and take turns to fire a variety of different projectiles at their opponents. Users can battle, individually or in groups, against computerized opponents or against each other by utilizing various weapons and skills. The game offers in-game purchases of virtual items, such as outfits and weapons.

Stallion Race



Stallion Race is a sports game which we launched in September 2013. In *Stallion Race*, users breed, raise and train their own horses and travel with their horses to compete in professional horse races to win awards. The game offers in-game purchases of virtual items to enhance or accelerate horse-raising.

Mid- and Hardcore Games

We have a number of mid- and hardcore online games, most of which are turn-based role-playing games, simulation games and real-time strategy games with themes covering Western myths, fantasy and history. For example, in *Wartune*, users take the role of a knight, mage or archer and lead legions of mercenaries through a fantasy-based storyline to fight battles and seek treasures. Users typically enjoy a more immersive experience in these games and tend to play the games for a longer period of time, return more frequently and spend more money on in-game purchases. We focus on enhancing our mid- and hardcore games in order to retain, engage and monetize users. We launched 31 mid- and hardcore games, including different language and regional versions, as of the Latest Practicable Date. The following table sets forth certain information regarding our major popular mid- and hardcore games currently in operation in reverse chronological order.

<u>Title (language)</u>	<u>Platform</u>	<u>Genre</u>	<u>Initial Launch Time</u>	<u>Source</u>
Lord of Star (English)	Mobile (in cross-platform format)	SLG	March 2017	Licensed
Dragon Awaken (English)	Web	RPG	March 2017	Licensed
Devil Age (English)	Mobile (in cross-platform format)	ARPG	September 2016	Proprietary
Omega Zodiac ⁽¹⁾ (English)	Web	ARPG	August 2016	Licensed

BUSINESS

Title (language)	Platform	Genre	Initial Launch Time	Source
Legend Knight (English)	Web	ARPG	September 2014	Licensed
Wartune (English)	Web	ARPG & SLG	August 2012	Licensed

⁽¹⁾ Omega Zodiac became our proprietary web game since April 2017.

Some of our popular mid-and hardcore games are described below.

Wartune



Wartune is an epic hybrid turn-based ARPG and strategy game which we launched in August 2012. In *Wartune*, users may choose their avatars from three distinct classes (i.e., knight, mage or archer), individualize their avatars and lead legions of mercenaries through a fantasy-based storyline to fight battles and seek treasures. Users are able to level up their avatars by defeating monsters and improve their strengths by earning rewards. The game offers in-game purchases of virtual items to enhance their avatars.

Devil Age



Devil Age is an ARPG game which we launched in September 2016. In *Devil Age*, users can play as a summoner that fights in endless wars and dungeons. Users are able to choose their team formation based on their opponents and amass resources through a treasure hunting system. The game offers in-game purchases of virtual items to enhance their fighters.

Legend Knight



Legend Knight is a turned-based ARPG game which we launched in September 2014. In *Legend Knight*, users choose their avatars from two classes (i.e., knight and mage) and take on the role of mythical hero to battle the evil dragons. Users may recruit more heroes with gold and prestige, seek treasures and orchestrate armies to fight battles. The game offers in-game purchases of virtual items to enhance their avatars.

The performance of our games is affected by two key metrics: (1) average monthly paying users, or average MPUs; and (2) average revenue per monthly paying user, or ARPPU. Average MPUs refer to the average of the aggregate number of paying user for the games we publish or co-publish in each month during a given period, and ARPPU refers to the quotient of our revenue from online games divided by the number of the average MPUs in any given period. These metrics are largely affected by the number of games in operation in the relevant period and the popularity of these games. The following table sets forth certain operating data regarding our games for the periods indicated.

	Year ended December 31,			Six months
	2014	2015	2016	ended June 30, 2017
Average MPUs				
Web games	55,551	32,481	26,667	22,622
Mobile games	12,793	40,644	49,664	62,151
ARPPU (US\$)				
Web games	31	40	32	32
Mobile games	13	24	29	25
Revenue (US\$)				
Web games	20,398,486	15,659,772	10,199,039	4,363,244
Mobile games	1,500,828	11,532,943	17,389,934	9,249,915

Our web games target primarily the English-speaking markets in North America and elsewhere in the world. Our mobile games, on the other hand, also target a number of non-English-speaking regional markets, including Southeast Asia, South America and Europe.

The following table sets forth a breakdown of our online game revenue by the top five online games for the periods indicated.

Title	Year ended December 31,					Six months ended June 30,				
	2014	2015	2016	2017	2017					
	Source ⁽¹⁾⁽²⁾	Nature of Our Responsibilities	Amount	% of Revenue	Lifecycle stage as of the end of the period	Source	Nature of Our Responsibilities	Amount	% of Revenue	Lifecycle stage as of the end of the period
(US\$ except for percentages)										
Web games										
Warfare	Licensed (exclusive)	Self-publishing and co-publishing	18,947,041	83.2	Stable and Mature	Licensed (exclusive)	Self-publishing and co-publishing	8,124,007	28.6	Late
DDTank	Licensed (exclusive)	Self-publishing and co-publishing	740,522	3.3	Stable and Mature	Licensed (exclusive)	Self-publishing and co-publishing	680,352	2.4	Stable and Mature
Stallion Race	Licensed (non-exclusive)	Self-publishing	278,078	1.2	Stable and Mature	Licensed (exclusive)	Self-publishing and co-publishing	478,052	1.7	Stable and Mature
Stallion Race (Traditional Chinese)	Licensed (non-exclusive)	Self-publishing	101,923	0.4	Stable and Mature	Licensed (exclusive)	Self-publishing and co-publishing	282,167	1.0	Stable and Mature
Zombie Eat My Pizza	Licensed (non-exclusive)	Self-publishing	72,734	0.3	Stable and Mature	Licensed (exclusive)	Self-publishing and co-publishing	206,233	0.7	Stable and Mature
Others	-	-	258,188	1.2	-	-	-	428,228	1.5	-
Mobile games										
Eternal Fury	Licensed (exclusive)	Self-publishing	945,458	4.2	Growth	Proprietary	Game development and co-publishing	4,427,992	15.6	Stable and Mature
DDTank Pocket (Simplified Chinese)	Proprietary	Game development and co-publishing	517,360	2.3	Growth	Proprietary	Game development and self-publishing	4,091,103	14.2	Stable and Mature

		Year ended December 31,						Six months ended June 30,											
		2014			2015			2016			2017								
Title	Source ⁽¹⁾⁽²⁾	Nature of Responsibilities	Amount	% of Revenue	Lifecycle stage as of the end of the period	Title	Source	Nature of Responsibilities	Amount	% of Revenue	Lifecycle stage as of the end of the period	Title	Source	Nature of Responsibilities	Amount	% of Revenue			
(US\$ except for percentages)																			
Gummy Mohi	Proprietary	Game development and co-publishing	26,964	0.1	Growth	DDTank Pocket (Simplified Chinese)	Proprietary	Game development and co-publishing	1,665,437	5.9	Stable and Mature/Late	Gummy Mohi	Proprietary	Game development and co-publishing	3,561,172	12.5	Growth		
Zens Age	Licensed (exclusive)	Self-publishing	5,590	0.0	Growth	Eternal Fury	Licensed (exclusive)	Self-publishing	1,514,320	5.4	Stable and Mature	DDTank (Traditional Chinese)	Proprietary	Game development and co-publishing	1,466,323	5.2	Late		
World on Line	Licensed (exclusive)	Self-publishing and co-publishing	4,771	0.0	Growth	MMOG 1 (Simplified Chinese for Malaysia)	Proprietary	Game development and co-publishing	142,020	5.1	Growth/ Stable and Mature	DDTank Pocket (Simplified Chinese)	Proprietary	Game development and co-publishing	756,234	2.7	Late		
Others	-	-	685	0.0	-	Others	-	-	2,513,763	9.0	Others	Others	-	-	3,129,110	10.9	Others		
Total	-	-	21,899,314	96.2	-	-	-	-	27,192,715	97.1	-	-	-	-	27,588,973	97.0	-	13,613,159	98.4

- (1) For co-published games, we are primarily responsible for offering game contents and related technical support. For self-published games, we are primarily responsible for marketing and distributing games. See “— Game Publishing — Distribution” for details.
- (2) Exclusive rights mean that the relevant game developers had granted us an exclusive license to publish their games in specified language versions or geographical markets. See “— Game Development — Content Distribution Arrangements” for details.

BUSINESS

During the Track Record Period, we generated a substantial majority of revenue from a limited number of games, including *Wartune* and our proprietary mobile *DDTank* series. We make ongoing optimization and launch frequent updates to our existing games to continue to maintain user interest and release new language versions to reach out to new user bases. We have also built a robust pipeline of new games to continuously expand our portfolio. According to the Analysys Report, it is generally consistent with the industry norms that only a small fraction of games within the portfolio of a game developer and publisher are commercially successful.

GAME PIPELINE

We expand our game portfolio primarily through developing additional language or platform versions for our existing games, in-house developing new games, and sourcing new games from game developers. As of the Latest Practicable Date, we had a pipeline of two and two games by the end of 2017 and the first quarter of 2018, respectively. The following table sets forth certain information regarding our new online games for launch by the first quarter of 2018 in chronological order.

<u>Title⁽¹⁾ (Language)</u>	<u>Platform</u>	<u>Genre</u>	<u>Development Stage⁽²⁾</u>	<u>Expected Official Launch Time</u>	<u>Source</u>
魔灵传说 (Simplified Chinese)	Mobile	RPG	Under testing	December 2017	Proprietary
Dragon Awaken (Spanish)	Web	RPG	Under testing	December 2017	Licensed
列王冲突 (Simplified Chinese)	Mobile	SLG	Under testing	January 2018	Proprietary
Dragon Awaken (German)	Web	RPG	Under testing	February 2018	Licensed

(1) Games are subject to change.

(2) Our current game pipeline is indicative as of the Latest Practicable Date. The games we actually launch and the expected official launch time may differ from those presented.

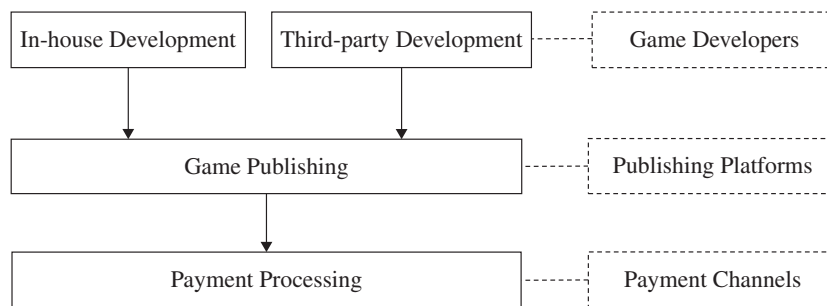
In addition, we currently have certain other game projects at more preliminary development stages, which may be modified, delayed or canceled in light of our ongoing development process and further market research and feedback. With an intention to further strengthen the game pipeline, we entered into a binding framework cooperation agreement on July 25, 2017 with Ali Games (阿里遊戲), pursuant to which we are authorized to develop a proprietary casual shooting game incorporating certain IP elements within the Ali conglomerate (阿里體系), including the Tmall brand images (天貓系列品牌形象). See “— Procurement and Suppliers — IP Providers” for details. We expect to utilize internally generated cash flows and a portion of the proceeds from the Global Offering to fund our new game development projects.

BUSINESS MODEL

We commenced our business by publishing web games developed by China-based game developers in the international markets. In recent years, we strategically expanded our business focuses to develop and launch mobile games by enhancing in-house development capabilities to capture the market opportunity from the fast-growing smartphone users. Since then, we have built an integrated business model which creates considerable synergies to improve our overall performance. Our extensive experience from publishing web games allows us to effectively identify key successful drivers for mobile games and create game contents that appeal to our users. As a growth strategy, we intend to focus on in-house development of new game IPs as well as outsourcing of popular IPs from third parties to develop new games and enhance existing games.

As all of our games are free to play, we generate revenue primarily from the in-game sale of virtual items. We generally share gross billings from such sale with (1) game developers in the case of games licensed from third parties, (2) publishing platforms in the case of distribution on third-party platforms, and (3) payment channels.

The following diagram sets forth a simplified presentation of our business process.



- *In-house development.* We have an in-house game development studio, which develops mobile games using our proprietary technologies. See “— Game Development — In-house Development.”
- *Third-party development.* We review and select viable games of different genres from China-based game developers for publishing primarily in the international markets. See “— Game Development — Third-party Development.” We typically enter into content distribution agreements with the game developers to manage our collaboration, including revenue sharing arrangements. See “— Game Development — Content Distribution Arrangements.”
- *Game publishing.* We publish online games primarily (1) by ourselves through third-party distribution platforms, including major social networks and App marketplaces, and (2) by cooperation with co-publishers, including leading local game publishers. We provide our game developer partners with one-stop solutions, including game redesign, optimization, marketing, distribution, monetization, payment support and other user-related services. See “— Game Publishing.”

BUSINESS

- *Payment processing.* As we generate revenue primarily from the in-game sale of virtual items, we collaborate with major online payment channels in North America and other regional markets to facilitate and collect the proceeds from in-game purchases. See “— Payment Processing.”

VALUE CHAIN OF OUR BUSINESS OPERATIONS AND LICENSING REQUIREMENTS

The following sets forth the scope of services of different industry players along the value chain of our business operations.

Game Developers

Game developers are primarily responsible for providing game contents and technical assistance with installation, testing of game functionalities and ongoing fixes and updates. For details, see “Business — Game Development.”

Game Publishers/Co-publishers

Game publishers or co-publishers are primarily responsible for the redesign, optimization, marketing, distribution, monetization, payment support and other user-related services within their authorized distribution territories, as well as coordinating with game developers on updates and modifications based on user or market feedback, and conduct online and offline marketing activities and customer services. For details, see “Business — Game Publishing.”

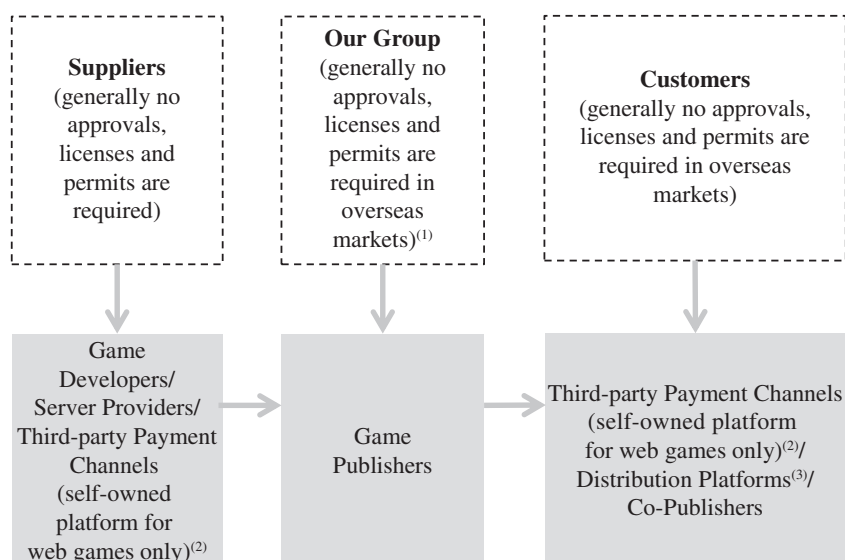
Distribution Platforms

Distribution platforms introduce user traffic, provide user access and collect and track user data. Distribution platforms vary in different overseas markets and include Apple Inc.’s App stores, Google Play, social networks, game platforms and telecom operator platforms, marketing platforms, game media, and other supporting links. For details, see “Business — Game Publishing — Distribution.”

Licensing Requirements

The diagrams below illustrate the general licensing requirements for the major industry players along the value chain in each of the following game publishing scenarios.

Licensed games (in overseas markets only)

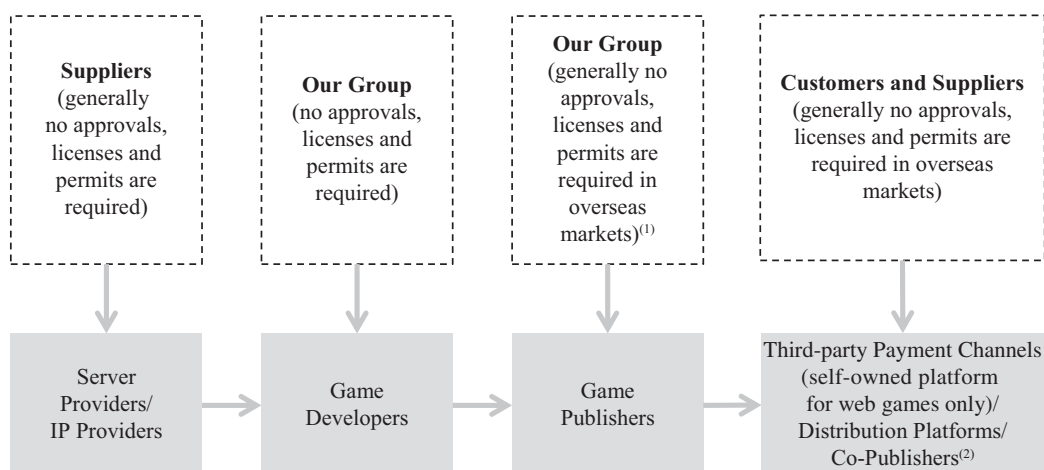


BUSINESS

- (1) In the event that special licenses are required for game publishing, our Group would engage co-publishers for such publication.
- (2) Both our customers and suppliers are determined by the flow of revenue stream and can only be presented from the financial perspective. In the event that our licensed web games are published through self-owned website, third-party payment channels would receive gross proceeds from end users and remit such proceeds to our Group after deducting the commission charges. Our Group recognizes commission charges pre-deducted by third-party payment channels as cost of revenue. Therefore, third-party payment channels are regarded as both our customers and suppliers.
- (3) Both our customers and suppliers are determined by the flow of revenue stream and can only be presented from the financial perspective. In the event that our licensed mobile games are published through Google Play, Google Play would receive gross proceeds from end users and remit such proceeds to our Group after deducting commission charges. Our Group recognizes commission charges pre-deducted by Google Play as cost of revenue. Therefore, Google Play is regarded as both our customers and suppliers.

Proprietary games

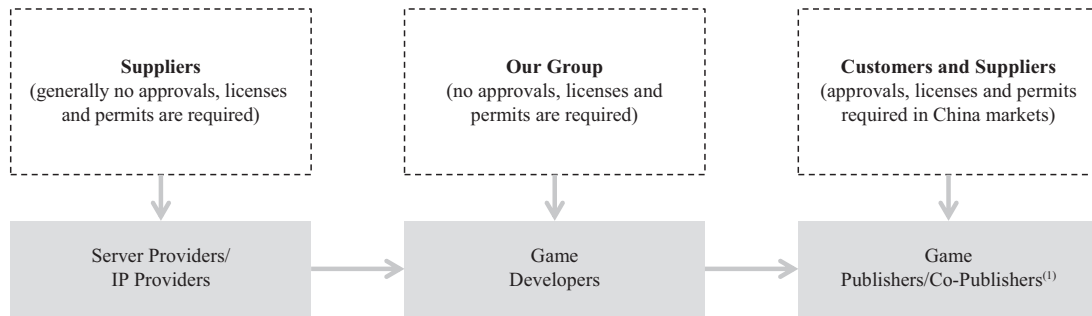
In overseas markets



- (1) In the event that special licenses are required for game publishing, our Group would engage co-publishers for such publication.
- (2) Both our customers and suppliers are determined by the flow of revenue stream and can only be presented from the financial perspective. In the event that our proprietary games are published in overseas markets through self-owned platforms, third-party distribution platforms and co-publishers, third-party payment channels, distribution platforms and co-publishers would receive gross proceeds from end users and remit such proceeds to our Group after deducting commission charges. Our Group recognizes the commission charges pre-deducted by third-party payment channels, distribution platforms and co-publishers as cost of revenue. Therefore, the third-party payment channels, distribution platforms and co-publishers for our proprietary games published in overseas markets are regarded as both our customers and suppliers.

BUSINESS

In China market



- (1) Both our customers and suppliers are determined by the flow of revenue stream and can only be presented from the financial perspective. In the event that our proprietary mobile games are published in China through local third-party publishers, local third-party publishers would receive gross proceeds from end users and remit such proceeds to our Group after deducting commission charges. Our Group recognizes the commission charges pre-deducted by the local third-party publishers as cost of revenue. Therefore, the local third-party publishers are regarded as both our customers and suppliers.

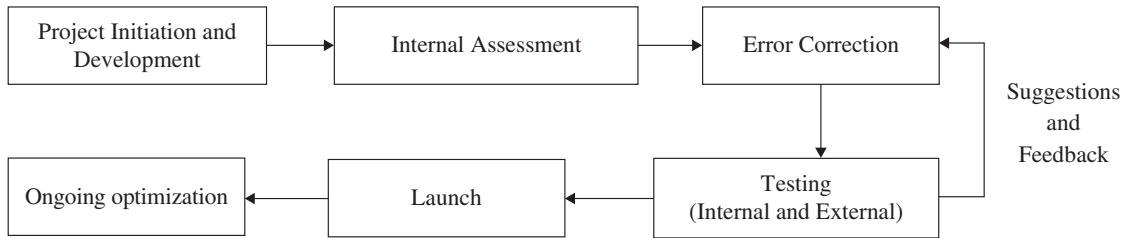
GAME DEVELOPMENT

In-house Development

Leveraging our insights into the market trends and demands, our in-house game development studio identifies an overall game storyline and theme that are likely to attract users in the global markets. Upon approval by our senior management, our studio will then formulate a detailed development plan, which includes the game themes, functionalities, virtual merchandising designs and labor and budget planning, and will begin the development process. All new games will go through our internal assessment, through which our management team will collect feedbacks from our employees on the game functionalities and gameplay experiences so that our studio can refine our designs, resolve technical issues and fix software bugs. We continue to monitor and analyze user behavior under our testing process and make necessary fixes and changes in response to user behavior and feedback. We will then put the new game into trial operations and continue to monitor and analyze user behavior using our data analysis engine and optimize the game contents on a real-time basis. We consider a new game “launched” when it begins to generate revenue. The complete development cycle usually spans from 16 to 24 months, depending on the complexity and novelty of the relevant project.

We believe we have built a scalable game development process, which allows us to minimize the duplication of development efforts by sharing popular new features developed in one game among all new games and utilizing a common code base comprising successful game functionalities and virtual merchandising designs. We also seek to develop new games based on popular IPs from third parties and enhance the appeal of our games by incorporating popular IP elements.

The following diagram illustrates a simplified process for the launch of a game developed in-house.

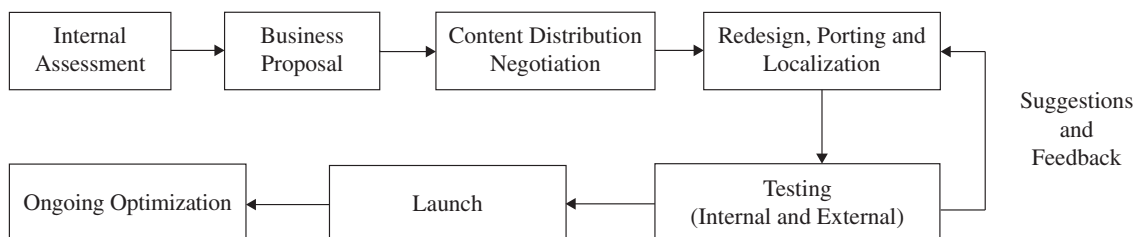


Third-party Development

We review and seek viable games of different genres from a number of China-based game developers. We have a dedicated selection team that keeps track of the latest popular online games in China and the entertainment and popular culture trends in the English-speaking world through a variety of data points such as mobile game rankings and trending keywords on mainstream search engines. We also explore collaborative opportunities to obtain licenses to launch games based on popular IPs.

When reviewing a game, we assess its commercial viability and other potential benefits, including brand value, using our proprietary game scoring system. We have frequently refined the key performance metrics in our system over the years based on operational know-how and data analysis. Our game assessment process involves input from our research and development, operations, distribution and payment teams, each playing a key role in the successful launch and monetization of our games. If a game passes our internal assessment, we approach its developer with a business proposal, setting forth our plan for redesign, distribution and operation in our major target markets. If we reach an agreement on the publishing plan with the game developer, we would initiate content distribution negotiations. After we acquire the game license, we will then conduct an in-depth feasibility study and formulate a detailed redesign plan for the game. For details about our redesign and optimization services, see “— Game Publishing — Redesign and Optimization.” Our third-party development process also generally goes through similar internal and external testing process prior to launch. We continue to monitor and analyze user behavior using our data analysis engine and optimize the game contents on a real-time basis. The complete development cycle usually spans from one to 13 months, depending on the complexity and novelty of the relevant project.

The following diagram illustrates a simplified process for the launch of a game developed by third parties.



Content Distribution Arrangements

We enter into legally-binding, written content distribution agreements with game developers for each licensed game, under which the game developers grant us the right to distribute their games in specified language versions or geographical markets (excluding China). As of the Latest Practicable Date, we executed content distribution agreements with 24 game developers, most of which are based in China. The following is a summary of the key aspects of our content distribution arrangements.

- *Exclusivity.* As of the Latest Practicable Date, 18 out of our 24 game developers had granted us an exclusive license to publish in specified language versions or in geographical markets. For example, 7Road granted us the exclusive right to distribute the English-language version of *Wartune* in certain major English-speaking countries and regions, including in North America and on global English-language websites. For games under non-exclusive licenses, we believe we are able to leverage our leading market position and compete effectively with other game publishers, driven by our in-depth understanding of the international markets, extensive publishing experience and proprietary know-how.
- *Term and renewal.* Our content distribution agreements generally have a term of two to four years. For certain games, we have a preferential right for renewal under the same terms and conditions when the original agreements expire. During the Track Record Period and up to the Latest Practicable Date, we were generally able to renew the relevant content distribution agreements under the same or similar terms and conditions if the relevant games continued to be financially viable and we chose to do so.
- *Game operations in the overseas markets.* We are responsible for the redesign, optimization, marketing, distribution monetization, payment support and other user-related services, and the game developers typically have the right to review and approve our plans to redesign, update or market the games, including virtual item pricing. Our game developer partners provide technical assistance with installation and testing of game functionalities and, in consultation with us, ongoing fixes and updates in connection with game operations. We are also generally responsible for customer services, while our game developer partners provide additional technical support required for resolving any issues that cannot be solved by our internal resources.
- *Revenue sharing.* We typically pay fixed license fees to our game developer partners at the beginning of our collaboration and adopt revenue sharing arrangements following the game launch. We negotiate revenue sharing arrangements with our game developer partners on a case-by-case basis with reference to a number of factors, including our relative market positions, the proven track record or our evaluation of the revenue generation potential of the relevant games, and our prior business relationships. For further discussion, see “— Game Publishing — Distribution — Revenue sharing” below.

BUSINESS

- *Confidentiality and IPs.* Both our game developer partners and we are required to protect and maintain the other party's trade secrets in confidentiality. Our game developer partners retain the game IPs, while we own the gameplay or user data and other related information generated or collected from game operations in the overseas markets. Our game developer partners are obligated to indemnify us for any losses that we may incur if the licensed games infringe upon any third party's IPs.
- *Settlement.* Our game developer partners' share of revenue is typically settled on a monthly basis. At the beginning of each month, we generate a settlement statement from our gross billings records for the preceding month and send it to our game developer partners for confirmation. We generally settle the payment in a promptly manner upon receipt of an invoice from our game developer partners after they confirm the settlement statement.
- *Termination.* Either party may terminate the agreements if the other party breaches provisions on exclusivity or confidentiality. In certain cases, however, our game developer partners may terminate the agreements unilaterally by a 30-day written notice if (1) we fail to settle payment of revenue-sharing for at least 60 days, (2) we develop, operate, or distribute other games identical or similar to the games licensed under the applicable content distribution agreements, and fail to cease these activities upon notification from our game developer partners, (3) we transfer our rights and obligations under the applicable content distribution agreements to a third party without the consent of our game developer partners, or (4) during the first three to six months upon a game release, the average monthly revenue from paying users for two consecutive months is less than a prescribed amount, for example, US\$10,000 in the case of *Wartune*, or the peak concurrent users for two consecutive months are less than a prescribed number, for example, 500 users per day in the case of *Wartune*. During the Track Record Period and up to the Latest Practicable Date, there was no material breach of the content distribution agreements that had resulted in any contractual termination or otherwise had a material adverse effect on our business.

Game Developers

We review and seek viable games of different genres for international publishing from a number of China-based game developers. We have maintained stable long-term business relationship with our game developer partners. As of the Latest Practicable Date, 18 out of our 24 game developer partners had granted us an exclusive license for international publishing, and 10 of them had worked with us for over two years.

During the Track Record Period and up to the Latest Practicable Date, our game developer partners included leading market participants, such as 7Road, Teamtop Games/Rastar Group (SZ: 300043) and YY Inc. (NASDAQ: YY), among which 7Road was a major game developer. We generated approximately 86.7%, 49.8%, 30.3% and 23.0% of our revenue from games developed by 7Road, including our flagship web titles, *Wartune* and *DDTank*, in 2014, 2015, 2016 and the six months ended June 30, 2017.

BUSINESS

7Road is a leading game developer based in China, according to the Analysys Report. In November 2015, a subsidiary of 7Road acquired a 23.0% interest in our Company. Upon the completion of the Listing, 7Road is expected to continue to be a connected person of our Company. We have entered into a written content distribution agreement with 7Road for each game developed by 7Road and distributed by us. See “— Game Development — Content Distribution Arrangements.”

We do not believe that we rely on the games developed by 7Road based on the following factors.

- *Mutually beneficial collaboration.* We believe that our relationship with 7Road is mutually beneficial. According to the Analysys Report, 7Road has no self-owned overseas operation and needs to cooperate with a game publisher like us with strong capabilities to help it access the overseas markets. Leveraging our leading market position as the No. 1 web game publisher in terms of revenue generated from publishing web games developed by China-based game developers in the international markets in 2016, according to the Analysys Report, we believe that we have strong bargaining power over revenue sharing arrangements with 7Road. 7Road is only entitled to approximately 13% to 23% of gross billings while we retain over 60% of gross billings, with the rest of gross billings shared by distribution platforms, payment channels and other relevant parties, reflecting our leading position in the value chain of overseas game publishing industry. In addition, as we already spent substantial time and efforts localizing the games developed by 7Road for international publishing, it would not be cost-effective for 7Road to switch to another game publisher, which would may cause them to incur additional expenses and time on localization.
- *Diversification.* We are actively sourcing games from game developers other than 7Road. Leveraging our leading market position, we continue to attract a large number of proposals for collaboration from China-based game developers interested in exploring the overseas markets. Our game portfolio in respect of games developed by game developers other than 7Road was 17, 33, 30 and 28 in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively, accounting for 85.0%, 91.7%, 90.9% and 90.3% of our total games launched during the same periods, respectively. We have also enhanced in-house capabilities to develop mobile games, leveraging our insights into the market trends and demands. Our in-house game development studio had developed 14 mobile games as of the Latest Practicable Date. Revenue generated from our proprietary mobile games accounted for 2.4%, 34.6%, 58.8% and 66.5% of our revenue in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively.

BUSINESS

- *Favorable industry landscape.* A China-based game developer typically lacks the time, ability, expertise and resources to break the entry barriers to overseas markets and therefore needs a professional game publisher to research and study user needs, redesign and localize games, select appropriate distribution platforms, conduct marketing activities and provide customer services. According to the Game Publishing Working Committee of China Audio-video and Digital Publishing Association (中國音像與數字出版協會遊戲出版工作委員會), there are over 10,000 China-based game developers in 2015, increasing at an annual growth rate of approximately 20%. As we are an early mover in the overseas game publishing market with established, leading market position, we believe that we are well positioned to benefit from the favorable industry development and sustain our business growth by helping China-based game developers penetrate the international markets.

We have also developed several casual shooting games incorporating certain IP elements licensed from 7Road. The royalty fees we incurred for the relevant IP license from 7Road accounted for approximately 2.4%, 10.6%, 9.3% and 1.2% of our cost of revenue in 2014, 2015, 2016 and the six months ended June 30, 2017. For details, see “— Procurement and Suppliers — IP Providers.” Our Directors confirm that the terms of our contractual arrangements with 7Road are fair and reasonable and in the interest of our Shareholders as a whole.

GAME PUBLISHING

Leveraging our in-depth understanding of the international markets, extensive publishing experience and proprietary technical know-how, we offer compelling value proposition to game developers by helping them penetrate the international markets with one-stop solutions, including game redesign, optimization, marketing, distribution, monetization, payment support and other user-related services.

Industry Landscape and Legality of Our Business

There are a number of channels for game publishers to distribute their games and reach out to users in targeted regional markets in the world. To meet the differentiated user preferences across the regional markets, we publish our online games (1) by ourselves through our own platforms and third-party distribution platforms (such as Google Play, Apple Inc.’s App Store and Facebook) and (2) through co-publishers in specific regional markets. Our executive offices and a substantial majority of our full-time employees are located in China, and the users connect to our online games through our leased servers which are all located overseas primarily in the United States. Despite these physical connections, as the boundless nature of Internet-based business generally allows access by users from all over the world, we generally do not restrict access to our online games from any specific territory unless the local regulators so require.

BUSINESS

Accordingly, similar to industry peers, our business presence is global in nature. We have established and implemented various internal control measures to comply with the relevant local laws and regulations in light of its Internet-based business operations, including, among others:

- reviewing our operations from time to time pursuant to our internal control policies to assess the impact of local laws and regulations. See “— Internal Control over Business Operations” below;
- imposing standard terms and conditions for accessing the games published on our own websites, pursuant to which prospective users are required to represent that they must not be barred from receiving services from us under the laws of California or other applicable jurisdictions;
- seeking compliance advice, in particular on whether special licenses are required to publish online games in specific jurisdictions, from major distribution platforms we partner with, including Facebook, Apple Inc.’s App Store and Google Play, which have confirmed that our online games published on the respective platforms have not violated their service terms and conditions or raised any regulatory concern;
- seeking business collaboration with reputable regional co-publishers that meet the relevant licensing requirements (if required) in the distribution territories; and
- seeking legal advice from lawyers qualified in the countries and regions that we target as the primary game markets by language versions.

As of the Latest Practicable Date, we were not aware of regulatory regime, nor had we received any notice from local regulators or major distribution platforms, which restricts access to, or requires us to take down our online games in any specific territory.

Redesign and Optimization

After we acquire a license for a new game, we conduct an in-depth feasibility study and form a project team to formulate a detailed redesign plan for the game. We typically provide the following redesign and optimization services.

- localize the game designs and optimize the creation, deployment and pricing of virtual items to meet the differentiated gameplay needs and preferences of users in the target markets;
- optimize the file size of mobile games and reconfigure them to be more compatible and accessible through the mobile carrier network in the target markets;
- beta test the games on various distribution platforms and mobile devices; and
- monitor and analyze user data on an ongoing basis to gain user insights and facilitate strategizing on content updates and new edition releases to enhance user engagement, retention and monetization.

As our China-based game developer partners formulate and execute their expansion strategies for international markets, they choose our services for our in-depth understanding of the complex online game user demographics, dynamic gameplay preference and consumption habits and the fragmented telecommunication, content distribution and payment processing infrastructure in the international markets. Due to our strong relationship with our game developer partners, we are able to access the source code of many licensed games, which allows us to play a vital role in their optimization for overseas operations. We believe this is crucial to building and expanding our user base, as well as to our ability to operate and monetize our games.

Localization capabilities

Our game localization capabilities form a key component of our services to bring games developed by China-based game developers to the international markets. Many of our games are available in multiple language versions in order to attract a broader user base across geographical markets. For example, we have launched a casual shooting game in several language versions with differentiated game designs for release in China and certain countries in Southeast Asia and South America.

We have built up localization capabilities that offer in-game features specifically designed to meet the differentiated gameplay needs and preferences of users from different regional markets. Our strong and trusted relationship with game developers has afforded us with considerable editorial liberty in the coordinated effort to make structural modifications to our games launched in different regional markets. For example, we redesign the in-game merchandising system originally intended for Chinese users to improve the monetization of North American users. As we believe North American users have different consumption habits compared to their Chinese counterparts, in the North American version, we deploy fewer virtual items available for direct online purchase but more virtual items and premium features acquirable through longer in-game hours. We are also attentive to the cultural awareness of our users from different regional markets. For example, in North American versions, we provide Western-style costumes for virtual characters or avatars and deploy special virtual items featuring American traditional cultural elements. We also launch in-game activities during local festivals, such as Christmas and Thanksgiving to stimulate in-game spending. Additionally, we also launch games that target a specific country or region. For example, we launched a horse racing game, *Stallion Race*, in September 2013 in an English-language version that targets users, especially in North America where people have a tradition of sports betting. These localized game features and designs significantly improve user experience and foster the user awareness of the artistic and cultural aspects of our games, which helps us acquire, retain and monetize our user base in those countries and regions.

As a result of our effort in localization and ongoing optimization, we believe that our online games typically have a longer lifecycle than the industry average. As of the Latest Practicable Date, among the 25 web games we had launched, 12 games had a lifecycle over 24 months (the industry average for web games), the revenue generate from which represented 99.3%, 99.6%, 98.0% and 82.5% of our web game revenue for 2014, 2015, 2016 and the six months ended June 30, 2017. Among the 26 mobile games we had launched, 15 games had a lifecycle over 12 months (the industry average for mobile games), the revenue generated from which represented 100.0%, 100.0%, 99.6% and 99% of our web game revenue for 2014, 2015, 2016 and the six months ended June 30, 2017. Our flagship web title, *Wartune*, which was launched in 2012, continued to generate monthly gross billings of approximately 17% of its peak monthly billings in June 2017, achieving considerable higher longevity among web games of the same genre to date.

Geographical markets

We select target international markets by evaluating a number of factors, including the overall economy in the target market, the size of the local online game users, and the competitive landscape in the local online game industry. We have strategically focused on the English-speaking market in North America, which is the largest English-speaking market with the largest consumption capabilities for online games, according to the Analysys Report. We have also expanded to other non-English-speaking markets with significant growth potential, such as China, Southeast Asia, South America and Europe. We continue to evaluate the local market conditions and user preferences in the other international markets. In our future geographical expansions, we plan to establish regional marketing and distribution channels through collaboration with local game portals and distributors.

For our self-published web games, we are able to record and collect the registered users' IP addresses from our self-owned platforms for web games and Facebook. As of June 30, 2017, the IP addresses of cumulative registered users on our self-owned platforms and Facebook were located in 168 countries and regions.

For our self-published mobile games and co-published online games, however, Apple Inc.'s App Store, Google Play and the co-publishers are only inclined to provide us with (1) the number of registered users without IP addresses, (2) detailed information of limited amount of users for testing purpose, and (3) in-game purchase information for revenue sharing purposes, citing compliance with their internal privacy policies and local privacy laws. For games distributed through co-publishers, the co-publishers are generally not obliged to disclose any IP addresses to us under the relevant distribution agreements.

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Accordingly, we present our revenue by the language versions of our games to display our international footprints. The following table sets forth a breakdown of revenue derived from the major language versions of our games in absolute amounts and as percentages of our total online game revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of online game revenue	Amount	% of online game revenue	Amount	% of online game revenue	Amount	% of online game revenue	Amount	% of online game revenue
	(US\$ except for percentage)									
English	21,209,458	96.8	18,198,290	66.9	11,509,876	41.7	6,301,342	44.5	4,819,152	35.4
Simplified Chinese	548,870	2.5	6,414,999	23.6	9,946,854	36.1	4,858,612	34.3	5,015,305	36.8
Vietnamese	26,964	0.1	2,177,094	8.0	3,561,172	12.9	1,184,712	8.4	2,756,391	20.2
Traditional Chinese	104,961	0.5	298,846	1.1	1,873,269	6.8	1,584,119	11.2	193,842	1.4
Portuguese	–	–	–	–	429,587	1.6	134,563	1.0	691,798	5.1
Thai	–	–	–	–	172,596	0.6	52,664	0.4	105,299	0.8
Others	9,061	0.1	103,486	0.4	95,619	0.3	45,412	0.2	31,372	0.3
Total	21,899,314	100.0	27,192,715	100.0	27,588,973	100.0	14,161,424	100.0	13,613,159	100.0

As we offer our games over the Internet and App marketplaces that can generally be accessed all over the world, we have established and implemented various measures to ensure regulatory compliance in connection with our operations. See “— Internal Control over Business Operations” below.

Distribution

We distribute our games primarily through our own websites and a diversified range of third-party distribution platforms, including social networking websites and App marketplaces. Through third-party platforms, we can reach a wider audience and take advantage of the popularity of their platforms, social and sharing network and sometimes, payment processing services. We also use co-publishers, including leading local game publishes, to operate and market our games. We distributed games through over 50 distribution platforms and co-publishers in our target markets as of June 30, 2017.

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Web game publishing

We publish web games primarily (1) by ourselves through third-party distribution platforms, including Facebook, and other distribution platforms, and (2) by cooperation with co-publishers. The following table sets forth a breakdown of our web game revenue by publishing type for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	% of		% of		% of		% of		% of	
	web		web		web		web		web	
	game		game		game		game		game	
	Amount	revenue	Amount	revenue	Amount	revenue	Amount	revenue	Amount	revenue
(US\$ except percentages)										
(Unaudited)										
Self-publishing										
– Facebook	9,554,601	46.8	6,389,550	40.8	3,534,294	34.7	1,859,688	33.3	1,582,450	36.3
– Others	5,816,982	28.5	5,122,058	32.7	3,836,185	37.6	2,151,698	38.6	1,886,443	43.2
Co-publishing	5,026,903	24.6	4,148,164	26.5	2,828,560	27.7	1,566,620	28.1	894,351	20.5
Total	20,398,486	100.0	15,659,772	100.0	10,199,039	100.0	5,578,006	100.0	4,363,244	100.0

Self-publishing

Facebook is an important distribution platform for our web games. As the largest online social networking platform in the world, Facebook allows us to access and monetize its massive user base. Facebook’s sharing and invitation functions allow existing users to invite their friends and family members to play our games and share their game scores and achievements within their social network, which may further increase our brand awareness and potentially expand our user base. For 2014, 2015, 2016 and the six months ended June 30, 2017, we generated 46.8%, 40.8%, 34.7% and 36.3% of our total web game revenue, respectively, through Facebook.

We are subject to Facebook’s standard terms and conditions for publishing web games on its platform, which include, among others, requirements on protection of personal data, promotion of proper use of Facebook functionalities and compliance with laws. Facebook requires us to use its proprietary payment methods to process in-game purchases and deduct 30% of the gross billings from our web games as commission charges.

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We also publish web games through other distribution platforms, including primarily our self-owned platforms, and use third-party payment channels, including PayPal and Skrill, to process in-game purchases. All of our self-owned platforms hosting web games are registered in the United States. All of our web games published through such platforms are scripted entirely in English and all the in-game purchases are settled primarily in U.S. dollars. Our PRC legal advisers confirmed that the operation of these self-owned platforms does not require any special license, permit or approval from the PRC regulators. For 2014, 2015, 2016 and six months ended June 30, 2017, we generated 28.5%, 32.7%, 37.6% and 43.2% of our total web game revenue, respectively, through self-owned platforms.

Co-publishing

We have also established trusted co-distribution relationship with leading local game publishers, such as R2Games, to operate and market our web games. Their local resources and user bases help us attract more user attention and penetrate the target markets. For 2014, 2015, 2016 and the six months ended June 30, 2017, we generated 24.6%, 26.5%, 27.7% and 20.5%, of our total web game revenue, respectively, through co-distribution.

We screen our co-publishers and require them to have the requisite licenses, if any, for online publishing issued by the local regulators. We and our co-publishers typically enter into co-distribution agreements with a term of two years, renewable for a third year under certain circumstances. Under these agreements, we grant our co-publishers a nonexclusive right to distribute games within specific territories for which we obtained the distribution license from our game developer partners. We are primarily responsible for offering game contents and related technical support, and our co-publishers are typically responsible for marketing and distributing the games within their authorized distribution territories and typically receive 60% to 80% of the gross billings as negotiated on a case-by-case basis as their commission. All of our co-publishers are independent third parties. We may terminate the co-distribution agreements if our co-publishers fail to timely remit our share of the gross billings, develop or operate games identical or similar to the games licensed under the co-distribution agreements, transfer their rights and obligations under the co-distribution agreements to a third party without our consent, or fail to meet the monthly revenue target or the peak concurrent user target.

We intend to continue to diversify our distribution platforms and co-publishers to reach out to a broader user base.

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Mobile game publishing

We publish mobile games primarily (1) by ourselves through third party distribution platforms, primarily Apple Inc.'s App Store and Google Play, and (2) by cooperation with co-publishers. The following table sets forth a breakdown of our mobile game revenue by channel for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue	% of mobile game revenue
	(US\$ except for percentages)									
	(Unaudited)									
Self-publishing	954,375	63.6	3,677,215	31.9	5,331,260	30.7	2,646,231	30.8	2,934,567	31.7
Co-publishing	546,453	36.4	7,855,728	68.1	12,058,674	69.3	5,937,187	69.2	6,315,348	68.3
Total	1,500,828	100.0	11,532,943	100.0	17,389,934	100.0	8,583,418	100.0	9,249,915	100.0

Self-publishing

We publish mobile games primarily on iOS and Android platforms, including Apple Inc.'s App Store and Google Play, to access their broad user bases. We are subject to the standard terms and conditions of those platforms, under which we are responsible for hosting and delivering the games to our users and the platforms are responsible for marketing the games to the platform users at the prices we designate. Apple Inc.'s App Store and Google Play also require us to use their proprietary payment methods to process in-game purchases and deduct approximately 30% of the gross billings from our mobile games as commission charges.

Co-publishing

We also use co-publishers to publish mobile games on iOS and Android platforms to benefit from their local resources and user bases. We screen our co-publishers and require them to have the requisite licenses, if any, for online publishing issued by the local regulators. We and our co-publishers typically enter into co-distribution agreements which authorize them to publish our games in certain regional markets. These agreements generally have terms and conditions similar to those under our co-distribution arrangements with co-publishers for web games. As we publish mobile games through our co-publishers in China, we are advised by our PRC legal advisers that we are currently not required to hold any special license, permit or approval from the PRC regulatory authorities.

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As a growth strategy, we intend to focus on in-house development of new games. The following table sets forth a breakdown of our mobile game revenue in terms of in-house and third-party development for the periods indicated.

	Year ended December 31,						Six months ended June 30,	
	2014		2015		2016		2017	
	Amount	% of mobile game revenue	Amount	% of mobile game revenue	Amount	% of mobile game revenue	Amount	% of mobile game revenue
(US\$ except for percentages)								
In-house development	544,324	36.3	9,694,513	84.1	16,712,204	96.1	9,198,863	99.4
Third-party development	956,504	63.7	1,838,430	15.9	677,730	3.9	51,052	0.6
Total	1,500,828	100.0	11,532,943	100.0	17,389,934	100.0	9,249,915	100.0

We attract, engage and monetize our users primarily through third-party distribution platforms and co-publishers we partner with. As of June 30, 2017, we had maintained business relationships with our five largest customers, including primarily distribution platforms, co-publishers and payment channels, for two to five years. Our payment terms typically range from 30 to 60 days for distribution platforms and from 60 to 120 days for co-publishers, negotiated on a case-by-case basis. For PayPal, we may withdraw the funds accumulated in our PayPal accounts at any time. For 2014, 2015, 2016 and the six months ended June 30, 2017, the revenue generated through our five largest distribution platforms and co-publishers, all independent third parties, was US\$19.2 million, US\$17.6 million, US\$15.5 million, and US\$8.5 million, representing approximately 84.4%, 62.8%, 54.5% and 61.5% of our revenue, respectively. The revenue generated through our single largest distribution platform was US\$9.6 million, US\$6.4 million, US\$4.3 million and US\$2.8 million, representing approximately 42.0%, 22.8%, 15.1% and 20.2% of our revenue, respectively, for the same periods. None of our Directors, their close associates or any Shareholders (which to the knowledge of our Directors owns more than 5.0% of our Shares) has any interest in any of our five highest paying users during the Track Record Periods.

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The following table sets forth certain information of our major customers during the Track Record Period.

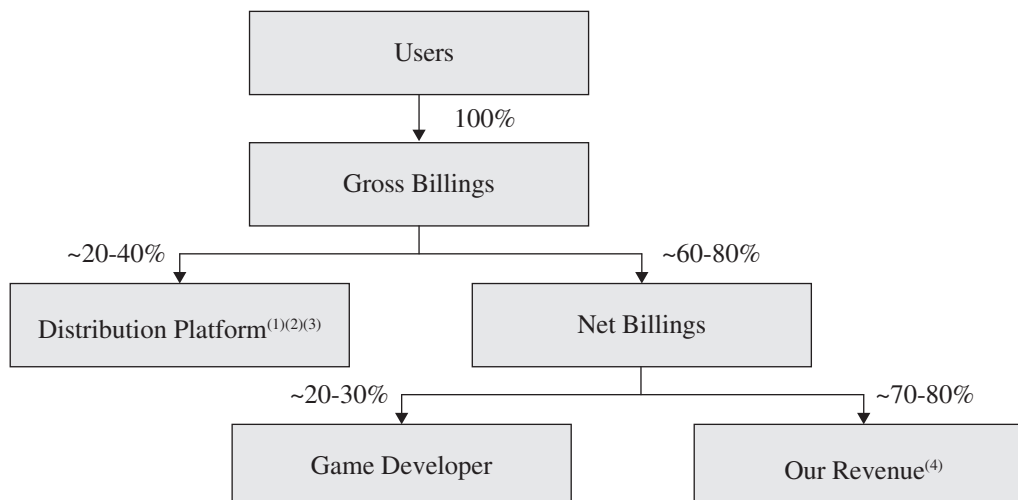
Customer	Transaction Amount	% of total transaction amount	Approximate length of relationship	Principal business
	<i>US\$ in millions</i>	<i>%</i>	<i>Years</i>	
For the six months ended June 30, 2017				
Customer A	2.8	20.2%	3	Game operation and distribution
Customer B	2.1	15.2%	3	Game operation and distribution
Customer C	1.6	11.4%	5	Game operation and distribution
Customer D	1.2	8.7%	5	Payment channel
Customer E	0.8	6.0%	3	Game operation and distribution
Total	<u>8.5</u>	<u>61.5%</u>		
2016				
Customer B	4.3	15.1%	3	Game operation and distribution
Customer A	3.6	12.8%	3	Game operation and distribution
Customer C	3.5	12.4%	5	Game operation and distribution
Customer D	2.2	7.8%	5	Payment channel
Customer F	1.9	6.4%	5	Game Publisher
Total	<u>15.5</u>	<u>54.5%</u>		
2015				
Customer C	6.4	22.8%	5	Game operation and distribution
Customer D	3.5	12.4%	5	Payment channel
Customer F	3.3	11.9%	5	Game Publisher
Customer A	2.3	8.0%	3	Game operation and distribution
Customer B	2.1	7.6%	3	Game operation and distribution
Total	<u>17.6</u>	<u>62.8%</u>		
2014				
Customer C	9.6	42.0%	5	Game operation and distribution
Customer F	4.5	19.7%	5	Game Publisher
Customer D	4.0	17.8%	5	Payment channel
Customer E	0.6	2.7%	3	Game operation and distribution
Customer G	0.5	2.2%	3	Game operation and distribution
Total	<u>19.2</u>	<u>84.4%</u>		

- (1) Our customers are determined by the flow of revenue stream and can only be presented from the financial perspective. Specifically, our customers are the counterparties from whom we collect proceeds and recognize revenue, and include distribution platforms, co-publishers and payment channels, instead of end users.

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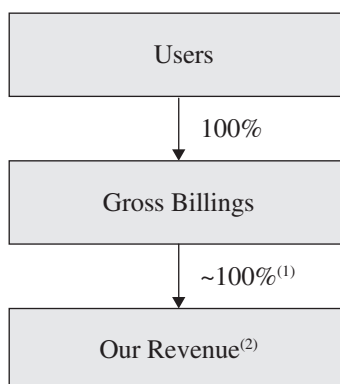
Revenue sharing

The following diagram illustrates our revenue generation process for publishing web and mobile games licensed from third-party game developers.



- (1) Excludes commission charges from Google Play, which account for approximately 30% of gross billings.
- (2) Our co-publishers typically charge approximately 60% to 80% of gross billings as commission charges.
- (3) We do not incur or deduct distribution platform fees when publishing through our own websites.
- (4) We present commission charges from Google Play, license fees and server rental fees as cost of revenue.

The following diagram illustrates our revenue generation process for publishing proprietary web and mobile games.



- (1) Our co-publishers occasionally incur immaterial write-offs of bad debts from gross billings.
- (2) We present commission charges, which typically represent approximately 30% to 85% of our gross billings, license fees and server rental fees as cost of revenue. Certain Android-based distribution platforms in China typically also provide promotion services for our mobile games and require commission charges at the higher end of the range.

We generally receive our portion of the shared revenue after the pre-deduction of commission charges by third-party distribution platforms or co-publishers and recognize them as our cost of revenue.

Monetization and Pricing

To monetize our large and active user base and achieve better financial returns for both our business partners and ourselves, we seek to convert active users into paying users and increase each paying user's in-game spending.

We offer our games on a free-to-play basis and generate substantially all of our revenues from the in-game sale of virtual items. Virtual items include items, avatars, skills, privileges or other in-game consumables, features or functionalities. Through virtual items, users are able to extend their play, enhance or personalize their game environments and accelerate their progress in our games. Most of our virtual items can be purchased conveniently and speedily processed through payment channels. See “— Payment Processing.” By offering quick and convenient payment options for suitably-priced virtual items, we are able to cultivate within our users a habit of paying for fun. We often adopt a “try-to-pay” model where users can try the virtual items for free within a limited time but must pay for permanent use. The release of new editions with new functions and improved game design and graphics also stimulates user spending. We also offer offline rewards to users who achieve high leaderboard rankings in our games, which encourages them to make more in-game purchases of special skills or premium features that facilitate and improve gameplay.

The creation, deployment and pricing of our virtual items also significantly impact user monetization. We have accumulated a large amount of user data that shed light in what kind of virtual items, offered at what time, in which scene and at what price, are more likely to trigger purchasing. We price each virtual item based primarily on an analysis of certain benchmarks, including the benefits or advantage associated with the virtual item, the level of demand for the virtual item, the consumption habit in the local markets and the price of similar virtual items offered in other games. In addition, we are generally obligated under our content distribution agreements to consult with the game developers on virtual item pricing, and we may offer marketing discounts on virtual items upon their prior consent. The prices of our virtual items vary from game to game. We maintain a database that tracks the number and price of each virtual item sold as well as user behavior in response to the launch of a virtual item. Therefore, we are able to adjust the pricing of certain virtual items based on consumption patterns and provide discounts under certain circumstances such as promotions. We will continue to optimize our virtual items merchandising strategy to maximize monetization.

As a result of our effective monetization strategies, average MPUs of our games increased from 76,331 in 2016 to 84,773 in the six months ended June 30, 2017.

Marketing and Promotion

Headed by Mr. HUANG Guozhan, our chief operating officer, our marketing team consisted of 30 members as of June 30, 2017. We deploy our market team members both in our headquarters in China and in our major international markets to better understand and serve our

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users. We have formulated overseas marketing and promotion strategies to sustain user interest, enhance gameplay experience, extend game lifecycles and stimulate game downloads, activations and in-game spending. These strategies include:

- *In-game marketing.* We organize user tournaments, in-game battles, leaderboard rankings and other user activities. We reward users with top gameplay performance by inviting them to special events organized by us. We also cross-promote our games by presenting targeted game recommendations to our existing users based on their interests and profiles.
- *Offline marketing.* We organize marketing events for our users in association with our business partners, such as game developers, device manufacturers and co-distributors. We promote our game through offline advertisements and at trade shows and industry events. We also develop offline promotional events that further build our brand awareness. For example, we commissioned novelists to write stories that narrate the adventures in the world of *Wartune*.
- *Celebrity or event-driven marketing.* We develop and launch special editions for our games for celebrities or special occasions such as on our anniversaries and local festivals. For example, we developed a special edition of mobile *DDTank* in 2015 featuring one of the world-famous soccer clubs — Barcelona Football Club with Camp Nou as background image and several new avatars adopting the image of its star players such as Lionel Messi and Luis Alberto Suarez.

PAYMENT PROCESSING

We offer users all major online payment methods available in America and other international markets to collect proceeds from in-game purchases of virtual items. As of June 30, 2017, we maintained collaboration with over 15 payment channels to facilitate in-game purchases. Our users can purchase virtual items within the game through third-party online payment channels, including web payment channels, such as Facebook, and mobile payment channels, such as Apple Inc.'s App Store, Google Play, PayPal and Skrill. These channels offer credit card, online wire transfer and other payment options and can be safely linked with our users' bank accounts. Facebook, Apple Inc.'s App Store and Google Play usually settle payment with us every 30 to 60 days. For PayPal and Skrill, we may withdraw funds from our accounts at any time.

OUR USERS AND CUSTOMER SERVICES

We attract, engage and monetize our users primarily through third-party distribution platforms and co-publishers we partner with. See “— Game Publishing — Distribution.”

Our Users

We have established a massive global user base, particularly in North America, Southeast Asia, Europe and South America, and we did not rely on any single user during the Track Record Period. We continuously seek to target users with diverse cultural or demographic backgrounds. As of June 30, 2017, we had cumulative registered users of approximately 47.8 million.

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Calculated based on IP addresses, we have registered users located in over 168 countries and regions. We believe that it is the nature of the Internet industry that services offered via the Internet, including online games, can be generally accessed by anyone in any location in the world with Internet connections. The fact that our online games are accessible to, and are played by, users from those countries and regions does not, on its own, conclude that we operate our online game business in those countries and regions. We have, nonetheless, established and implemented various measures to ensure regulatory compliance in connection with our operations. See “— Internal Control over Business Operations” below.

We offer our games on a free-to-play basis and generate revenue from the in-game sale of virtual items. Our users are able to enjoy our games without discretionary in-game purchases to enhance their gameplay experience, and consistent with the industry norms, paying users only account for a relatively small portion of our total users. We continuously seek to optimize in-game merchandising designs to stimulate in-game spending and maximize monetization, without compromising the overall gameplay experience we strive to offer all of our users, paid or not. In 2014, 2015 and 2016 and the six months ended June 30, 2017, our average MPUs for online games were approximately 68,343, 73,125, 76,331 and 84,773, respectively, representing approximately 5.8%, 6.1%, 6.1% and 5.4% of the average MAUs for the same periods, respectively.

Customer Services

We have a dedicated customer service team, consisting of 8 members as of June 30, 2017, to provide customer support to our users in multiple languages, including primarily English, Portuguese and Chinese. Users can reach our customer service specialists anytime through multiple channels, including by emails or via our in-game ticketing system. We have adopted internal procedures to promptly respond to and resolve our users’ technical inquiries and complaints, most of which are related to payment processing, account log-in, game features and bugs. Our customer service specialists typically answer a ticket within 24 hours.

Upon receipt of inquiries or complaints from our users relating to functions and features of our games, our customer service team will respond promptly and provide detailed explanations and instructions to guide the users to resolve their issues. Complaints relating to in-game delivery of virtual items, programming errors or technical issues are reported to the relevant project teams for handling.

We believe that satisfactory customer services play a significant role in retaining users and differentiating us from our competitors. In serving our users, our customer service team also collects valuable first-hand user feedback, which help us better understand user preference and demand and improve our game designs. As of the Latest Practicable Date, we had not received any material complaints from our users that results in material adverse effect on our business.

OUR TECHNOLOGY

We have developed a proprietary technology platform with robust data analysis capabilities that integrates and tracks our business operations, which have also significantly contributed to our success.

Scalable Server Infrastructure

Our diversified online game portfolio and large user base worldwide are supported by our stable and powerful network infrastructure. All of our games feature real-time interaction, which require our server network to respond promptly with low latency. As of the Latest Practicable Date, we leased approximately 100 physical servers hosted by data server providers in Los Angeles and Chicago, the United States and approximately 180 cloud-based servers hosted by Amazon in selected locations globally. See “— Procurement and Suppliers — Data Server Providers” for details.

In addition, we implement network-based caches to promptly respond to massive data access triggered by a large number of concurrent users, which minimizes the access to server database. As such, our large capacity server centers ensure the data synchronization while the other local servers cache the gameplay data in order to speed up access to data and reduce demand on local bandwidth.

We believe that our current server infrastructure provides us with sufficient capacity to carry out our current operations and is able to scale up relatively quickly to meet additional capacity needs.

Multi-dimensional Data Analysis Engine

We process large volumes of data related to gameplay and related activities. Our proprietary multi-dimensional data analysis engine collates and structures our data in a variety of ways so it can be used for ad-hoc analysis, real time in-line analysis and standardized reports. Our data analysis generated visualized results filterable based on numerous performance metrics, which enables us to locate key performance drivers and non-performing virtual items or cross-promotion advertisements. Our cross-platform SDK allows us to centrally manage user accounts and gameplay data regardless of geographical location and track data generated by each user, such as user location, type and number of games downloaded, playing frequency and time, and purchasing habits. As a result, we are able to gain invaluable insights on user needs, preferences and behaviors, through which we improve our games and user experience, enhance cross-promotion effectiveness and discover hidden opportunities for improving user retention and increasing user lifetime value.

Cross-platform Technology

We began to develop our cross-platform infrastructure in 2015 to allow users to play wherever they are and switch seamlessly between devices, such as PCs, tablets and smartphones, and platforms, such as Facebook, Apple Inc.’s App Store and Google Play. Our cross-platform technology offers corresponding SDK for various scripting languages in order to integrate application programming interfaces. Our cross-platform technology allows our users to synchronize their accounts, information, game progress and other personalized features in different platform-based versions of a game. As we continue to develop our cross-platform technology, we believe we will be able to develop, operate and improve cross-platform games while ensuring the consistent quality and performance of our games.

RESEARCH AND DEVELOPMENT

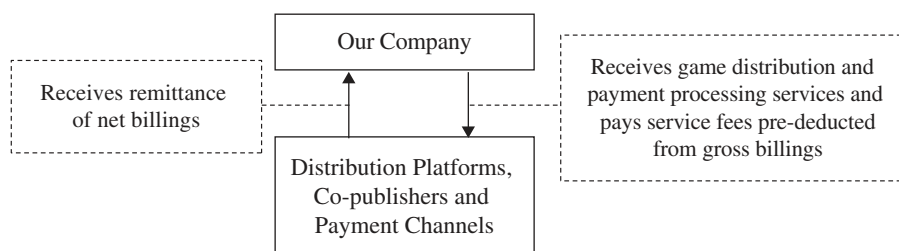
We are committed to investing in our research and development activities in a cost-effective manner. We focus on (1) developing new mobile games, new editions of our existing games and new entertainment products featuring the advanced visual technologies, (2) upgrading our cross-platform technology and our multi-dimensional data analysis engine, and (3) refining tools for our cross-promotion and other in-game marketing strategies, which we believe are critical to our business expansions. We used to partially outsource our research and development efforts from third parties, and beginning in 2015, we significantly reduced outsourcing when we invested more in our in-house research and development capabilities to allow us to have greater control over the research process and develop viable mobile games in a cost-effective and results-driven manner, leveraging our publishing experience and technical know-how. As our research and development team has accumulated considerable experience from the 14 proprietary mobile titles launched to date, we have streamlined the workforce structure of our research and development team and built a scalable game development process, which allows us to minimize the duplication of development efforts by sharing popular new features developed in one game among all new games and utilizing a common code base comprising successful game functionalities and virtual merchandising designs.

Headed by Mr. HUANG Deqiang, our chief technology officer, we had 27 research and development personnel as of June 30, 2017, who had an average of five years' relevant experience and had been with us for an average of 2.5 years. Despite the implementation of our cost control measures to optimize the workforce structure during the Track Record Period, the average salaries per month for the members of our research and development team increased from approximately US\$1,200 in 2014 to approximately US\$2,100 in the six months ended June 30, 2017, a testament to our commitment to developing research and development capabilities.

Our research and development expenses were US\$1.8 million, US\$1.3 million, US\$1.2 million, US\$0.5 million and US\$0.3 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 8.1%, 4.7%, 4.3%, 3.6% and 2.5% of our revenue during the same periods, respectively. The decrease in our research and development expenses during the Track Record Period was primarily the result of (1) the transition from outsourced to in-house research and development efforts, which has allowed us to have greater control over the research process and develop new mobile games in a cost-effective and results-driven manner, and (2) the simplification of the workforce structure to streamline the research process management, (3) partially offset by an increase in average salaries for research and development team members from US\$1,200 in 2014 to US\$2,000 in the six months ended June 30, 2017.

PROCUREMENT AND SUPPLIERS

Our suppliers include primarily third-party distribution platforms and co-publishers, third-party payment channels, data server providers, game developers and IP providers. For our (1) proprietary games and (2) licensed games published through Google Play, Android platforms and our self-owned platform, our third-party distribution platforms and co-publishers and third-party payment channels are both (1) our suppliers in their capacity of providing game distribution and payment processing services by pre-deducting service fees from the gross billings and (2) our customers in their capacity of remitting the net billings to us. The following diagram illustrates our relationship with third-party distribution platforms and co-publishers and third-party payment channels.



“” denotes the direction of cash flows.

Third-party Distribution Platforms and Co-publishers

We collaborate with third-party distribution platforms, including Facebook, Apple Inc.’s App Store and Google Play, to publish our games. We also use co-publishers, including leading local game publishers, to operate and market our games. For details, see “— Game Publishing — Distribution.”

Third-party Payment Channels

We engage third-party payment channels, including integrated distribution platforms, PayPal and Skrill, to collect proceeds from in-game purchases. For details, see “— Payment Processing.”

Data Server Providers

As of the Latest Practicable Date, we leased approximately 100 physical servers hosted by data server providers in Los Angeles and Chicago, the United States and approximately 180 cloud-based servers hosted by Amazon in selected locations globally.

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Under our typical arrangements with data server providers, data server providers are responsible for providing (1) server hosting space with stable power supply, IP addresses, bandwidth Internet connection facilities and firewall monitoring services that meet our requirements and (2) related technical consulting and supporting services on a 24/7 basis, and we are responsible for the content and information stored and published on the servers, and the data server providers may terminate the agreements if we are found to violate the relevant laws and regulations. During the Track Record Period, a significant portion of our game traffic was hosted by Cogeco Peer 1, a data server provider based in the United States. We are subject to the standard terms and conditions from Cogeco Peer 1 for the leased physical servers. We pay for service fees on an annual basis by placing orders online according to our needs.

We monitor and administer the operational status and maintenance of the leased data servers through our specialized engineer team consisting of five members based in China. To ensure the stability of our network infrastructure, our specialized engineer team evaluates our data server providers regularly based on the performance of their products and services and will replace unqualified providers in a timely manner. We have also rented back-up servers located in the United States since 2014 in case our master servers fail. During the Track Record Period, we did not experience any material shortage or delay in supply of data servers that had a material adverse effect on our business.

Game Developers

We obtain licenses from third-party game developers to publish games originally developed by them. We typically pay fixed license fees to our game developer partners at the beginning of our collaboration and adopt revenue sharing arrangements following the game launch. For details, see “— Game Development — Content Distribution Arrangements” and “— Game Development — Game Developers.”

IP Providers

As a growth strategy, we intend to focus on in-house development of new game IPs as well as outsourcing of popular IPs from third parties to develop new games and enhance existing games. During the Track Record Period, we developed several casual shooting games in mobile formats, including *Gunny Mobi* in Vietnam and *MMOG* in Malaysia, incorporating certain IP elements, including trademarks, from *DDTank*, a web title originally developed by 7Road. We also developed a special version of mobile *DDTank* featuring popular sports figures and scenes licensed from Barcelona Football Club. We believe that users tend to stay with us for the engaging gameplay experience we offer even if they are originally attracted by the IPs embedded in our games.

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The term of our IP licenses ranges from two to five years, and we typically negotiate a renewal on similar terms and conditions if such IPs continue to be viable when the original term expires. Our IP providers are responsible for making available the relevant IP elements, and we are responsible for developing mobile games that incorporate such IP elements and publishing the games so developed within specified territories. For example, we (1) retain the proprietary right in the casual shooting games that incorporate the IP elements licensed from 7Road and have an exclusive right to publish these mobile games in a number of language versions, and have (2) a non-exclusive right to utilize the IP elements licensed from Barcelona Football Club in certain mobile games in China. We own the proprietary rights in these mobile games, including the relevant source codes, game design engines, copyrights and gameplay data, and are able to modify, update and upgrade game designs, contents and virtual merchandising designs solely based on our understanding of the user needs and preferences so long as such modification, updates or upgrades do not adversely affect the licensed IP elements. We pay IP providers royalty fees typically consisting of (1) a fixed advance or annual payment and (2) a revenue sharing arrangement based on certain percentages of our revenue (after deducting distribution platform and payment channel fees) generated from such games or in-game sale of certain virtual items.

We intend to continue to seek viable IPs within and outside China, including popular cartoons and sports themes, and expand our IP portfolio from which to develop new games and enhance existing games. On July 25, 2017, we entered into a binding framework cooperation agreement with Ali Games (阿里遊戲), a market leader in the online game industry in China and a major affiliate engaging in online game business of Alibaba Group, pursuant to which we are authorized to develop a proprietary casual shooting game in mobile format incorporating certain IP elements within the Ali conglomerate (阿里體系), including the Tmall brand images (天貓系列品牌形象). We will also be able to cooperate with Ali Games on a preferred basis to publish such mobile game leveraging its publishing resources and user base. The framework cooperation agreement has a term of five years, and each party undertakes to use its best effort to achieve the cooperative goal by making further implementation arrangements in relation to IP licensing and game distribution.

As of June 30, 2017, we had maintained business relationship with our five largest suppliers, including primarily third-party distribution platforms, co-publishers and payment channels, for two to five years. Our payment terms typically range from 30 to 60 days for distribution platforms and from 60 to 120 days for co-publishers, negotiated on a case-by-case basis. For PayPal, we may withdraw the funds accumulated in our PayPal accounts at any time. For 2014, 2015, 2016 and the six months ended June 30, 2017, our five largest suppliers contributed a total of 84.2%, 55.0%, 55.2% and 60.6%, respectively, of our cost of revenue for the same periods, respectively. For 2014, 2015, 2016 and the six months ended June 30, 2017, our largest supplier contributed 47.5 %, 15.3%, 19.5% and 31.6% of our cost of revenue for the same periods, respectively. Save as otherwise disclosed in this prospectus, all of our suppliers 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 5.0% of our Shares) has any interest in any of our five largest suppliers during the Track Record Periods.

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The following table sets forth certain information of our major suppliers during the Track Record Period. Certain suppliers were also our customers during the Track Record Period. See “— Value Chain of Our Business Operations and Licensing Requirements” for details.

Supplier	Transaction Amount	% of total transaction amount	Approximate length of relationship	Principal business activities
	<i>US\$ in millions</i>	<i>%</i>	<i>Years</i>	
<i>For the six months ended June 30, 2017</i>				
Supplier A (Same as Customer A)	2.0	31.6%	3	Game operation and distribution
Supplier B (Same as Customer B)	0.6	10.2%	3	Game operation and distribution
Supplier C	0.5	7.9%	4	Game publisher
Supplier D (Same as Customer E)	0.4	6.1%	3	Game operation and distribution
Supplier E	0.3	4.8%	3	Game operation and distribution
Total	<u>3.8</u>	<u>60.6%</u>		
<i>2016</i>				
Supplier A (Same as Customer A)	2.5	19.5%	3	Game operation and distribution
Supplier B (Same as Customer B)	1.3	10.0%	3	Game operation and distribution
Supplier F	1.2	9.4%	5	Game development
Supplier G	1.1	8.6%	2	Game publisher
Supplier C	1.0	7.7%	4	Game publisher
Total	<u>7.1</u>	<u>55.2%</u>		
<i>2015</i>				
Supplier A (Same as Customer A)	1.5	15.3%	3	Game operation and distribution
Supplier H (Same as Customer G)	1.2	12.0%	3	Game operation and distribution
Supplier C	1.2	11.5%	4	Game publisher
Supplier F	1.1	10.8%	5	Game development
Supplier D (Same as Customer E)	0.5	5.4%	3	Game operation and distribution
Total	<u>5.5</u>	<u>55.0%</u>		

BUSINESS

Supplier	Transaction Amount	% of total transaction amount	Approximate length of relationship	Principal business activities
	<i>US\$ in millions</i>	<i>%</i>	<i>Years</i>	
2014				
Supplier I	1.3	47.5%	5	Server rental
Supplier H (Same as Customer G)	0.4	13.2%	3	Game operation and distribution
Supplier D (Same as Customer E)	0.2	8.5%	3	Game operation and distribution
Supplier J (Same as Customer D)	0.2	7.9%	5	Payment channel
Supplier K	0.2	7.1%	3	Payment channel
Total	<u>2.3</u>	<u>84.2%</u>		

- (1) Our suppliers are determined by the flow of revenue stream and can only be presented from the financial perspective. Specifically, our suppliers are the counterparties whose pre-deduct commission charges or payments collected from us are recognized as our cost of revenue. Accordingly, our suppliers include primarily distribution platforms, payment channels, co-publishers, server providers and IP providers.

CREDIT RISK MANAGEMENT

We generally grant credit terms (1) of up to 30 days generally to payment channels (2) of up to 60 days generally to third-party distribution platform and (3) of up to 90 days up to co-publishers in China, consistent with the industry norms.

Our counterparties are chosen after careful consideration of their reputation and credit worthiness. In assessing the credit worthiness of our counterparties, we take into account, among others, their reputation, their track record in the industry, their financial trustworthiness, and our past transaction experience with them.

We seek to maintain strict control over outstanding receivables and have established a credit control cross-departmental working group to minimize credit risk. In addition, our senior management regularly review overdue balances. We closely review the trade receivable balance and any overdue balances on an ongoing basis and assess the collectability of overdue balances. For those counterparties that have overdue records, we would (1) contact them to understand the rationale for the overdue records and to agree on a settlement schedule; (2) review and assess the status of the transactions with such counterparties on a more frequent basis; and (3) collect the receivables on a more frequent basis. Our Directors are of the view that our Group's current policies and procedures regarding credit risk management are adequate and effective.

COMPETITION

We are a global online game publisher. The industry in which we operate is highly competitive, characterized by the frequent introduction of new products and services, short product lifecycles, evolving industry standards, rapid adoption of technological and product advancements, as well as price sensitivity on the part of users. We compete with other online game publishers on the basis of a number of factors, including user base, game portfolio, user experience, brand awareness and reputation, and access to and relationships with distribution and payment channels. We believe we compete effectively on these factors, leveraging our in-depth understanding of the international markets, extensive publishing experience, and proprietary technical know-how.

We compete in our major target markets with other online game publishers, such as Perfect World, Kunlun.com and Elex, and leading Internet and technology companies, such as Tencent and Netease, which have deployed their significant financial and technical resources and their large user bases to develop and publish online games. In addition, game developers, including our business partners, may build their own publishing capabilities, leveraging their experience and market position in game development, which may create considerable synergies between game development and publishing. Moreover, we compete more broadly with providers of other forms of interactive entertainment on the Internet or mobile platforms, including social networking services and other online activities or contents, such as video and music streaming services. Some of these current and potential competitors may have significant resources for developing or acquiring games, may be able to incorporate their own strong brands and assets into their games, may have a more diversified set of revenue sources than we do and may be less susceptible to changes in consumer preferences, regulations or other developments that may impact the online game industry.

As there are relatively low entry barriers to develop and operate online games, we expect new competitors to enter the market and existing competitors to allocate more resources to develop and market competing games and applications. See “Industry Overview — Overview of Global Online Game Market” for a discussion on the size, market trends and prospects of the online game industry.

INTELLECTUAL PROPERTIES

Our business is significantly based on the acquisition, creation, use and protection of IPs. Some of these IPs are in the form of software code, patented technology and trade secrets that we license from game developers or create to localize our games and allow them to run properly on multiple platforms. We also create audio-visual elements, including graphics, transcripts and interface design, as we redesign games to meet the differentiated gameplay needs and preferences of our users.

We rely on local laws and contractual restrictions to protect our IPs in our target international markets and China. We enter into confidentiality, proprietary rights assignment, non-compete and non-assignment agreements with our employees, and have confidentiality arrangements with our business partners. We also actively engage in monitoring and enforcement activities with respect to infringing uses of our IPs by third parties.

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As of the Latest Practicable Date, we had 10 registered copyrights in China and three, four and 11 registered trademarks in China, Hong Kong and the United States, respectively, and submitted the application for the registration of five trademarks in the United States and two trademark in China. In addition, we had registered certain domain names that are material to our business, including www.gamehollywood.com, www.proficientcity.com and www.zykong.com.

While we actively take steps to protect our proprietary rights, we cannot be certain that our measures are adequate to prevent the infringement or misappropriation of the IPs created by or licensed to us. Also, 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 IPs held by third parties. We may be subject to legal proceedings and claims from time to time relating to third parties' IPs. For more details, see "Risk Factors — Risks Relating 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."

PROPERTIES

Our principal executive offices are located in Guangzhou, Guangdong province, China. We also occupy certain properties elsewhere in China and in Spain in connection with our business operations and maintenance of registered offices. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our office space and research and development center.

Owned Properties

As of June 30, 2017, we did not own any properties. On this basis, no property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by Rule 5.01A of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Therefore, this prospectus is exempted from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

Leased Properties

As of June 30, 2017, we had entered into seven lease agreements in China in respect to an aggregate leased area of approximately 2,447 square meters from various independent third parties. The properties we leased are primarily used for our office space and research and development center. Our lease agreements have a term ranging from one year to five years. The lessor of our largest leased property with a leased area of approximately 2,332 square meters in Guangzhou provided us a Lease Permit of Military Properties issued by the Real Estate

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Bureau of People's Liberation Army (中國人民解放軍房地產管理局) and a Lease Certificate issued by the Military Representative Office of the Department of Naval Equipment in Guangzhou, certifying that the lessor has the right to lease such property. Our PRC legal advisers advised us that the lessor has the right to lease such property and that all of our seven leases are valid and legally binding.

We plan to renew our leases or negotiate new lease terms when the existing leases expire. We did not experience material difficulties in negotiating renewal of our leases with our landlords during the Track Record Period.

Non-registration

In respect of the leased properties with an aggregated leased area of approximately 105 square meters, the lease agreements have not been registered with the relevant administrative authorities. We have been advised by our PRC legal advisers that the non-registration of lease agreements will not affect the validity of such lease agreements, but competent administrative authorities may order parties to the lease agreements to complete the registration within a certain time limit and impose a fine ranging from RMB1,000 to RMB10,000 if the relevant parties fail to do so. As such, we are entitled to use the properties according to the lease agreements. Our Directors confirm that our business, financial condition, results of operations and prospects would not be materially affected by any potential fines or penalties that may be imposed by the administrative authorities for non-registration of the lease agreements.

EMPLOYEES

The following table sets forth the average number of our employees by function during the Track Record Period.

Function	Average number of employees ⁽¹⁾				
	2014	2015	2016	Six months ended June 30, 2016	Six months ended June 30, 2017
Administration	48	60	46	52	36
Marketing and Sales	64	107	81	85	70
Research and Development	65	53	51	55	29
General	0	3	13	13	10
Total	177	223	191	205	145

(1) The average number of employees in each year is calculated with reference to the headcount by the end of each month.

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As we strategically expanded our business focuses to develop and launch mobile games in 2015, we invested significantly in our marketing and sales and administrative efforts through new recruits in 2015. With the accumulation of our experience in developing and launching mobile games, we have streamlined the workforce structure of our research and development team and built a scalable and standardized game development process. Since 2016, we started to implement cost control measures including (1) minimization of duplication efforts by laying off certain underperforming employees and low-level staffers and (2) an increase in average salaries to optimize workforce structure. We do not believe that the implementation of our cost control measures adversely affected our research and development capabilities. For details, see “— Research and Development.”

We believe we owe much of our success to our people. Therefore, we strive to build and maintain a strong team of employees. We recruit our employees based on a number of factors, including their work experience, educational background and our vacancies, and provide our employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In compliance with the relevant PRC labor law, we enter into individual employment contracts with our employees. These contracts cover matters such as compensation, working hour, employee benefit, workplace safety, confidentiality obligations and grounds for termination. We set performance targets for our employees based on their position and department and regularly review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals.

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. Also see “— Legal Proceedings and Compliance — Non-compliance Incidents — Social insurance plans and housing reserve fund.”

INSURANCE

We do not maintain any property insurance policies covering network infrastructure for losses due to fire, earthquake, flood or any other disaster. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key employee insurance for our executive officers. Damage to any of our uninsured facilities or network infrastructure could have a material adverse effect on our results of operations. See “Risk Factors — Risks Relating to our Business and Industry — Our lack of insurance could expose us to significant costs and business disruption.” 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.

BUSINESS

ENVIRONMENTAL, HEALTH AND WORKPLACE SAFETY COMPLIANCE

As an online game publisher, we do not believe we are subject to any significant environmental, health and workplace safety regulation in any jurisdiction in which we conduct business. As a result, we did not incur environmental, health and workplace safety compliance cost during the Track Record Period and we expect our future annual costs in relation to environmental, health and workplace safety compliance to be nil or immaterial.

APPROVALS, LICENSES AND PERMITS

As confirmed by our legal advisers, we are generally not required to hold any special license, permit or approval for publishing online games in the international markets, and in jurisdictions where the local regulators require operating licenses, we have adopted a co-distribution business model to authorize qualified third parties to publish and operate our games. Under the co-distribution arrangements, we are primarily responsible for offering game contents and related technical support and our co-publishers are primarily responsible for marketing and distributing the games within their authorized distribution territories. We pre-screen our regional co-publishers to ensure that they have the required licenses to publish mobile games in the relevant jurisdictions. As we have adopted a co-distribution business model to authorize third parties to publish and operate our proprietary mobile games in China, we are advised by our PRC legal advisers that we are also currently not required to hold any special license, permit or approval from the PRC regulatory authorities. See “Risk Factors — Risks Relating to Our Business and Industry — Failure to obtain, renew, or retain licenses, permits or approvals or failure to comply with applicable laws and regulations may affect our ability to conduct our business.”

We have had an interview with the Department of Culture of Guangdong Province (廣東省文化廳) which confirmed that (1) our current business activities conducted by our PRC subsidiaries do not fall into the scope of restricted or prohibited foreign investment industries in the PRC, and are currently not required to obtain any special approvals, licenses and permits in China; and (2) as the current business activities of our offshore subsidiaries are conducted in the overseas markets, their business activities outside China are not subject to the relevant regulations in China in relation to game operation and publication and are currently not required to obtain any special approvals, licenses and permits in China. As advised by our PRC legal advisers, the Department of Culture of Guangdong Province is responsible for overseeing the cultural market, including the game industry, and is the competent authority to provide such confirmations.

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AWARDS AND RECOGNITIONS

During the Track Record Period, our games and operations earned a number of awards and recognitions, a summary of which is as follows.

<u>Award/Recognition</u>	<u>Issuing Organization</u>	<u>Issuing Year</u>
Facebook's Excellent Game-Advertiser Award	Facebook	2013
Facebook Staff Favorites Recognition	Facebook	2013
Best Overseas Publisher Award	7Road	2013
Appreciation Award for Partnership and Contribution	Facebook	2014
The Cheng-ho Prize — the Best Overseas Mobile Games Publisher	China Foundation for Development of Social Culture	2015

TAXATION AND RELATED ARRANGEMENTS

Tax Provisions

Our international footprint has subjected us to unique tax risks in relation to the countries and regions where we publish online games. In light of the complex tax regulatory environment and the ambiguity in international coordination in the context of digital economy, our Directors are of the view that a company should consider the practice of its industry peers when handling tax-related matters. However, as the overseas game publishing industry in China emerged only in recent years and, according to the Analysys Report, we had the largest market share in terms of revenue generated from publishing web games developed by China-based game developers in the international markets in 2016, there is limited established common practice for professional tax management in the industry. As the implication of global and local tax regulations on our operations became increasingly complicated, we engaged an external tax consultant in May 2014 to provide professional tax compliance and consulting services. As advised by our tax consultant, we were primarily subject to taxation in China, the European Union and the United States during the Track Record Period.

- *PRC tax.* As advised by our tax consultant, we are subject to enterprise income tax, value-added tax and other local levies in China with respect to our domestic sales income. We were granted exemption from value-added tax with respect to overseas sales income in March 2016. As advised by our tax consultant, we made provisions for PRC enterprise income tax for 2013, 2014 and 2015 with reference to a retrospective accounting adjustment under the transfer pricing arrangements, which were put in place in January 2016. See “— Taxation and Related Arrangements — Transfer Pricing Arrangements” for details.

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- *EU tax.* We were initially uncertain whether our online sales to consumers located in the European Union would be subject to value-added tax under the Electronic Services Scheme under the EU VAT Directive. As advised by our tax consultant, we were subject to the EU value-added tax before 2015. We also contacted the EU tax authorities (i.e., Irish Revenue which was chosen under the Electronic Services Scheme pursuant to the EU VAT Directive) in June 2016 to discuss the historic value-added tax liability. We were advised to register for and file a Q2 2016 Mini One Stop Shop return which will include payment of the historic value-added tax liability which we proceeded to do. As advised by our EU tax legal advisers, in respect of sales after January 1, 2015, it is the online platform providers which are obliged to account for value-added tax on supplies to the end consumers and there is no further EU value-added tax liability.
- *U.S. tax.* As advised by our tax consultant, according to the U.S. “click-through nexus” rules, our connection to the United States through the online platforms is generally sufficient. Therefore, we are subject to U.S. sales tax in those states that adopt the “click-through nexus” rules as a result of having a business connection with our online platforms. Accordingly, we made full tax provisions for 2013, 2014 and 2015.

We initially recorded a net loss in 2012 and began to generate profits in 2013. After consultation with our tax consultant, we provided tax provisions for PRC enterprise income tax, EU value-added tax and U.S. state sales tax to cover our historical tax liabilities. The following table sets forth a breakdown of the tax provisions by types for the periods indicated. See the paragraph headed “Tax Filings and Other Follow-up Measures” for details of our rectification measures.

	Year ended December 31,		
	2013	2014	2015
		(US\$)	
PRC – Enterprise Income Tax Provision	1,650,378	1,605,660	1,134,779
European Union – VAT Provision	544,997	933,718	–
United States – State Sales Tax Provision	72,840	133,187	153,846

Transfer Pricing Arrangements

We adopted a cross-border corporate structure, consisting of non-PRC entities paired with PRC entities with different but complimentary operating functions, to facilitate our overseas operations, whereby our non-PRC entities transact with overseas distribution platforms and payment channels for game operations and retain our income for business growth, and our PRC entities manage business relationship with China-based game developers and China’s large pool of game engineering talents. To prepare for the Listing, we undertook and completed the Reorganization by November 2015 by incorporating offshore and onshore investment holding companies and streamlining our shareholder structure. See “History, Reorganization and Corporate Structure” for details.

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As part of our cross-border corporate structure, on January 1, 2013, we entered into an intra-group technology consultation service agreement between Proficient City (i.e., a non-PRC entity) and Guangzhou SYND (i.e., a PRC entity) to implement certain transfer pricing arrangements. The salient terms of the technology consultation service agreement are as follows.

- *Term.* The agreement does not have a specified term.
- *Service scope.* The technology services provided by Guangzhou SYND include (1) feasibility analysis of the marketing plan and forecast of user market in the international market, (2) technology testing of the game products, (3) game improvement and optimization advice, and (4) tracking and analysis of post-launch data of games.
- *Fee.* The service fee charged by Guangzhou SYND will be determined on cost plus basis and shall be subject to the conditions stated in the payment schedule.
- *Payment schedule.* The service fee will be paid within 15 business days upon receipt of service bill issued by Guangzhou SYND once any of the following key performance indicators is met: (1) the adapted international version of game products exceeds 10, (2) the accumulative number of customer base exceeds 50 million or (3) the game products cover international markets in 20 or more countries and regions.
- *Termination.* Either party may terminate the agreement (1) if the other party breaches material provisions and does not rectify within 14 days, or (2) if the other party declares bankruptcy, liquidation, dissolution, loss of material assets or is deprived of necessary authorization to conduct business operation.

In the course of our rapid development and expansion, during the first quarter of 2014, we engaged senior financial management officers with professional background and expertise to further strengthen our financial and tax management. Once the senior financial officers were on board, our finance department observed that under our cross-border corporate structure, all of the overseas profits and losses during the Track Record Period were booked at the non-PRC entities, while substantially all of the operating expenses were booked at the PRC entities, which created an imbalance of profit allocation between the non-PRC entities and the PRC entities that shifted heavily towards the offshore level. Our transfer pricing tax advisers re-evaluated our tax position in the past and the reasonableness of the existing service and related pricing arrangement pursuant to our transfer pricing arrangements. In addition, our transfer pricing tax advisers conducted a transfer pricing analysis covering the period from January 2013 to March 2017 and concluded that the online game business operations between our non-PRC entities and PRC entities which were engaged in online game business during the Track Record Period were integrated and intertwined. In light of the newly published BEPS Actions issued by OECD and the China's transfer pricing legislation development trend (i.e., Public Notice issued by SAT), our transfer pricing tax advisers are of the opinion that the profit

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split (loss split) methodology is appropriate for determining the reasonable profit allocation between our non-PRC entities and PRC entities which were engaged in online game business with reference to their respective contributions to the success of our online game business. The service payment arrangement from non-PRC entities, which received payment from overseas users, to our PRC entities engaged in online game business, would be appropriate to reflect the nature of the contributions made by those PRC entities.

After considering the findings from the transfer pricing analysis, we put in place a new pricing arrangement for Angame, Proficient City, Hollywood HK, Guangzhou SYND, Zhang Ying Kong and Guangzhou You Lai to implement the pricing arrangement between the relevant non-PRC entities and PRC entities which were engaged in online/mobile game business going forward. The terms of the new arrangement are documented in the form of a technology consultation service agreement dated January 15, 2016 between Angame and Zhang Ying Kong, a technology consultation service agreement dated January 15, 2016 between Proficient City and Guangzhou You Lai, a technology consultation service agreement dated May 8, 2017 between Hollywood HK and Zhang Ying Kong, a technology consultation service agreement dated May 8, 2017 between Hollywood HK and Guangzhou You Lai, and a technology consultation service agreement dated May 8, 2017 between Hollywood HK and Guangzhou SYND. The new pricing arrangement has substantially the same terms and conditions as those of the technology consultation agreement between Proficient City and Guangzhou SYND dated January 1, 2013 with slightly modified key performance indicators tailored to the business activities of Zhang Ying Kong and Guangzhou You Lai in the technology consultation service agreements dated January 15, 2016 and key performance indicators replaced with the parties' confirmation on work progress in the payment schedule of the technology consultation service agreements dated May 8, 2017.

We have properly implemented the transfer pricing arrangements and has adhered strictly to the relevant technology consultation service agreements since they were executed. Our PRC legal advisers consider that the technology consultation service agreements have been effective since they were executed. Our independent internal control consultant is of the opinion that, after taking into account the report transfer pricing analysis prepared by our transfer pricing tax advisers, and the legal opinion issued by our PRC legal advisers, the management of our Group has properly implemented the policy in relation to the transfer pricing arrangements since its adoption to ensure appropriate allocation of profits and losses between onshore and offshore entities within our Group.

Tax Filings and Other Follow-up Measures

PRC tax

We settled our tax liabilities with the competent PRC tax authorities and completed the relevant tax filings in accordance with the PRC tax laws and regulations, including the record filing for exemption for value-added tax, by May 2016. We also completed the record filing with the competent PRC tax authorities for the technology consultation service agreements memorializing out transfer pricing arrangements. We obtained tax clearance certificates in June

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2016 from the relevant competent tax authorities and interviewed with them in March 2017 to confirm that the PRC corporate income tax has been duly settled for the three financial years ended December 31, 2015. We also obtained confirmation letters in March 2016 from the relevant competent tax authorities and interviewed with them in March 2017 to confirm that our PRC entities are exempted from paying PRC value-added tax in relation to any cross-border transactions following the filing of the aforesaid technology consultation service agreements with the relevant tax authorities as long as such agreements are valid. Since January 1, 2016, our PRC entities have properly filed with the relevant PRC tax authorities corporate income tax returns and paid the PRC corporate income tax incurred in full. As confirmed by our relevant PRC tax authorities, we had no tax under-payment for 2016 and for the three months ended March 31, 2017, and have not been imposed any penalties.

Based on the relevant facts and circumstances and independent assessment of legal risks, our PRC legal advisers are of the view that

- we have not been in breach of any relevant PRC tax laws and regulations which will incur any under-payment liabilities or administrative penalties, in respect of the tax incurred since January 2016;
- the competent PRC tax authorities have not expressed any disagreement with, or initiated any challenge against, the transfer pricing arrangement among the members of our Group;
- the transfer pricing arrangement among the members of our Group is not subject to material non-compliance risk, subject to the discretion which may be exercised by the competent PRC tax authorities;
- the possibilities that the competent PRC tax authorities identify the transfer pricing arrangements among the members of our Group as tax evasion under the relevant PRC tax laws and regulation and/or impose criminal or administrative penalties on our relevant PRC entities that form part of our cross-border corporate structure are very low;
- the possibilities for our relevant PRC entities to be determined by the competent PRC tax authorities as having committed criminal offense for the adoption of the cross-border corporate structure and the transfer pricing arrangements and/or subject to criminal liabilities imposed by the competent PRC tax authorities are very low; and
- based on the fact that our relevant non-PRC entities have not satisfied the conditions under the Circular 82 promulgated by SAT to clarify the certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises or PRC enterprise groups, the possibility for these major non-PRC entities to be regarded as Chinese tax resident enterprises is low, subject to the discretion which may be exercised by the competent PRC tax authorities.

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EU tax

As of the Latest Practicable Date, we had paid and settled the historical value-added tax liability in Europe. The Directors, based on the advice from our external tax consultant and our EU tax legal advisers, consider that it is unlikely that the Irish Revenue and other competent EU tax authorities will impose penalty against members of our Group due to the completion of the filing of the VAT MOSS Return and settlement of tax liabilities.

Based on the relevant facts and circumstances and independent assessment of legal risks, our EU tax legal advisers are of the view that

- our efforts to arrange for the payment of the outstanding value-added tax liabilities and payment of such demonstrates that the failure to pay the EU value-added tax could more properly be characterized as an inadvertent mistake which would not attract criminal liability;
- given that we agreed to be liable for the relevant EU value-added tax liabilities, nothing suggests that the adoption of our cross-border corporate structure was for the purposes of the evasion of EU tax; and
- we have not been involved in the criminal evasion of tax in respect of our historic EU value-added tax liabilities.

U.S. tax

As of the Latest Practicable Date, we had executed the Voluntary Disclosure Agreement (the “VDA”), for filing and payment of tax with various states in the United States. At the end of the VDA process (i.e., after information is fully furnished and the amount due has been agreed and paid), official documentation will be issued by the relevant state which will confirm that all tax liabilities have been paid. As of the Latest Practicable Date, we had executed and settled all outstanding tax amounts. Our Directors, based on the advice of our external tax consultant, consider that once the VDA procedures have been completed and the outstanding tax payments have been fully settled, it is unlikely that the U.S. tax authorities will impose penalty against us. In respect of all taxes incurred after the respective VDA effective date, we have submitted all tax filings and executed all payments timely and properly in the relevant states.

Based on the relevant facts and circumstances and independent assessment of legal risks, our U.S. tax legal advisers, are of the view that, as (1) each of the states has a VDA process whereby the U.S. civil and criminal tax-specific penalties (“U.S. Tax Penalties”) for the historical U.S. tax liabilities may be waived; and (2) we have taken on-going tax compliance steps in the relevant jurisdictions in filing our tax return on time, computing the tax amounts in good faith and paying the full amounts of tax due on time, it is more likely than not that we do not have exposure to any U.S. Tax Penalties.

Internal control measures

We have put in place the following enhanced corporate governance measures since January 1, 2016 to ensure that we will comply with relevant tax laws and regulations in the context of our cross-border operation:

- *Direct supervision.* We have established a tax compliance committee which is supervised directly by our chairperson, Mr. LU Yuanfeng, and comprises our chief financial officer, Mr. LIU Jiahua. The tax compliance committee is primarily responsible for, among other things, reviewing our tax return submissions and tax payments. For details of their relevant experiences, see “Directors and Senior Management.”
- *Director briefings.* Our Directors and senior management have received briefings conducted by our tax consultant in relation to relevant tax laws and regulations, duty and liability of the members of our Group and the proper compliance measures to be taken.
- *Dedicated financial management team.* Since 2014, we have engaged senior financial management officers with professional background and expertise, who are responsible for overseeing, among other things, our tax reporting and management system.
- *Internal control adviser.* We have engaged an internal control adviser to help optimize our risk management and internal control systems, including tax-related operational and risk management matters.
- *Engagement of tax consultant.* We have engaged and will continue to engage an external tax consultant to provide professional tax advice for at least one full financial year after the Listing.
- *Professional Trainings.* Since 2015, the tax consultant has provided professional trainings in relation to tax matters to the senior management and relevant staff of our Company.

Our independent internal control consultant conducted a detailed review on our internal control systems and corporate governance measures in relation to tax-related matters and noted that the aforesaid enhanced internal control measures have been implemented by our Company since January 1, 2016. The internal control consultant is of the opinion that our current internal control systems and corporate governance measures are adequate and effective in minimizing the re-occurrence of any tax-related internal control deficiencies. Further, the internal control consultant is of the view that the current internal control systems and corporate governance measures will remain adequate and effective should we continue to adopt them.

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Directors' and the Sole Sponsor's views

Our Directors consider that (1) the delayed tax payments in the relevant jurisdictions was an inadvertent oversight due to our insufficient knowledge about the applicable laws and regulations in respect of complex cross-border e-commerce transactions, (2) as confirmed by our relevant legal advisers, the delayed tax payments and our cross-border corporate structure and the related transfer pricing arrangements would not subject us to criminal prosecution for tax evasion and we have not been in breach of any tax laws or regulations in any material aspect since January 1, 2016, (3) none of the relevant incidents involves any fraudulent act by our then Directors, and did not raise any question as to the integrity of our then Directors, (4) we have not been penalized for our historical tax non-compliances during the Track Record Period and up to the Latest Practicable Date, (5) all under-payment of taxes were duly paid in 2016 and there were no under-provision or outstanding tax liabilities incurred from the historical tax non-compliances which remain unpaid, and (6) as confirmed by our independent internal control consultant, we have sufficiently enhanced and strictly followed our internal control measures to prevent recurrence of incidents of similar nature, including seeking professional advice, such as the engagement of the transfer pricing tax advisers in December 2015 to re-evaluate our tax positions in the past and the reasonableness of our transfer pricing arrangements, and engaging senior financial management officers with professional background and expertise to further strengthen our financial and tax management.

Our Directors and the Sole Sponsor, after considering the above, are of the view that (1) our Directors have the standard of competence commensurate with the positions as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules and that the delayed tax payments described above would not affect the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability of listing of our Company under Rule 8.04 of the Listing Rules, and (2) our enhanced internal control measures are adequate and effective under the Listing Rules.

PERSONAL PAYPAL ACCOUNTS

Background

One of our payment channels, PayPal, used to impose extremely stringent procedures including thorough anti-money laundering and background checks against any non-U.S. enterprises before corporate PayPal accounts can be opened under their internal policy prior to 2016. We had attempted to open our corporate accounts with PayPal before 2016 but with no success. According to the Analysys Report, in light of the prevalence to use PayPal among the users in the overseas markets and due to the stringent procedures involved in opening corporate PayPal accounts, it has been common industry practice for online game publishers in China to use personal PayPal accounts to receive user payment and settle expenses. Accordingly, we opened two personal PayPal accounts in Hong Kong under the names of our employees, Ms. LUO Simin (the spouse of Mr. LU Yuanfeng and our finance manager) and Mr. HUANG Zhihao (our operation supervisor) to receive payment from our users through PayPal and, as requested by some of our suppliers which prefer settlement through the use of PayPal, used such personal PayPal accounts to settle our operating expenses such as server rental expenses and selling and marketing expenses during the Track Record Period.

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PayPal subsequently relaxed its internal policy for non-U.S. enterprises to open corporate accounts in 2016. Since then, we had proactively liaised with PayPal with regard to our corporate accounts. However, upon findings of our transfer pricing analysis at the relevant time, we were advised to use Hollywood HK, a company with minimal business activities at that time, to serve as our main overseas operating platform and act as the recipient of our user payments, which resulted in a slight delay in our account-opening process due to the lack of track record of Hollywood HK. Our corporate accounts with PayPal were successfully opened in July 2016. Shortly after that, we have sent out notices to urge all the relevant users to change their payment methods from the previous personal accounts to the new corporate accounts. As the previous personal accounts were the designated payee accounts linked to our users' bank accounts, it would have negatively affected their gameplay experiences if we had ceased to accept payment via the previous personal accounts without affording them time to change the account designation. Therefore, we permitted our users to make payment to either the previous personal accounts or the new corporate accounts during a transition period where our users had ample time to unlink the previous personal accounts and shift to the new corporate accounts. We ceased to use the personal accounts on June 7, 2017 and transferred the balances from the two personal accounts to our corporate accounts by June 8, 2017 and June 27, 2017, respectively. We have thereafter renounced our rights to the two personal PayPal accounts and have arranged to shut down such accounts.

Each of Ms. LUO and Mr. HUANG executed a deed of confirmation on July 2, 2017 with our Group to retrospectively acknowledge that each of them had held the monies in their respective personal account on behalf and for the benefit of our Group during the Track Record Period.

Transaction Amounts Involved

The following table sets forth details of the user payments received from our online games, amounts of fund transfers to our corporate accounts, and account balances of the personal PayPal account opened under Mr. HUANG Zhihao ("personal PayPal account 1") and the personal PayPal account opened under Ms. LUO Simin ("personal PayPal account 2") for the periods indicated or as of the dates indicated.

	Year ended December 31,			Six months ended June 30,
	2014	2015	2016	2017 ⁽¹⁾
	(US\$'000)			
Total user payments received from our online games⁽²⁾				
Personal PayPal account 1	5,402	4,035	2,505	47
Personal PayPal account 2	263	115	85	3
Total	5,665	4,150	2,590	50
Fund transfers out to our corporate accounts				
Personal PayPal account 1	–	–	420	7,447
Personal PayPal account 2	–	–	–	600
Total	–	–	420	8,047

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	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(US\$'000)			
Account balances				
Personal PayPal account 1	2,098	5,700	7,621	–
Personal PayPal account 2	414	522	601	–
Total	<u>2,512</u>	<u>6,222</u>	<u>8,222</u>	<u>–</u>

- (1) The balances from the personal PayPal account 1 and the personal PayPal account 2 were transferred to our corporate accounts on June 8, 2017 and June 27, 2017, respectively. A small amount of balances have been upheld by PayPal and will be recognized as expenses in the financial statements ending June 30, 2017.
- (2) The user payments received represent the proceeds from in-game purchases before deduction of any service fees to be paid to PayPal.

Our Directors confirm that all receipts of payment from our users through the personal PayPal accounts (1) involved no illegal income, (2) were fully supported by genuine transactions, and (3) involved no intent of tax evasion as all payments were duly accounted for in our tax filings.

Our Directors also consider that the cessation of the use of the personal PayPal accounts has no material adverse effect on our business operations and financial results, taking into account that (1) the use of such personal accounts was transitional only and in line with the market practice, and (2) the total amount of user payment received through the personal PayPal accounts represented a relatively small portion of the total user payment received through all of our payment channels during the Track Record Period.

Legal Consequences

Our Directors consider that our prior use of the personal PayPal accounts did not involve any illegality based on the following advices:

- our BVI legal advisers confirmed that the deed of confirmation entered into in respect of the personal PayPal accounts was legal, valid and binding on, and did not violate the constitutional documents of, Proficient City, our principal operating arm for overseas publishing, or BVI law; and
- our Hong Kong legal adviser in relation to the personal PayPal accounts issue, Ms. Isabel Tam, opined that, our prior use of the personal PayPal accounts is not illegal under Hong Kong laws.

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As of the Latest Practicable Date, no fine or other penalties had been imposed by the relevant government authorities with respect to our prior use of personal PayPal accounts.

Our Directors also consider that our prior use of the personal PayPal accounts complied with the relevant tax rules and regulations based on the following:

- we have treated our funds in the personal PayPal accounts in the same manner as those in our corporate accounts and they were all accounted for in our tax filings;
- our reporting accountant is not aware of any material misappropriation of funds, incident of fraud, loss of cash, money laundering or tax evasion that has caused it to believe that the financial information as set out in the “Accountant’s Report” in Appendix I to this prospectus does not give a true and fair view of the state of affairs and financial performance of our Group as a whole;
- our legal advisers were of the view that we are not subject to any material tax non-compliances in respect of our operation in the major international markets; and
- we have obtained confirmations from and attended interviews with the competent PRC authorities to confirm that we are not in violation with the PRC tax laws.

Ownership of the Funds

Our Hong Kong legal adviser in relation to the personal PayPal accounts issue, Ms. Isabel Tam, further advised us that Proficient City is the true beneficial owner of the funds in the personal PayPal accounts opened in Hong Kong and Proficient City has the right to deploy such funds as beneficial owner. As such, we are entitled to use such funds at will to settle any expenses we may have.

Internal Control Measures

We treated the personal PayPal accounts in the same manner as our corporate accounts and applied the same internal control measures since the commencement of the Track Record Period to (1) ensure that all funds received through the personal PayPal accounts were used solely for the benefit of our Group, (2) segregate the duties of authorizing, executing, monitoring and bookkeeping of fund flows in the personal PayPal accounts, and (3) prevent fraud and misappropriation of funds. Such internal control measures include:

- all passwords and other security protocols relating to the personal PayPal accounts were kept and safeguarded by a designated accounting staff member other than Ms. LUO and Mr. HUANG;
- the designated accounting staff member monitors and keeps record of the fund flows in the personal PayPal accounts and makes appropriate accounting entries;
- another accounting staff member performs monthly reconciliation or checking of the personal PayPal accounts; and

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- our accounting manager reviews and approves the accounting entries and the month-end reconciliation or checking.

As our prior use of the personal PayPal accounts was a one-off arrangement due to regulatory control, our Directors will ensure there will be no recurrence of similar incidents going forward.

Having performed follow-up reviews after we completely ceased the use the personal PayPal accounts, our independent internal control consultant advised us that they did not discover any further use of personal PayPal accounts for corporate purposes.

HISTORICAL BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

The United States or other jurisdictions, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries.

Although it has never been our intention (except for three particular games in Russian version published through third-party distribution platforms or co-publishers) to target any users in the Countries subject to International Sanctions, we publish online games primarily through third-party distribution platforms and co-publishers globally, including Facebook, Apple Inc.'s App Store and Google Play, which are accessible to users worldwide, including users from the Relevant Countries. During the Track Record Period, we incurred sales from users located in the Relevant Countries estimated based on the IP addresses we recorded.

We generated revenue from three Russian-version mobile games of nil, approximately US\$21,000, US\$52,000 and US\$31,000 in 2014, 2015, 2016 and in the six months ended June 30, 2017, representing nil, approximately 0.1%, 0.2% and 0.2% of our revenue during the same periods, respectively. All the games in Russian version ceased operation in June 2017.

In addition, we also generated revenue⁽¹⁾ from users in the Relevant Countries through our websites and distribution platform and co-publisher partners of approximately US\$86,000, US\$103,000, US\$194,000 and US\$129,000 in 2014, 2015, 2016 and in the six months ended June 30, 2017, representing approximately 0.38%, 0.37%, 0.69% and 0.93% of our revenue during the same periods, respectively.

Save as disclosed above, we have not published any games which target to users in the Countries subject to International Sanctions or Sanctioned Persons.

(1) Calculated based on revenue derived from the IP addresses from Countries subject to International Sanctions which we identify from our web-game operation. We are otherwise unable to collect any such information for our mobile games.

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As advised by our International Sanctions legal advisers, our Group's business activities in the Relevant Countries during the Track Record Period fall outside the scope of the United States, the European Union, Australian and United Nations sanctions regimes and do not implicate any applicable sanctions on our Group, or any person or entity, including our Group's investors, our Shareholders, the Stock Exchange, the HKSCC and the HKSCC Nominees. This assessment was provided after the following steps were completed:

- (a) reviewing documents provided by us about us, our business operations, marketing efforts, revenues, sales contracts, customer lists, subsidiaries, branches, sales offices and representatives, ownership structure and management;
- (b) reviewing the list of customers the sales to which have the Relevant Countries export destinations as export destinations during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirming that none of these customers is on such lists; and
- (c) receiving written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

In relation to our sales to users in the Relevant Countries during the Track Record Period, we have not been notified of any sanction imposed on us. Our sales do not involve industries or sectors that are currently subject to specific sanctions in the United States, the European Union, Australia or the United Nations and are therefore not deemed as prohibited activities under International Sanctions laws.

Taking into account our Group's sales to users in the Relevant Countries are not sanctioned activities under the International Sanctions laws and do not implicate the applicability of International Sanctions laws on our Group, or any person or entity, including our Group's investors, our Shareholders, the Stock Exchange, the HKSCC and the HKSCC Nominees, and in order to maintain our presence in such countries to maximize the Shareholders' interests, we will continue to carry out the above business activities in the future but will not target any users specifically in the Relevant Countries. Our Directors however do not expect any significant increase or decrease in our Group's sales to the Relevant Countries upon Listing.

Our Directors and the Sole Sponsor, based on the advice from our International Sanctions legal advisers as highlighted above, are of the view that the risk of sanctions violations as a result of our Group's sales to the Relevant Countries during the Track Record is remote. Although we are unable to collect the IP addresses for our mobile game users from iOS and Android platforms, as both of our web and mobile games share a similar user community, we believe that the revenue from our mobile game users in relation to the Relevant Countries is immaterial and the inclusion of such revenue will not materially change our risk exposure to International Sanctions laws.

Our Undertakings and Internal Control Procedures

We undertake to the Stock Exchange that we will not utilize any funding raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Countries subject to International Sanctions or Sanctioned Persons, or any other government, individual or entity sanctioned by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanction. In addition, we undertake that we will not enter into any sanctionable transaction that would expose our Group, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to any risk of being sanctioned.

We will disclose on the respective websites of the Stock Exchange and our Company if we believe that any transaction that our Group entered into with any users in the Countries subject to International Sanctions or Sanctioned Person would put our Group or our Shareholders at the risk of being sanctioned. We will also disclose in our annual reports or interim reports our efforts in monitoring our business exposure to sanctions risk, if any.

We will continue to monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. The following measures have been fully implemented as at the Latest Practicable Date to ensure compliance with the abovementioned undertakings.

- We would evaluate sanctions risks prior to the determination of whether we should embark on any business opportunity in the Countries subject to International Sanctions and/or with Sanctioned Persons. According to our internal control procedures, our international controls department must review and approve all relevant business transaction documents from users or potential users from Countries subject to International Sanctions and Sanctioned Persons. We also have designated staff who are responsible for evaluating any sanctions risks in our overseas operation. All of our designated staff have legal backgrounds and relevant experience. The designated staff will review information relating to the counterparty of the contract (such as its identity and the nature of the business) along with the draft business transaction documentation. The designated staff will also check the counterparty against the various lists of restricted parties and countries maintained by the United States, the European Union, Australia or the United Nations, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in any of the Countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from external international legal advisers with the necessary expertise.
- If necessary, external international legal advisers will provide training programs relating to the International Sanctions laws to our Directors, our senior management, our legal team and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal advisers will

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provide the current list of Countries subject to International Sanctions and Sanctioned Persons and entities to our legal team, which will in turn disseminate such information to our employees.

With regard to the internal control measures set out above, and subject to the full implementation and enforcement of these measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective framework to assist our Company in identifying and monitoring any material risk relating to International Sanctions laws. Our Directors are also of the view that these measures will provide an adequate and effective framework to assist us in identifying and monitoring any material risk relating to International Sanctions laws.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We are subject to legal proceedings, investigations and claims arising in the ordinary course of our business from time to time. As of the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our directors that could have a material adverse effect on our business, financial condition or results of operations.

Non-compliance Incidents

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in our target international markets and China. During the Track Record Period and as of the Latest Practicable Date, we did not experience any non-compliance that, in the opinion of our Directors, is likely to have a material adverse effect on our business, financial condition or results of operations. As advised by our legal advisers, during the Track Record Period and up to the Latest Practicable Date, save as the incidents of non-compliance as set out below, we had complied with the relevant laws and regulations in all material respects.

Delayed tax payments

Non-compliant incidents

As our business involves publication of online games on a global scale, we are subject to tax risks in relation to various countries and regions where our games are published. The global and local tax regulations governing our operations have become increasingly complicated as the market develops, and due to a lack of understanding of the relevant regulations, we did not pay our tax in a timely manner. See “— Taxation and Related Arrangements — Tax Provisions” for details.

Potential legal consequences

We have obtained opinions from our PRC, EU and U.S. tax legal advisers that it is unlikely that we will be penalized for the delayed tax payments. See “— Taxation and Related Arrangements — Tax Filings and Other Follow-up Measures” for details.

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As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our delayed tax payments. We have also put in place enhanced corporate governance measures to ensure that we will comply with relevant tax laws and regulations. See “— Taxation and Related Arrangements — Tax Filings and Other Follow-up Measures — Internal Control Measures” for details.

Social insurance plans and housing reserve fund

Non-compliant incidents

During the Track Record Period, we did not make adequate social insurances and housing reserve fund contributions for all of our employees or make timely registration with certain relevant social insurance or housing reserve fund authorities. Our non-compliance was primarily due to employee oversight and lack of understanding of the relevant local regulations and communication with the relevant authorities with regard to specific local practice. We estimate that the total shortfall amounts were approximately RMB2.5 million as of June 30, 2017.

Potential legal consequences

As advised by our PRC legal advisers, late fees and fines may be imposed on an employer for not making full social insurance contributions for employees in a timely manner. If any of the relevant social insurance authorities is of the view that the social insurance contributions we made for our employees do not comply with the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding balance within a prescribed time period plus a late fee of 0.05% of the total outstanding balance per day. If we fail to do so within the prescribed period as requested by the relevant social insurance authorities, we may be subject to a fine ranging between one to three times of the total outstanding balance. In addition, if we fail to register and establish an account for social insurance contributions for our employees, the relevant social insurance authority may order us to do so within a prescribed time limit. If we fail to do so within the prescribed period as requested by the relevant social insurance authorities, we may be subject to a fine ranging between one to three times of the total outstanding balance.

As advised by our PRC legal advisers, if any of the relevant housing reserve fund authorities is of the view that our contributions to the housing reserve fund do not satisfy the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding balance within a prescribed period. If we fail to do so within the prescribed period, the relevant housing reserve fund authority may apply to a PRC court for an order of payment. In addition, if we fail to register and establish an account for housing reserve fund contributions for our employees, the relevant housing reserve fund authority may order us to do so within a prescribed time limit. If we fail to do so within the prescribed period as requested by the relevant house reserve fund authorities, we may be subject to a fine ranging from RMB10,000 to RMB50,000.

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Rectifications

As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance or housing reserve fund contributions, nor had we received any order to settle the outstanding amount of such contributions. As confirmed by the competent authorities, they have not imposed any administrative penalties on us in respect of our inadequate contributions to the social insurance and housing reserve fund. We have made full provision for the shortfall amounts in social insurance and housing reserve fund contribution and will pay such shortfall amounts in a timely manner if requested by the relevant regulatory authorities. See “Financial Information — Discussion of Certain Items from the Consolidated Balance Sheet — Other Payables and Accruals.” Based on the foregoing, our PRC legal advisers are of the view that the risk that we may be ordered to make retrospective payment or subject to administrative penalties is low. We believe that the payment of the shortfall amounts would not have a material adverse impact on our business operations and financial condition. Based on the foregoing facts and circumstances, and as confirmed by our PRC legal advisers, the Directors reasonably believe that the likelihood that we will be subject to fines due to inadequate social insurance or housing reserve fund contributions is very low.

Beginning in July 2015, we have complied with our obligations for social insurance and housing reserve fund contributions for our employees in accordance with the applicable PRC laws and regulations, except for two employees who have refused to make their corresponding contributions in respect of house reserve fund due to personal reasons, which had been rectified as of the Latest Practicable Date. Meanwhile, our PRC advisers provided trainings to our management and human resource department staff on the relevant rules and practice in relation to compliance with social insurance and housing reserve fund requirements. As an annual compliance measure following the Listing, we will continue to communicate with our employees with regard to the employee social insurance plans and housing reserve fund, and contribute to the employee social insurance plans and housing reserve fund consistent with the standards stipulated under applicable PRC laws and regulations. See “— Internal Control Over Business Operations.”

RISK MANAGEMENT

We are exposed to various risks during our operation. For more details, see “Risk Factors.” We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including financial reporting, information risk management and human resources management. Our Board oversees and manages the overall risks associated with our operations. We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing trainings to our finance staff to ensure that these policies are well-observed and effectively implemented. As of June 30, 2017, our finance department consisted of 12 employees, and is headed by our chief financial officer, Mr. LIU Jiahua, who has over 10 years of experience in public company financial reporting. Other senior members of our finance department are all experienced in finance and accounting.

We have established an audit committee, the primary duties of which are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. Please refer to “Directors and Senior Management — Board Committees — Audit Committee” for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee.

Information Risk Management

We have adopted measures to protect user data, operational, financial and other confidential information of our Company and to prevent technical issues in our network infrastructure and information technology system. Our information technology department is responsible for protecting user data and ensuring the stability of our network infrastructure and information technology system. As of June 30, 2017, our information technology department consists of five employees, and is led by our chief technology officer, Mr. HUANG Deqiang, who has over 10 years of experience in information technology industry.

We have implemented a confidential information security policy that requires, among others, (1) all of our employees to keep all user data confidential and to receive mandatory training on our information security policies and sign confidentiality; (2) to adopt security measures in the transmission, storage and disposal of user data; (3) access to user data to be approved and given by our chief technology officer only to employees who require such access to carry out his or her work assignment, and all hardcopies and electronic copies of such user data to be removed upon the completion of the relevant work assignment; (4) user data to be used only for the purpose of providing services to the users themselves and for game improvement purposes, in which case, on an anonymous basis; and (5) that all of our vendors and co-publishers who need to have access to our user data shall go through background checks and sign written contracts that impose obligations to comply with our information security policies, and such access shall be terminated immediately upon the completion of the relevant assignment.

BUSINESS

We also use monitoring systems to monitor the data operating status of the server and alert relevant departments to abnormal situations. In addition, our daily maintenance, fire protection measures, access control system and other measures help maintain the physical condition of our network infrastructure. We also have a data back-up system through which our data is stored on servers of different locations on a weekly basis to reduce the risk of data loss. Our information technology department conducts back-up recovery tests semi-annually to examine the status of this back-up system.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any breach of user data or any other confidential information related incidents which could cause a material adverse effect on our business, financial condition or results of operations.

Human Resource Risk Management

We have established internal control policies covering various aspects of human resource management such as recruiting, training, work ethics and legal compliance.

We adopt high standards in recruitment with strict procedures to ensure the quality of new hiring. Moreover, we provide a mentor program for each of the fresh graduates that we hire, which we believe are effective in equipping them with the skill set and work ethics that we required of our employees. We hold monthly workshops where our development and operations staff can share their design ideas and work experience.

We have also made available an anonymous reporting channel through which potential violation of our internal policies or illegal acts at all levels of our Company can be timely reported to the management and appropriate measures can be taken to minimize damage.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee and senior management monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

BUSINESS

INTERNAL CONTROL OVER BUSINESS OPERATIONS

We have adopted internal procedures to ensure regulatory compliance in our business operations in our major target international markets and in China. Under these procedures, our chief financial officer is responsible for monitoring the regulatory environment and developments of local laws and regulations to support our business expansion in our existing and future target markets. We will implement the following internal control procedures to ensure our compliance with legal or regulatory requirements in respect of our business operation, and to reduce our exposure to risk of penalties from the relevant regulatory authorities and cost associated in rectifying or responding to non-compliance incidents:

- establishing an in-house legal department to oversee the implementation of our internal control measures and support our business operation;
- collecting and studying the relevant laws and regulations in our major target international markets and in China and overseas relating to our business operation on a monthly basis;
- examining the contract terms and all relevant documents, including the licenses and permits obtained by the counterparties and all the necessary underlying due diligence materials before we enter into any contract and reviewing out contracts on a monthly basis to ensure compliance with most updated laws and regulations;
- maintaining and updating a checklist of requisite licenses, permits or approvals for online game operation and publishing in our major target international market's and in China on a quarterly basis; and
- regularly communicating with our employees with regard to contributions to social insurance plans and housing reserve fund, and with local labor and housing reserve fund authorities with regard to specific local practice.

We have designated our chief financial officer, with the assistance of our external counsel, to study applicable laws and regulations and ensure that we are updated on the latest legal and regulatory requirements. We will also organize seminars every quarter for employees to introduce legal compliance matters relating to our day-to-day operation.

In addition to the general control measures mentioned above, we have established detailed measures to ensure that the content of our game offerings is in compliance with the relevant rules and regulations in our major target international markets and in China. Prior to entering into content distribution agreements with game developers, we will conduct comprehensive intellectual property rights search based on public domain information in our major target international markets and in China to avoid potential infringement upon third parties' existing trademark, copyright or patent rights. Prior to the launch of a new game licensed from our game developer partners, we will review and reconfirm that the game is in full compliance with the relevant laws and regulations. Upon the launch of the game, the relevant development and

BUSINESS

operation team is responsible for the real-time monitoring to ensure the game operation, including the user activities in the game, is in compliance with all the relevant rules and regulations. We, with the assistance of our external counsel, will conduct a general legal review on all the games' compliance status in our major target international markets and in China every six months. In addition, we will follow our internal procedures and actively apply for registration for trademark, copyright or patent for games developed in-house and proprietary contents we may from time to time create in redesigning and optimizing games we publish in target international markets.

In China, pursuant to our internal control policies, we will engage external counsel to help us ensure that we comply with all filing and registration requirements under the PRC law with respect to our games published and operated in China, and the contents of our games and the virtual items used in our games are in compliance with applicable PRC laws and regulations.

In overseas jurisdictions, pursuant to our internal control policies, we will engage local advisers when necessary to assess the impact of local laws and regulations on our existing or proposed business activities, and take measures to comply with such laws and regulations. In overseas jurisdictions where we have established subsidiaries, such as Spain, and certain other target international markets of our major revenue-generating local versions of games, such as North America and Southeast Asia, we have engaged local counsels from time to time to provide advice on compliance with local laws and regulations.

In addition, we have also appointed Messis Capital Limited as our external compliance adviser with effect from the date of the Listing to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong. During the Track Record Period and up to the Latest Practicable Date, our Directors did not identify any material internal control weaknesses or failures.

Our Directors confirm that, as of the Latest Practicable Date, none of our games or our game business had been challenged or subject to any regulatory actions by any governmental authorities in any of our target markets. Our Directors are of the view that we have adequate internal control procedures in place for purpose of Rule 3A.15(5) of the Listing Rules.

CONNECTED TRANSACTIONS

CONNECTED PERSONS

The following entity, among others, will be regarded as our connected person under the Listing Rules who conduct or will conduct continuing connected transactions upon the Listing:

<u>Name of Connected Person</u>	<u>Connected Relationship</u>
7Road	7Road indirectly holds more than 10% shareholding interest of our Company.

7Road is a leading game developer based in China. In November 2015, 7 Road International, the wholly-owned subsidiary of 7Road, acquired 23.0% of the equity interest of our Company from Mr. LU. 7Road was our major game developer partner during the Track Record Period. Immediately after Pre-IPO Investments and the Reorganization but prior to the completion of the Global Offering, 7Road indirectly holds 20.7% of the equity interest of our Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following are non-exempt continuing connected transactions for our Group, which will be subject to reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Content Distribution Agreement

Background

During the Track Record Period, our Group has entered into content distribution agreements with 7Road with respect to three particular game series originally developed by 7Road, namely the *Wartune* series, the *DDTank* series and the *Sword Saga* series (the "7Road Games"), under which 7Road granted us the right to distribute their web games in specified language versions or geographical markets. For details of the terms, see "Business — Game Development — Content Distribution Arrangements." On July 6, 2017, our Company entered into a content distribution framework agreement with 7Road (the "Framework Agreement"), pursuant to which 7Road agreed to grant the right to publish the 7Road Games or other games developed by 7Road from time to time.

Individual contracts will be required to be entered into between the parties in respect of the development or distribution of each game from time to time. The Framework Agreement shall commence on the Listing Date and end on December 31, 2019. Neither party shall terminate the Framework Agreement before it expires.

CONNECTED TRANSACTIONS

Pricing

It is common in the market for the game publishers and the game developer to adopt revenue sharing arrangements for online games. During the Track Record Period, 7Road generally received a commission of approximately 15.0% to 23.0% of the gross billings derived from web games, which is generally in line with the revenue sharing percentage enjoyed by our other game developer partners in respect of some of their popular games. Pursuant to the Framework Agreement, the revenue sharing arrangements with 7Road will be determined as follows:

- the transactions will be conducted on normal commercial terms, or on terms no less favorable than terms available to independent parties, and shall take into account, among others, nature of the games, the revenue generation track record, financial performance of the games and the prevailing market revenue sharing practice;
- 7Road shall follow its internal pricing policy and guidelines applicable to transactions with independent game publishers; and
- in respect of Content Distribution, the commission per annum shall be in an indicative range of 15.0% to 23.0% of the gross billings.

As a leading game publisher in China, we are well aware of the prevailing revenue sharing practice. To further determine the revenue sharing arrangements with 7Road is fair and reasonable and whether the terms offered by 7Road are on normal commercial terms, the management of our Group shall undergo an internal assessment procedure to compare the pricing terms with other game developer partners contemporaneously.

Reasons for and benefit of the Framework Agreement

Taking into account the long term co-operation with 7Road and their position in the PRC game developing industry, our Directors consider that the Framework Agreement with 7Road is mutually beneficial to our Group and 7Road and will provide our Group a stable working relationship with one of the leading game developers in the PRC.

Historical transaction amounts

In 2014, 2015, 2016 and the six months ended June 30, 2017, the total transaction amounts paid by our Group to 7Road for the 7Road Games amounted to, exclusive of tax, approximately US\$15.9 million, US\$9.1 million, US\$5.7 million and US\$1.9 million, respectively. A breakdown of the transaction amounts is as below.

CONNECTED TRANSACTIONS

Game title	Expiry date of the relevant transactions with 7Road	Historical transaction amount				
		Year ended December 31,			Six months ended	Three months ended
		2014	2015	2016	June 30, 2017	September 30, 2017
		<i>(US\$ million)</i>			<i>(unaudited)</i>	
Wartune series	August 2019	15.4	8.8	5.5	1.8	0.8
DDTank – Web series	May 2018	0.4	0.2	0.2	0.1	0.03
Sword Saga series	December 2019	0.1	0.1	–	–	–
	Total	15.9	9.1	5.7	1.9	0.8

Our Directors confirm that the amounts payable to 7Road during the Track Record Period were determined with reference to the then prevailing market price which is equivalent to approximately 15.0% to 23.0% of the gross billings derived from such games.

Annual caps

Our Directors estimate that the maximum annual amount to be paid by our Group to 7Road under the Framework Agreement and the underlying contracts for the period from the Listing Date to December 31, 2017, and each of the years ending December 31, 2018 and December 31, 2019 will not exceed, exclusive of tax, US\$400,000, US\$4,500,000 and US\$4,000,000, respectively. The annual cap for each of the three years ending December 31, 2019 was determined by the total expected transaction amount taking into account (1) our historical transaction amounts, (2) the decreasing transaction amount in respect of the *Wartune* series; and (3) our plan to diversify our sources of games and explore new pipelines from other game developers. As the highest relevant percentage ratio in respect of the Framework Agreement will be, on an annual basis, more than 5% and the total consideration is expected to exceed HK\$10,000,000, the Framework Agreement will, upon the Listing, and in the absence of the grant of a waiver by the Stock Exchange as referred to in the section headed “— Waiver applications for non-exempt continuing connected transactions” below, be subject to the reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

IP Licensing Agreements

Background

During the Track Record Period, our Group entered into IP licensing agreements with 7Road on February 1, 2013 (as further amended by a supplemental agreements dated September 1, 2013, January 21, 2014, June 1, 2014, July 10, 2015, August 3, 2015 and July 5, 2017), pursuant to which we obtained an IP license and developed several casual shooting games in mobile formats until January 31, 2021 (the “IP Licensing Agreements”). We pay 7Road royalty fees consisting of a fixed advance payment and a revenue sharing arrangement based on a range of 3.0% to 15.0% of our gross billings generated from our self-developed games which adopted their IP. For details of the terms, see “Business — Procurement and Suppliers — IP Providers.”

CONNECTED TRANSACTIONS

Under the Listing Rules, the IP Licensing Agreements should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires the agreement to be of a longer period. Our Directors are of the view that it is in the interests of our Group for the IP Licensing Agreements to have a period longer than three years as it will enable us to establish a stable and long term relationship with 7Road in respect of our games under the IP Licensing Agreements. As such, our Directors are of the view that the current term of the IP Licensing Agreements is appropriate for the IP Licensing Agreements.

The Sole Sponsor's view on the duration of the IP Licensing Agreements

The Sole Sponsor has (1) reviewed the terms of the IP Licensing Agreements, our business model and discussed with our Company and relevant professional parties; (2) considered that the IP Licensing Agreements are subject to approval by our independent Shareholders before the end of 2019 and (3) considered that the long duration of the IP Licensing Agreements will enable us to establish a stable and long term relationship with 7Road in respect of the games under the IP Licensing Agreements which is in the interests of our Company and our Shareholders as a whole. Therefore, the Sole Sponsor is of the view that the term of the IP Licensing Agreements is not excessive and it is normal business practice for the IP Licensing Agreements or similar arrangement of such nature to be of long duration in order to better protect the interests of our Company and our Shareholders as a whole.

Historical transaction amounts

In 2014, 2015, 2016 and the six months ended June 30, 2017, the total transaction amounts paid by our Group arising from the IP Licensing Agreements amounted to, exclusive of tax, approximately, US\$0.1 million, US\$1.1 million, US\$1.2 million and US\$0.1 million, respectively, representing 2.4%, 10.6%, 9.3% and 1.2% of our cost of revenue during the same period, which is equivalent to approximately 0.8% to 13% of our gross billings generated from such games. Based on our unaudited management accounts for the three months ended September 30, 2017, the total transaction amounts paid by our Group arising from the IP Licensing Agreements amounted to, exclusive of tax, approximately US\$0.2 million. Our Director confirm that the amounts payable to 7Road during the Track Record Period were determined with reference to the then prevailing market price.

Annual caps

Based on the payment terms of the IP Licensing Agreements, our Directors estimate that the maximum annual amount to be paid by our Group to 7Road under the IP Licensing Agreements for the period from the Listing Date to December 31, 2017, and each of the years ending December 31, 2018 and December 31, 2019 will not exceed, exclusive of tax, approximately US\$100,000, US\$2,200,000, US\$2,500,000, respectively. The annual cap for each of the aforesaid years was determined after arm's length negotiation between the parties based on the total transaction amount in the IP Licensing Agreements by taking into account our historical transaction amounts, advance payments to be paid in each of 2018 and 2019 for the renewal of the IP Licensing Agreements and the other payment terms of the IP Licensing Agreements.

CONNECTED TRANSACTIONS

As the highest relevant percentage ratio in respect of the IP Licensing Agreements will be, on an annual basis, more than 5% and the total consideration is expected to exceed HK\$10,000,000, the IP Licensing Agreements will, upon the Listing, and in the absence of the grant of a waiver by the Stock Exchange as referred to in the section headed “Waivers from Strict Compliance with the Listing Rules”, be subject to the reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Before the end of 2019, our Company will re-comply with the relevant requirements under reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules, where and if applicable, including the requirements for the setting of new monetary annual caps for the maximum aggregate amount payable under the IP Licensing Agreements for an additional three year period.

INTERNAL CONTROL

Based on the foregoing, our Directors confirm that there are adequate internal controls in place to ensure that the individual transactions in connection with the Framework Agreement and the IP Licensing Agreements will be conducted on normal commercial terms, not prejudicial to the interests of our Company and the Shareholders as a whole and within the framework as stated above. Our Company’s internal control measures will involve an internal assessment process including comparing quotations obtained from independent game developers, annual review by our Company’s independent non-executive Directors and our Company’s auditors of these continuing connected transactions, and annual confirmations will be made by each of them that the individual transactions under the Framework Agreement and the IP Licensing Agreements are conducted in accordance with the terms contemplated thereunder and on normal commercial terms at arm’s length basis (or on terms which are no less favorable than terms available to independent third parties). Our Company will provide information for the independent non-executive Directors and our Company’s auditors to properly review the transactions annually.

WAIVER APPLICATION FOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

In respect of the non-exempt continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement and independent Shareholders’ approval requirements under the Framework Agreement and the IP Licensing Agreements subject to the condition that the annual caps stated above are not exceeded. Our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules unless they are specifically exempted.

CONNECTED TRANSACTIONS

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that the non-exempt continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms, and the terms of the Framework Agreement and the IP Licensing Agreements are fair and reasonable and in the interest of our Company and the Shareholders as a whole, and that the proposed annual caps for such non-exempt continuing connected transaction are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that such non-exempt continuing connected transactions as set out above are entered into and will be entered into during our ordinary and usual course of business, on normal commercial terms, and the terms of the Framework Agreement and the IP Licensing Agreements are fair and reasonable and in the interest of our Company and the Shareholders as a whole, and that the proposed annual caps for such non-exempt continuing connected transaction are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

SUMMARY INFORMATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our current Directors and senior management.

Name	Age	Position	Effective date of appointment of current position	Date of joining our Group	Responsibilities	Relationship with other Director and senior management
Directors						
Mr. LU Yuanfeng (陸源峰)	38	chairman, executive Director and chief executive officer	November 24, 2014	June 12, 2010	In charge of the overall development, operation and management of the Company	N/A
Mr. HUANG Guozhan (黃國湛)	38	executive Director and chief operating officer	November 2, 2015	June 12, 2010	In charge of the operations and marketing of the Company	N/A
Mr. HUANG Deqiang (黃德強)	44	executive Director and chief technology officer	June 28, 2017	June 12, 2010	In charge of the information technology management and the research and development of the Company	N/A
Mr. MENG Shuqi (孟書奇)	39	non-executive Director	November 2, 2015	November 2, 2015	Supervising the management of the Company	N/A
Mr. Darren Raymond SHAW (邵在純)	52	independent non-executive Director	November 24, 2017	November 24, 2017	Supervising the management of the Company	N/A
Mr. LI Yi Wen (李毅文)	47	independent non-executive Director	November 24, 2017	November 24, 2017	Supervising the management of the Company	N/A
Ms. Imma LING Kit-sum (凌潔心)	62	independent non-executive Director	November 24, 2017	November 24, 2017	Supervising the management of the Company	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Effective date of appointment of current position	Date of joining our Group	Responsibilities	Relationship with other Director and senior management
Senior Management						
Mr. LIU Jiahua (劉嘉華)	36	chief financial officer	March 21, 2014	March 21, 2014	Responsible for the investment and the overall management of the finance of our Group	N/A
Mr. CHEN Liang (陳亮)	36	senior vice president	July 1, 2015	September 1, 2013	Responsible for the overall operation and management of the game operation division of our Group	N/A
Mr. SHI Lijia (石立家)	34	vice president	August 17, 2015	August 17, 2015	Responsible for the overall management of the research and development of our Group	N/A
Mr. CHEN Yangzhao (陳陽照)	39	vice president	July 1, 2015	February 10, 2011	Responsible for the technology management of the research and development of our mobile games	N/A

BOARD OF DIRECTORS

The Board comprises seven Directors, including three executive Directors, one non-executive Directors and three independent non-executive Directors. The term of service for Directors is three years, and Directors are permitted to be re-elected.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. LU Yuanfeng (陸源峰), aged 38, is an executive Director, our chief executive officer and the chairman of our Board. Mr. LU is mainly responsible for the overall development, operation and management of the Company. Mr. LU founded our Group in June 2010 and was appointed as an executive Director on November 24, 2014. He also serves as a director of Proficient City, Angame, Hollywood BVI, Hollywood HK and Guangzhou You Lai.

Mr. LU has over 15 years' experience in the game industry.

Prior to founding our Group, Mr. LU founded Guangzhou Blue Power Digital Technology Company Limited (廣州市藍色動力數碼科技有限公司) ("Guangzhou Blue Power") which is primarily engaged in software development in May 2001 and served as its chief executive officer from 2004 to January 2011, mainly responsible for development, publication and operation of various games. From June 2001 to February 2004, Mr. LU served in various positions up to the chief editor of the game channel at 21.com operated by 21CN Corporation Limited (世紀龍信息網絡有限責任公司) which is primarily engaged in the provision of information technology services.

Mr. LU graduated from Guangdong University of Technology (廣東工業大學) with a bachelor degree in architectural engineering on June 30, 2001.

Mr. HUANG Guozhan (黃國湛), aged 38, is an executive Director and our chief operating officer. Mr. HUANG is responsible for the operation and marketing of the Company. Mr. HUANG joined our Group in June 2010 and was appointed as an executive Director on November 2, 2015. He also serves as a director of Now To Play Game, Beijing You Tang, Guangzhou SYND and Beijing You Lai.

Mr. HUANG has over 10 years' experience in the game industry.

Prior to joining our Group, Mr. HUANG served as a video game operation and planning officer at Guangzhou Blue Power from January 2006 to January 2011. From February 2003 to January 2006, he served as a radio host at Guangzhou Sheng Se Chuan Bo Entertainment and Production Co., Ltd. (廣州聲色傳播娛樂製作有限公司) which is primarily engaged in installation services of stage lighting and audio equipment and cultural communication, mainly responsible for hosting and planning radio programs.

Mr. HUANG graduated from Guangdong University of Technology (廣東工業大學) with a bachelor degree in architectural engineering on June 30, 2002. Mr. HUANG obtained a certificate as a host issued by the State Administration of Radio, Film and Television (國家廣播電影電視總局) on February 12, 2005.

Mr. HUANG Deqiang (黃德強), aged 44, is an executive Director and our chief technology officer. Mr. HUANG is responsible for developing information technology and managing the research and development of the Company. Mr. HUANG joined our Group in June 2010 and was appointed as an executive Director and the chief technology officer on June 28, 2017.

DIRECTORS AND SENIOR MANAGEMENT

Mr. HUANG has over 10 years' experience in the game industry.

Prior to joining our Group, Mr. HUANG served as the manager of the technology department of Guangzhou Blue Power from October 2004 to January 2011.

Mr. HUANG graduated from Guangdong Financial and Trade Cadre Academy (廣東省財貿管理幹部學院) with a college degree in financial management in July 1997. He was enrolled in Aptech Certified Computer Professional, an IT career program taught by Aptech Beida Jade Bird, from December 2001 to June 2003. Mr. HUANG obtained a national certificate as an intermediate programmer and a national certificate as a software engineer in December 2002 and June 2003, respectively, both issued by the Ministry of Labor and Social Security of the People's Republic of China (now known as the Ministry of Human Resources and Social Security of the People's Republic of China). In August 2003, he was also certified as a Sun Certified Programmer by Sun Microsystems, Inc. (太陽微系統公司).

Non-executive Director

Mr. MENG Shuqi (孟書奇), aged 39, is a non-executive Director of our Company. Mr. MENG is responsible for providing business guidance in relation to the game industry to our Group. He was appointed as a non-executive Director on November 2, 2015.

Mr. MENG has approximately 10 years' experience in the information technology industry.

Mr. MENG has been the chairman of the board of director and the chief executive officer of 7Road since January 2015, mainly responsible for its overall management. He served as the chief operating officer of 7Road from June 2009 to May 2014. From May 2004 to October 2006, he served as a business manager in A8 Music Group (A8 音樂集團), which is primarily engaged in value-added telecommunication service.

Independent non-executive Directors

Mr. Darren Raymond SHAW (邵在純), aged 52, is an independent non-executive Director of our Company. Mr. SHAW was appointed as an independent non-executive Director on November 24, 2017.

Mr. SHAW has been involved in the TMT business sector for over 13 years. Mr. SHAW served as the executive chairman of Pacific Media Plc from 2004 to 2006, a UK-listed online and TV home shopping enterprise with operations in Greater China. From 2011 to 2014, he was a director of Shaw Brothers (Hong Kong) Limited (currently known as Clear Water Bay Land Company Limited), which is primarily engaged in the production and distribution of films. Mr. SHAW has been an adviser to Red Bee Media (formally the broadcasting arm of the British Broadcasting Corporation). He is currently a member of the Hong Kong advisory board of the British Academy of Film and Television Arts (BAFTA).

Mr. SHAW graduated in economics from University College London of University of London in 1987.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LI Yi Wen (李毅文), aged 47, is an independent non-executive Director of our Company. Mr. LI was appointed as an independent non-executive Director on November 24, 2017.

Mr. LI has over 10 years' experience in the information technology industry.

Mr. LI serves as a director of Ningbo Lehui International Engineering Equipment Co., Ltd. (寧波樂惠國際工程裝備股份有限公司) which is primarily engaged in development, manufacturing of industrial equipment since March 2016. He also serves as a director of Aleo BME, Inc. which is primarily engaged in biotechnology research and development since January 2016. From January 2011 to October 2013, he served as a director, chief financial supervisor and secretary of the board at Guiyang Longmaster Information & Technology Co., Ltd. (貴陽朗瑪信息技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300288) which is primarily engaged in wireless games and Internet medical service. He served as the general manager of Sina Net Technology (China) Co., Ltd. (新浪網技術(中國)有限公司) which is primarily engaged in wireless games and deputy manager of Guangzhou Xunlong Technology Co., Ltd. (廣州市訊龍科技有限公司) which is primarily engaged in wireless games from October 2002 to February 2004 and June 2001 to October 2002, respectively.

Ms. Imma LING Kit-sum (凌潔心), aged 62, is an independent non-executive Director of our Company. Ms. LING was appointed as an independent non-executive Director on November 24, 2017.

Ms. LING has over 30 years' experience in the auditing industry, and retired as a partner in PricewaterhouseCoopers in June 2013.

Ms. LING has served as a Council member of The Education University of Hong Kong (香港教育大學) since April 2015, a board member of Estate Agents Authority (地產代理監管局) since November 2015, an Executive Committee member of Hong Kong Youth Hostels Association (香港青年旅舍協會) since May 2001 and a Council member of The Hong Kong Federation of Youth Groups (香港青年協會) since October 2014. Ms. LING has also served as a member of Hospital Governing Committee of Hospital Authority (醫院管治委員會) since April 2015 and a member of Appeal Board Panel (Town Planning) (上訴委員團(城市規劃)) since October 2016. She also served as a member of The Employees Compensation Assistance Fund Board (僱員補償援助基金管理局) from July 2006 to June 2012.

Ms. LING is a certified public accountant and a member of Hong Kong Institute of Certified Public Accountants (香港會計師公會), Association of Chartered Certified Accountants (英國特許公認會計師公會), Chartered Professional Accountants, Canada (加拿大特許專業會計師協會) and Chartered Institute of Management Accountants (英國特許管理會計師公會). She is an Accredited General Mediator of Hong Kong Mediation Accreditation Association Limited (香港調解資歷評審協會有限公司). Ms. LING is also a member of Auditing and Assurance Standards Working Committee of the Association of Hong Kong

DIRECTORS AND SENIOR MANAGEMENT

Accountants (香港會計師專業協會), a member of Professional Independent Committee of Hong Kong Business Accountants Association (香港商界會計師協會) and an executive committee member of Regulatory Committee of The Hong Kong Independent Non-Executive Director Association (香港獨立非執行董事協會). Ms. LING was awarded as an Outstanding Accountant Ambassador by Hong Kong Institute of Certified Public Accountants in 2003.

Ms. LING studied accountancy diploma course at The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University (香港理工大學)) and graduated in 1977. She received a master degree in corporate governance and directorship from Hong Kong Baptist University (香港浸會大學) in 2014.

Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed above, each of our Directors confirms with respect to himself or herself that he or she (1) did not hold other positions or short positions in the Shares, underlying Shares, debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) as at the Latest Practicable Date; (2) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; (3) did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas; and (4) there are no other matters concerning our Directors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. LU Yuanfeng (陸源峰), see “— Executive Directors” for details.

Mr. HUANG Guozhan (黃國湛), see “— Executive Directors” for details.

Mr. HUANG Deqiang (黃德強), see “— Executive Directors” for details.

Mr. LIU Jiahua (劉嘉華), aged 36, joined our Group as our chief financial officer on March 21, 2014. He is primarily responsible for the investment and the overall management of the finance of our Group. He also serves as the chief financial officer at Proficient City since March 2014.

Mr. LIU has over 10 years of experience in the field of financial management.

Mr. LIU served as the finance controller at Moonbasa E-commerce Group (夢芭莎電子商務集團) which is primarily engaged in the online sales of women apparels from September 2010 to March 2014. From April 2009 to August 2010, he served as a financial director at China Nepstar Chain Drugstore Ltd. (中國海王星辰連鎖藥店有限公司) which is primarily engaged in pharmaceutical retail, a company previously listed on the New York Stock Exchange (stock code: NPD). From November 2004 to February 2009, Mr. LIU served in PricewaterhouseCoopers LLP.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LIU graduated from Sun Yat-sen University (中山大學) with a bachelor degree in international finance on June 24, 2003.

Mr. CHEN Liang (陳亮), aged 36, was appointed as our senior vice president on July 1, 2015. He is primarily responsible for the overall operation and management of the game operation division of our Group. Mr. CHEN also serves as the deputy manager of Zhang Ying Kong since September 2013.

Mr. CHEN has over 10 years of experience in operation of the game industry.

Prior to joining our Group, Mr. CHEN worked with the Shanghai Jiu You Internet Technology Co., Ltd. (Guangzhou branch) (上海久遊網絡科技有限公司(廣州分公司)), previously named Shanghai Run Xing Internet Technology Co., Ltd. (上海潤星網絡科技有限公司) which is primarily engaged in Internet information technology service from November 2007 and served in various positions including branch executive manager till October 2014, primarily responsible for the sales and marketing of the game business and administration of the branch.

Mr. CHEN graduated from Guangdong University of Technology (廣東工業大學) in 2003. He obtained a master degree from Guangdong University of Technology (廣東工業大學) in software engineering on December 26, 2006.

Mr. SHI Lijia (石立家), aged 34, joined our Group as a vice president on August 17, 2015. He is primarily responsible for the overall management of the research and development of the Group.

Mr. SHI has over 7 years of experience in the game industry.

Prior to joining our Group, Mr. SHI served as the game producer in 7Road which is one of our game developer partners from March 2010 to April 2015, mainly responsible for game development and general administration.

Mr. SHI graduated from Lanzhou University (蘭州大學) with a bachelor degree in Information and Computing Sciences in 2007.

Mr. CHEN Yangzhao (陳陽照), aged 39, was appointed as our vice president on July 1, 2015. He is primarily responsible for the overall operation and management of our Group.

Mr. CHEN has over 15 years' experience in technology and software engineering of game industry.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. CHEN served as the technology manager of Guangzhou Tianya Internet Technology Co., Ltd. (廣州天涯網絡科技有限公司) which is primarily engaged in software development from January 2009 to March 2010. He served from a platform development team member to a senior developer at Beijing Bokee Net Information Technology Co., Ltd. (北京博客網信息技術有限公司) which is primarily engaged in technology service from October 2005 to November 2008. He served as the senior software engineer at Guangzhou Ruixun Computer Technology Co., Ltd. (廣州銳訊計算機科技有限公司) which is primarily engaged in development and manufacture of computers' hardware and software from September 2002. He briefly served as a software engineer at Asiainfo Technologies (China) Inc. (亞信科技(中國)有限公司), a Nasdaq-listed company (stock code: ASIA) which is primarily engaged in development of network system from April 2002. Mr. CHEN started his career in July 2002 with Guangdong Xiantong Digital Technology Co., Ltd. (廣州仙童數碼科技有限公司) as a software engineer.

Mr. CHEN graduated from South China University of Technology (華南理工大學) with a bachelor degree in computer science and technology on July 1, 2001.

Each of senior management team members confirms with respect to himself that he did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas.

JOINT COMPANY SECRETARIES

Mr. YU Ching Ming (余精明), aged 29, has been appointed as our joint company secretary on July 28, 2017, being responsible for company secretarial work of our Group. Mr. YU joined our Group in November 2015 as our head of Hong Kong operation and has been in charge of our company secretarial work and Hong Kong operation.

Ms. HUI Yin Shan (許燕珊), aged 48, has been appointed as our joint company secretary on July 28, 2017, being responsible for company secretarial work of our Group. She is the Assistant Vice President of SW Corporate Services Group Limited. She holds a bachelor's degree in applied mathematics from the Hong Kong Polytechnic University and a master degree in finance from the Curtin University in Australia. Ms. HUI is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators respectively. She has more than fifteen years of extensive experience in providing company secretarial services to private and listed companies.

MANAGEMENT PRESENCE IN HONG KONG

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver under Rule 8.12 of the Listing Rules regarding the requirement of management presence in Hong Kong. For details of the waiver, see "Waiver from Strict Compliance with the Listing Rules" in this prospectus.

BOARD COMMITTEES

The Board delegates certain responsibilities to various Board committees. In accordance with the relevant PRC laws and regulations, the Articles and the Listing Rules, we have established our audit committee, remuneration committee and nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

Audit Committee

We have established an audit committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules on November 24, 2017. The audit committee consists of Mr. Darren Raymond SHAW, Mr. LI Yi Wen, and Ms. Imma LING Kit-sum, with Ms. Imma LING Kit-sum being the chairman of the committee.

The primary function of the audit committee is to assist our Board in providing an independent view of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee with terms of reference in compliance with paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules on November 24, 2017. The remuneration committee consists of Mr. LU Yuanfeng, Mr. Darren Raymond SHAW and Mr. LI Yi Wen, with Mr. LI Yi Wen being the chairman of the committee.

The primary function of the remuneration committee is to develop remuneration policies of our Directors, evaluate the performance, make recommendations on the remuneration packages of our Directors and senior management and evaluate and make recommendations on employee benefit arrangements.

Nomination Committee

We have established a nomination committee with terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules on November 24, 2017. The nomination committee consists of Mr. LU Yuanfeng, Mr. Darren Raymond SHAW and Mr. LI Yi Wen with Mr. LU Yuanfeng being the chairman of the committee.

The primary function of the nomination committee is to make recommendations to our Board in relation to the appointment and removal of Directors.

EMOLUMENT OF DIRECTORS AND SENIOR MANAGEMENT

We offer our executive Directors and senior management members, who are also employees of our Company, emolument in the form of salaries, allowances, remuneration, pension, discretionary bonus and other welfares. Our non-executive Directors and independent non-executive Directors receive emolument based on their responsibilities (including being members or chairman of Board committees). We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

DIRECTORS AND SENIOR MANAGEMENT

For the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate amount of emolument paid to our Directors were approximately US\$7,000, US\$75,000, US\$125,000 and US\$61,000, respectively. It is estimated that under the arrangements currently in force, the aggregate emolument payable to the Directors for the year ending December 31, 2017, will be approximately US\$1.3 million.

For the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate amount of emolument paid by our Company to the five highest paid individuals were approximately US\$0.15 million, US\$0.14 million, US\$0.19 million and US\$0.09 million, respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office in connection with the management of the affairs of our Company or any subsidiary during the Track Record Period.

During the Track Record Period, none of our Directors waived or agreed to waive any emoluments. Except as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors or the five highest paid individuals during the Track Record Period.

SHARE INCENTIVE SCHEME

We have conditionally adopted the Post-IPO Share Option Scheme. The principal terms of the aforementioned scheme are summarized in the section headed “Statutory and General Information — D. Share Incentive Scheme” in Appendix IV to this prospectus.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. LU Yuanfeng is our chairman and chief executive officer. With extensive experience in the game industry, Mr. LU is responsible for the overall strategic planning and general management of our Group and is instrumental to our growth and business expansion since our establishment. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced individuals. Our Board currently comprises three executive Directors (including Mr. LU), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Messis Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and securities 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 our business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute the annual report of the first full financial year commencing after the Listing pursuant to the Rule 13.46 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Mr LU Yuanfeng, Mr. HUANG Guozhan and Mr. HUANG Deqiang are the Founders of our Group. On June 27, 2017, each of the Founders and Ms. LUO Simin (who is the spouse of Mr. LU), along with their respective wholly-owned companies holding the Shares, entered into a parties acting in concert deed to confirm that they have acted in concert in the management, operation and all major decisions of our Group. As of the Latest Practicable Date, LYF Digital Holdings Limited (a company wholly-owned by Mr. LU Yuanfeng), Angel Age Limited (a company wholly-owned by Ms. LUO Simin), LXT Digital Holdings Limited (a company wholly-owned by Mr. HUANG Guozhan) and HDQ Digital Holdings Limited (a company wholly-owned by Mr. HUANG Deqiang) are entitled to exercise voting rights of approximately 65.95% of the total issued share capital of our Company. Immediately following the completion of the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Post-IPO Share Option Scheme are not exercised), Mr. LU Yuanfeng, Ms. LUO Simin, Mr. HUANG Guozhan and Mr. HUANG Deqiang through LYF Digital Holdings Limited, Angel Age Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited, respectively, will beneficially own approximately 49.46% of the issued share capital of our Company. Accordingly, Mr. LU Yuanfeng, Ms. LUO Simin, Mr. HUANG Guozhan, Mr. HUANG Deqiang, LYF Digital Holdings Limited, Angel Age Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited are considered as our Controlling Shareholders.

DELINEATION OF OUR BUSINESS

Neither of our Controlling Shareholders, our Directors nor their respective close associates has any interest in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly and indirectly, with the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

On November 24, 2017, each of the Controlling Shareholders entered into the Deed of Non-competition in favor of our Company, pursuant to which each of the Controlling Shareholders irrevocably undertake to our Company that during the Restricted Period (as defined below) he will not and will procure his close associates (except any member of our Group) not to, directly or indirectly (whether in the capacity of principal or agent, whether for its own benefit or jointly with or on behalf of any person, firm or company, whether within or outside China), commence, engage in, participate in or acquire any business which competes or may compete directly or indirectly with our core business, namely development and publication of online games (“Restricted Business”) or own any rights or interests in such business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders has further irrevocably undertaken that during the Restricted Period (as defined below), he should and will procure his close associates (except any member of our Group) (each of the Controlling Shareholders and his close associates together, "Offeror") to offer new business opportunities to us first in the following manner when any business, investment or other business opportunities ("New Business Opportunities") related to the Restricted Business become available to the Offeror:

- (i) the Offeror will make referral of the New Business Opportunities to us, and will as soon as possible inform us in writing ("Offer Notice") about all necessary and reasonably required information in respect of any New Business Opportunities (including but not limited to details of the nature and investment or acquisition cost of the New Business Opportunities) for us to consider (a) whether the relevant New Business Opportunities will compete with our business, and (b) whether taking up the New Business Opportunities is in the interest of our Group.
- (ii) upon receipt of the Offer Notice, the independent non-executive Directors will consider whether to pursue the New Business Opportunities taking into account whether the relevant New Business Opportunities would be able to achieve a sustainable profitability level, whether they are in line with the prevailing development strategies of our Group, and whether they are in the best interest of the Shareholders. Our Company must inform the Offeror in writing within 20 Business Days after receipt of the Offer Notice about its decision on whether the New Business Opportunities will be pursued.
- (iii) only when (a) the Offeror has received our notice to reject the New Business Opportunities and our confirmation that the relevant New Business Opportunities are not considered to be able to compete with our core business, namely development and publication of online games; or (b) the Offeror has not received the relevant notice from our Company within the period as stated above in paragraph (ii) after the Offer Notice has been received by us, then the Offeror is entitled to take up the New Business Opportunities on terms and conditions not more favorable than those specified in the Offer Notice issued to us.

If material changes occur in the terms and conditions of the New Business Opportunities after the referral of which have been made or procured to be made to us by the Offeror, referral of the revised New Business Opportunities shall be made by the Offeror to us again in the manner as stated above.

The undertakings under the Deed of Non-competition are not applicable in the following circumstances:

- (i) each of the Controlling Shareholders and/or his close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in any member of our Group; or

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) each of the Controlling Shareholders and/or his close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in listed companies other than our Group, with the following conditions being satisfied:
 - (a) the Restricted Business (and relevant assets) conducted or carried out by such company represents less than 10% of the revenue or total assets of such company according to the latest audited accounts of such company; and
 - (b) each of the Controlling Shareholders and/or his their close associates (except any member of our Group) hold in aggregate not more than 10% of the issued share capital of relevant class of shares of such company, and each of the Controlling Shareholders and/or his their close associates (except any member of our Group) have no right to appoint the majority of directors of such company or participate in the management of such company.

Pursuant to the Deed of Non-Competition, the Restricted Period refers to the period commencing from the Listing Date and ends on the following dates (whichever is earlier):

- (i) the date when the shares of our Company cease to be listed on the Stock Exchange; and
- (ii) the date when each of the Controlling Shareholders ceases to be controlling shareholders of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently from our Controlling Shareholders and/or their close associates after completion of the Global Offering:

Management Independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Mr. LU Yuanfeng, Mr. HUANG Guozhan and Mr. HUANG Deqiang, three of our Controlling Shareholders, are our executive Directors.

Our Directors believe that our Board and senior management will function independently from our Controlling Shareholders for the following reasons:

- (i) each Director is aware of his or her fiduciary duties as a Director of our Company which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company 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;
- (iii) our Board comprises seven Directors, and three of them are independent non-executive Directors, which represents more than one-third of the members of the Board. Our independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of the Board are made after due consideration of independent and impartial opinions; and
- (iv) our senior management members, other than our Controlling Shareholders themselves, are independent from our Controlling Shareholders. They have substantial experience in the industry which we are engaged in. Accordingly, they are able to discharge their duties independently from our Controlling Shareholders.

Having considered the above factors, our Directors are satisfied that they are able to perform their 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 following the completion of the Global Offering.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. As of the Latest Practicable Date, none of our Controlling Shareholders or their close associates had provided any loans, guarantees or pledge to our Group. We will not rely on our Controlling Shareholders for financing after the Global Offering as we have sufficient working capital to operate our business independently.

Operational Independence

We have our own staff to support our operations and management and have all the required assets, licenses, trademarks and other intellectual properties for operation of our business. We have established our own organizational structure, and each department is assigned to specific areas of responsibilities. We have independent access to suppliers and customers and an independent management team to handle our daily operations. We do not rely on our Controlling Shareholders or their close associates for our operations. No services are intended to be provided to our Group by our Controlling Shareholders or their close associates.

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and/or their close associates. Our Directors confirmed that our Group has been operating independently from our Controlling Shareholders and/or their associates and will continue to do so after the Global Offering.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

We have put in place sufficient corporate governance measures to manage the conflict of interest and potential competition from our Controlling Shareholders and safeguard the interest of the Shareholders, including:

- (i) if a Director has a material interest in a particular transaction, he shall abstain from voting in any matters relating to such transaction being considered at the Board meeting and he will not be counted as a quorum of the Board meeting;
- (ii) if disinterested Directors (including the independent non-executive Directors) reasonably seek to obtain independent and professional advice (such as financial adviser advice), the costs incurred for obtaining such advice will be borne by our Company;
- (iii) the independent non-executive Directors will review the compliance with the undertakings under the Deed of Non-competition by our Controlling Shareholders on an annual basis;
- (iv) our Controlling Shareholder will provide or procure the provision of all necessary information required for the Board's annual review of compliance with the Deed of Non-competition;
- (v) our Company will disclose in its annual report the decisions (if any) of the independent non-executive Directors on matters relating to the New Business Opportunities and the relevant basis;
- (vi) our Controlling Shareholder will make an annual declaration on its compliance with the Deed of Non-competition in our annual report; and
- (vii) we have appointed Messis Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors duties and corporate governance

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Post-IPO Share Option Scheme are not exercised).

	<u>Nominal value</u>
	US\$
<i>Authorized Share capital:</i>	
4,000,000,000 Shares	4,000,000.00
<i>Issued Share capital:</i>	
11,111,222 Shares in issue as of the date of this prospectus	11,111.22
<i>Shares to be issued:</i>	
1,488,888,778 Shares to be issued pursuant to the Capitalization Issue	1,488,888.78
500,000,000 Shares to be issued pursuant to the Global Offering	500,000.00
<i>Total issued Share capital on completion of the Global Offering</i>	
2,000,000,000 Shares	2,000,000.00

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issuance of Shares pursuant to the Capitalization Issue and Global Offering are made. It does not take into account any Shares which may be allotted and issued or repurchased pursuant to the general mandate given to the Directors for allotment and issuance of Shares or the repurchase mandate described below, as the case may be.

MINIMUM PUBLIC FLOAT

The minimum level of public float to be maintained by our Company at all times after the Listing under the Listing Rules is 25% of our share capital in issue from time to time.

RANKING

The Offer Shares will be ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus except for any entitlement to the Capitalization Issue.

SHARE CAPITAL

SHARE INCENTIVE SCHEME

We have conditionally adopted the Post-IPO Share Option Scheme. The principal terms of the aforementioned scheme are summarized in the section headed “Statutory and General Information — D. Share Incentive Scheme” in Appendix IV to this prospectus.

CAPITALIZATION ISSUE

Subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors shall be authorized to allot and issue a total of 1,488,888,778 Shares credited as fully paid at par value to the Shareholders on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as it/they may direct) in proportion to their respective shareholdings in our Company (as nearly as possible without fractions) by way of capitalization of the sum of US\$1,488,888.78 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Assuming the Global Offering becomes unconditional, our Directors will be granted a general mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- 20% of the total nominal amount of our share capital in issue immediately following completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares to be issued upon the exercise of options granted under the Post-IPO Share Option Scheme; and
- the total nominal amount of our share capital repurchased by us under the mandate as mentioned in the paragraph entitled “— General Mandate to Repurchase Shares” below.

The general mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with our Articles of Association, or pursuant to the exercise of options which may be granted under the Post-IPO Share Option Scheme or under the Global Offering or upon the exercise of the Over-allotment Option.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of our Company’s next annual general meeting;

SHARE CAPITAL

- the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under Appendix IV entitled “Statutory and General Information — Further Information about our Group — 4. Resolutions in Writing of Our Shareholders Passed on November 24, 2017” in this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section entitled “Structure and Conditions of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors will be granted a general mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital 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, any Shares to be issued upon the exercise of options granted under the Post-IPO Share Option Scheme.

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in Appendix IV entitled “Statutory and General Information — Further information about our Group — 5. Repurchases of Our Own Securities” in this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of our Company’s next annual general meeting;
- the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under Appendix IV entitled “Statutory and General Information — Further Information about our Group — 4. Resolutions in Writing of Our Shareholders Passed on November 24, 2017” in this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Companies Law and the Articles of Association, the Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. Subject to the Companies Law and to confirmation by the court, the Company may, if so authorized by its Articles of Association, by special resolution, reduce its share capital in any way. For details, see “Summary of the Constitution of Our Company and Cayman Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of Capital” in Appendix III to this prospectus.

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. For details, see “Summary of the Constitution of Our Company and Cayman Company Law — 2. Articles of Association — (a) Shares — (ii) Variation of Rights of Existing Shares or Classes of Shares” in Appendix III to this prospectus.

Pursuant to the Articles of Association, extraordinary general meetings may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, as of the Latest Practicable Date and immediately following completion of the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Post-IPO Share Option Scheme are not exercised), the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and are therefore regarded as substantial shareholders of our Company under the Listing Rules:

Name of Shareholder	Nature of interest	Shares held as of the Latest Practicable Date		Shares held upon Listing ⁽¹⁾	
		Number ⁽²⁾	Approximate percentage	Number ⁽²⁾	Approximate percentage
Mr. LU Yuanfeng ⁽³⁾	Interest in a controlled corporation; interests of spouse; interest held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
LYF Digital Holdings Limited	Beneficial owner; interests held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
Ms. LUO Simin ⁽⁴⁾	Interest in a controlled corporation; interests of spouse; interest held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
Angel Age Limited	Beneficial owner; interests held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
Mr. HUANG Guozhan ⁽⁵⁾	Interest in a controlled corporation; interest held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
LXT Digital Holdings Limited	Beneficial owner; interests held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
Mr. HUANG Deqiang ⁽⁶⁾	Interest in a controlled corporation; interest held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
HDQ Digital Holdings Limited	Beneficial owner; interests held jointly with another person	7,327,676 (L)	65.95%	989,226,387 (L)	49.46%
7Road ⁽⁷⁾	Interest in a controlled corporation	2,300,000 (L)	20.70%	310,496,901 (L)	15.52%
7 Road International	Beneficial owner	2,300,000 (L)	20.70%	310,496,901 (L)	15.52%
The Core Trust Company Limited ⁽⁸⁾	Trustee	1,111,122 (L)	10.00%	149,999,973 (L)	7.50%
Epic City Limited	Nominee for another person	1,111,122 (L)	10.00%	149,999,973 (L)	7.50%

(1) Assuming the Over-allotment Option or any options which may be granted under the Post-Share Option Scheme are not exercised.

(2) The letter “L” denotes the person’s long position in the Shares.

SUBSTANTIAL SHAREHOLDERS

- (3) Under the SFO, Mr. LU Yuanfeng is deemed to be interested in all Shares held by LYF Digital Holdings Limited, a company which is wholly-owned by him. Mr. LU is also deemed to be interested in all Shares held by (i) Ms. LUO Simin as Ms. LUO is the spouse of Mr. LU; and (ii) Mr. HUANG Guozhan and Mr. HUANG Deqiang, as they are parties acting in concert.
- (4) Under the SFO, Ms. LUO Simin is deemed to be interested in all Shares held by Angel Age Limited, a company which is wholly-owned by her. Ms. LUO is also deemed to be interested in all Shares held by (i) Mr. LU Yuanfeng as Mr. LU is the spouse of Ms. LUO; and (ii) Mr. HUANG Guozhan and Mr. HUANG Deqiang, as they are parties acting in concert.
- (5) Under the SFO, Mr. HUANG Guozhan is deemed to be interested in all Shares held by (i) LXT Digital Holdings Limited, a company which is wholly-owned by him; and (ii) Mr. LU Yuanfeng, Ms. LUO Simin and Mr. HUANG Deqiang as they are parties acting in concert.
- (6) Under the SFO, Mr. HUANG Deqiang is deemed to be interested in all Shares held by (i) HDQ Digital Holdings Limited, a company which is wholly-owned by him; and (ii) Mr. LU Yuanfeng, Ms. LUO Simin and Mr. HUANG Guozhan as they are parties acting in concert.
- (7) Under the SFO, 7Road is deemed to be interested in all Shares held by 7 Road International, a company which is wholly-owned by 7Road.
- (8) The Core Trust Company Limited, being the trustee of Post-IPO Share Option Scheme, directly holds the entire issued share capital of Epic City Limited, which holds Shares underlying the options to be granted under the scheme for the benefit of eligible participants pursuant to such scheme.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Post-IPO Share Option Scheme are not exercised), have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

CORNERSTONE INVESTORS

CORNERSTONE PLACING

We have entered into three cornerstone investment agreements, including (i) a cornerstone investment agreement dated November 28, 2017 among our Company, Trilogic Investments Limited (“Trilogic”), Mr. WANG Yongchao (王永超), China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, (ii) a cornerstone investment agreement dated November 28, 2017 among our Company, Mr. HO Kim Fong (“Mr. Ho”), China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, and (iii) a cornerstone investment agreement dated November 28, 2017 among our Company, Ms. SWING Jennifer Patricia (“Ms. SWING”), China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited. Pursuant to the three cornerstone investment agreements, Trilogic, Mr. Ho and Ms. SWING (the “Cornerstone Investors” and each a “Cornerstone Investor”) have agreed to subscribe, or cause their respective designated entities to subscribe, at the Offer Price, for an aggregate of such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) that may be purchased with US\$6.0 million (the “Cornerstone Placing”).

To the best knowledge of our Company, each of the Cornerstone Investors is, and will immediately following the Listing be, an independent third party, not our connected person, and not an existing Shareholder of our Company or its close associates. To the best knowledge of our Company, save for the spousal relationship between two of the Cornerstone Investors, namely Mr. HO and Ms. SWING, each of the Cornerstone Investors is independent from each other and makes independent investment decisions.

Assuming an Offer Price of HK\$0.63 (being the low end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 74,388,000, representing approximately (i) 3.72% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 3.58% of the Shares in issue upon the completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.74 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 63,336,000, representing approximately (i) 3.17% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 3.05% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.85 (being the high end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 55,136,000, representing approximately (i) 2.76% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 2.66% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

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 our Company on or around 14 December, 2017.

CORNERSTONE INVESTORS

The Cornerstone Placing forms 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 upon completion of the Global Offering and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone investment agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company. The Cornerstone Investors do not have any preferential rights compared with other public Shareholders in the respective cornerstone investment agreements. The Offer Shares to be subscribed for 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 “Structure and Conditions of the Global Offering — The Hong Kong Public Offering.”

CORNERSTONE INVESTORS

We have entered into a cornerstone investment agreement with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set out below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

Trilogic

Pursuant to a cornerstone investment agreement dated November 28, 2017 entered into among our Company, Trilogic, Mr. WANG Yongchao (王永超), China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, Trilogic has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with US\$3.0 million at the Offer Price.

Assuming an Offer Price of HK\$0.63 (being the low end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by Trilogic would be 37,196,000, representing approximately (i) 1.86% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 1.79% of the Shares in issue upon the completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.74 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 31,668,000, representing approximately (i) 1.58% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 1.53% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.85 (being the high end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 27,568,000, representing approximately (i) 1.38% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 1.33% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

CORNERSTONE INVESTORS

Trilogic is a company incorporated in the BVI with limited liability in July 2004. It is wholly-owned by Mr. WANG Yongchao and principally engaged in investment holding. Mr. WANG is the co-founder, and had acted as the chief executive officer and director of China Mobile Games and Entertainment Group Limited (中國手遊娛樂集團有限公司). Mr. WANG has accumulated over 20 years of experience in game industry and telecommunications value-added services industry.

Mr. HO

Mr. HO, an individual citizen of Macau, is a businessman and an experienced investor. Mr. HO is a spouse of Ms. SWING. Mr. HO is a member of the supervisory board of Macau Association of Building Contractors and Developers (澳門建築置業商會), an executive committee member of Macau Youth Entrepreneur Association (澳門青年企業家協會) and a deputy managing director of Macau Real Estate Chamber of Commerce (澳門地產業總商會). Pursuant to a cornerstone investment agreement dated November 28, 2017 entered into among our Company, Mr. HO, China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, Mr. HO has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with US\$2.0 million at the Offer Price.

Assuming an Offer Price of HK\$0.63 (being the low end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by Mr. HO would be 24,796,000, representing approximately (i) 1.24% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 1.19% of the Shares in issue upon the completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.74 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 21,112,000, representing approximately (i) 1.06% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 1.02% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.85 (being the high end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 18,380,000, representing approximately (i) 0.92% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 0.89% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

Ms. SWING

Ms. SWING, an individual citizen of Macau, is a family member of Dr. Stanley HO, the founder and Chairman of SJM Holdings Limited, a company listed on the Stock Exchange (stock code: 880). Pursuant to a cornerstone investment agreement dated November 28, 2017 entered into among our Company, Ms. SWING, China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, Ms. SWING has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with US\$1.0 million at the Offer Price.

CORNERSTONE INVESTORS

Assuming an Offer Price of HK\$0.63 (being the low end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by Ms. SWING would be 12,396,000, representing approximately (i) 0.62% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 0.60% of the Shares in issue upon the completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.74 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 10,556,000, representing approximately (i) 0.53% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 0.51% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.85 (being the high end of the Offer Price range set out in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 9,188,000, representing approximately (i) 0.46% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised or (ii) 0.44% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full.

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 having been entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) and not having been terminated;
- (b) neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated;
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares and that such approval or permission has not been revoked;
- (d) no applicable laws shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Global Offering 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 Offer Price having been agreed upon between the Company and the Sole Global Coordinator (on behalf of the Underwriters).

CORNERSTONE INVESTORS

RESTRICTIONS ON THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the relevant Shares or any interest in any company or entity holding any of the relevant Shares, other than in certain limited circumstances (which are customary and commonly-found in cornerstone investment agreements) such as transfers to any wholly-owned subsidiary of such Cornerstone Investor, provided that, among other things, such wholly-owned subsidiary gives a written undertaking agreeing to, and such Cornerstone Investor undertakes to procure that such wholly-owned subsidiary will, be bound by such Cornerstone Investor's obligations under the cornerstone investment agreement and such restrictions on disposal imposed on such Cornerstone Investor.

FINANCIAL INFORMATION

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial information as of and for each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 and in each case, the related notes set out in the “Accountant’s Report” in Appendix I to this prospectus. Our audited consolidated financial information have been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including but not limited to, those set forth under “Risk Factors” in this prospectus.

OVERVIEW

We are a leading global online game publisher for China-based game developers, with fast-growing in-house development capabilities for mobile games. Our services and products include primarily web games and mobile games. As of the Latest Practicable Date, we had launched 25 web games in the international markets and 26 mobile games worldwide, and had a robust pipeline with two licensed web games and two proprietary mobile games for launch by the first quarter of 2018. As of June 30, 2017, we had approximately 47.8 million cumulative registered users worldwide, including approximately 21.4 million from web games and approximately 26.4 million from mobile games, located in more than 168 countries and regions on the basis of the IP addresses we recorded.

We grew during the Track Record Period. Our average MAUs for online games were approximately 1,182,399, 1,205,078, 1,258,360 and 1,555,705 in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. Our mobile game business grew substantially during the Track Record Period. Our average MAUs for mobile games increased from approximately 165,445 in 2014 to approximately 646,966 in 2015 and further to approximately 749,236 in 2016, representing a CAGR of 112.8%. Our average MAUs for mobile games further increased by 20.3% to approximately 901,402 in the six months ended June 30, 2017. Our revenue was US\$22.8 million, US\$28.0 million, US\$28.4 million, US\$14.7 million and US\$13.8 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our net profit was US\$7.1 million, US\$4.6 million, US\$6.9 million, US\$2.5 million and US\$2.3 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our adjusted net profit was US\$7.3 million, US\$6.2 million, US\$7.6 million, US\$3.0 million and US\$3.1 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. See “— Principal Income Statement Components — Non-IFRS Measures” for details.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be materially affected by a number of factors, including the following:

General Conditions Affecting the Online Game Industry

Our results of operations are affected by the general conditions affecting the online game industry in the countries and regions where we publish online games, including the overall economic condition, the increasing use of the Internet and smartphones, the regulatory environment, and the advancement in technologies affecting interactive entertainment. The online game industry, particularly in China, has a relatively short history and experienced rapid growth in the recent years. Our continued success therefore depends on our ability to monetize our users and offer games that meet the evolving user interests and preferences. As we generate a substantially all of our revenue from online games, we rely heavily on the spending of our users, which may in turn depend on their level of disposable income and the local economic condition. Also, new technologies have had and will continue to have a significant impact on the online game industry and our business. The rising penetration of high-speed wireless Internet connection and smartphones and the emergence of the VR and AR visual technologies have materially changed the way people play games. We commenced our business as a web game publisher and subsequently expanded our business focusing strategically to develop and launch mobile games to capture the market opportunity from the fast growing smartphone users. In addition, we also began to develop entertainment products featuring the mobile Internet or visual technologies to meet the evolving user needs.

Continued Popularity of Our Games

We offer our games on a free-to-play basis and generate revenue from sales of virtual items, and therefore, our sustainable growth depends on our ability to expand and monetize our user base, which in turn depends on our ability to offer games that attract and engage our users. To this end, we must continue to upgrade and enhance our existing games to encourage in-game purchases and extend the lifecycle of our games to maximize monetization potential. We must also source, develop and launch new games that meet the evolving user interests and preferences to retain and expand our user base. As of the Latest Practicable Date, we had successfully launched 25 popular web games in the international markets. We continue to introduce new features, services and virtual items to our existing games and launch new in-game promotions and activities to stimulate user interest. We have also been expanding our game portfolio with our proprietary mobile games to enlarge user base and capture the market opportunity from the fast-growing smartphone users. As of the Latest Practicable Date, we had successfully launched 26 mobile games worldwide. As of the same date, we had built a pipeline with two licensed web games and two proprietary mobile games for launch by the first quarter of 2018.

FINANCIAL INFORMATION

Revenue Sharing Arrangements

Consistent with the industry norms, we have revenue sharing arrangements with third-party game developers, distribution platforms and payment channels. We (1) obtain distribution licenses from third-party game developers, (2) redesign and localize the gameplay features for target regional markets, (3) distribute the localized games mainly through third-party distribution platforms, including social networks and App marketplaces, or co-publishers, including leading local game publishers, and (4) collect proceeds from in-game purchases through primarily third-party payment channels. Under our revenue sharing arrangements, we generate revenue from the proceeds from in-game purchases after deducting primarily the fees paid to certain market participants, including the game developers, distribution platforms and payment channels, as the case may be. We generally negotiate with our business partners the percentages of the revenue sharing on a case-by-case basis. Therefore, our ability to maintain stable relationships with these business partners and the terms of our revenue sharing arrangements entered into or renewed in each particular year would have a significant impact on our results of operations. We generally record revenue on a net basis for publishing online games licensed from third-party developers and on a gross basis for publishing proprietary mobile games. See “Business — Game Portfolio” for details of the source of our top five online games and “Business — Game Publishing — Revenue Sharing” for details of our revenue sharing process.

Competition

We are an online game publisher. The industry in which we operate is highly competitive. We compete primarily with other online game developers and publishers in the international markets based on a number of factors, including user base, game portfolio, quality of user experience, brand awareness and reputation, and access to and relationships with distribution and payment channels. In addition, we also compete for users with various offline games, such as console games, arcade games and handheld games, as well as various other forms of interactive entertainment. The frequent introduction of new game products and services, short product lifecycle and evolving technologies have placed significant pressure on the timing of our new game launches and the cost of marketing our games and retaining existing and attracting new users. Our results of operations will be affected if we fail to compete effectively.

Taxation and Related Arrangements

Our international footprint has subjected us to unique tax risks in relation to the countries and regions where we operate online games. In light of the complex tax regulatory environment and the ambiguity in international coordination in the context of digital economy, our Directors are of the view that a company would normally take into account the practice of its industry peers when handling tax-related matters. However, as the overseas game publishing industry in China emerged only in recent years and, according to the Analysys Report, we had the largest market share in terms of revenue generated from publishing web games developed by China-based game developers in the international markets in 2016, there are limited comparable common practices established for professional tax management in the industry. As

FINANCIAL INFORMATION

the implication of global and local tax regulations on our operations became increasingly complicated, we engaged an external tax consultant in May 2014 to provide professional tax compliance and consulting services. As advised by our tax consultant, we are subject to taxation in the United States, the European Union and China. For details, see “— Principal Income Statement Components-Income Tax Expenses” and “Business — Taxation and Related Arrangements.”

We have generated income from a number of jurisdictions since our inception. We initially recorded a net loss in 2012 and began to progressively break even and generate profits in 2013. After consultation with our tax consultant, our Directors provided tax provisions for PRC enterprise income tax, EU value-added tax and U.S. state sales tax to cover our historical tax liabilities. The following table sets forth a breakdown of the tax provisions by types for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(US\$)		
PRC – Enterprise Income Tax Provision	1,650,378	1,605,660	1,134,779
European Union – VAT Provision	544,997	933,718	–
United States – State Sales Tax Provision	72,840	133,187	153,846

In addition, as part of a cross-border corporate structure we adopted to facilitate our overseas business operations, we have entered into technology consultation service agreements between our non-PRC entities and PRC entities to implement transfer pricing arrangements. For details, see “Business — Taxation and Related Arrangements — Transfer Pricing Arrangements.” Under these transfer pricing arrangements, all of our overseas profits and losses during the Track Record Period were booked at the non-PRC entities, while substantially all of the operating expenses were booked at the PRC entities. Our transfer pricing tax advisers conducted a transfer pricing analysis of our Group during the period from December 2015 to June 2016 and concluded that the online game business operations between our non-PRC entities and PRC entities were integrated and intertwined and that the profit or loss split methodology we adopted under our transfer pricing arrangements was appropriate for determining the reasonable profit allocation within our Group.

We have completed the statutory tax filing procedures and settled the outstanding tax liabilities with the competent tax authorities in the United States, the European Union and China. For details, see “Business — Taxation and Related Arrangements.” As of the Latest Practicable Date, we made all material tax filings and paid all material outstanding tax liabilities with the relevant tax authorities in jurisdictions, and we are not aware of any outstanding or potential dispute with such tax authorities; however, our financial condition and results of operations may be materially affected by any adverse tax consequences due to uncertainties or changes in the relevant tax laws and regulations or any tax penalties subsequently imposed on us.

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BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on November 24, 2014 as an exempted company with limited liability. Our Company is an investment holding company and its subsidiaries are principally engaged in the development, operations and publishing of web games and mobile games (the “Listing Business”), in North America, Southeast Asia, Europe and other countries and regions.

Prior to the incorporation of our Company and completion of the Reorganization, our Listing Business was carried out by several companies incorporated in BVI, Hong Kong, and China, which were controlled collectively by Controlling Shareholders. Pursuant to the Reorganization, the Listing Business is transferred to and held by our Company. Our Company had not been involved in any other business prior to the Reorganization and its operations do not meet the definition of a business. The Reorganization is merely an organization of the Listing Business and does not result in any changes in management and ultimate owners of such business. See “History, Reorganization and Corporate Structure” for details. Accordingly, our consolidated financial information is presented using the carrying values of the Listing Business under the Controlling Shareholders for all periods presented as if the current group structure had been in existence throughout the period, or since the respective dates of incorporation/establishment of the consolidated companies, or since the date when the consolidated companies first came under the control of the Controlling Shareholders, whichever is earlier. Intercompany transactions, balances and unrealized gains/losses on transactions between companies within our Group are eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates that are significant to the preparation of our financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgment relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions.

Our significant accounting policies and estimates, which are important for an understanding of our financial condition and results of operations, are set forth in details in Notes 2 and 4 to the Accountant’s Report included in Appendix I to this prospectus. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgements used in the preparation of our financial statements.

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Revenue Recognition

We generate our revenue primarily from (1) the provision of game publishing services for online games developed by third-party game developers or in-house efforts; (2) the licensing arrangements through which we authorize third parties to operate online games; (3) server rental arrangements through which we allow third parties to use the servers rented by us; and (4) the provision of advertising placement service to third parties in the web games we publish. We record our revenue at the fair value of the consideration received or receivable, net of value-added tax.

Game publishing service revenue

We are a publisher of online games developed by third-party game developers or through in-house efforts. We license online games from game developers and generate game publishing service revenue by making a localized version of the licensed games and publishing them to game players through third-party or in-house distribution platforms. We provide such licensed games under a free-to-play model whereby users can play the games free of charge and are charged for the in-game purchase of virtual items via payment channels. See “Business — Game Publishing” for details.

(1) Principal Agent Consideration

Third-party developed games

(1) We act as agent

We share the proceeds generated from selling in-game virtual items with game developers after deducting the fees paid to the distribution platforms and payment channels. We consider that the (1) game developers are responsible for providing the game products desired by game players; (2) the costs incurred by game developers to develop the games are more than the licensing costs and game localizations costs incurred by us; (3) game developers have the right to determine the pricing of in-game virtual items and the specification, modification or update of the games proposed by us. Our responsibilities are publishing, providing payment solutions and market promotion services, and thus we view game developers to be our customers and consider ourselves as the agent of game developers in the arrangements with our users. Accordingly, we record the game publishing service revenue from these licensed games, net of amounts paid to game developers.

- Games operated directly by us in the overseas markets

Games operated directly by us in the overseas markets are in the form of self-operation on our own websites and in cooperation with third-party platforms. We are responsible for determining platforms and payment channels, hosting and maintenance of game servers, providing customer services and conducting marketing activities. For our

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self-operated games, payment channels are responsible for payment collections related to the games. For games we operate in cooperation with third-party platforms, such platforms are responsible for distribution, platform maintenance, paying user authentication and payment collections related to the games.

As we are responsible for identifying, contracting with and maintaining the relationships of distribution platforms and payment channels, commission charges paid to the distribution platforms and payment channels are included in our cost of revenue and presented on a gross basis. We consider ourselves the primary obligor to game developers as we have been given the latitude by game developers in selecting distribution platforms and payment channels for our services to game developers.

For games we operate in cooperation with Facebook and Apple Inc.'s App Store, since the game developers are fully aware of Facebook and Apple Inc.'s App Store's roles and responsibilities and we do not have the latitude in selecting and negotiating with Facebook and Apple Inc.'s App Store, we consider that Facebook, Apple Inc.'s App Store and ourselves provide services to game developers in a coordinated manner. As a result, commission charges by Facebook and Apple Inc.'s App Store are deducted from our revenue.

- Games subcontracted to co-publishers

For games subcontracted to and operated directly by co-publishers, our co-publishers are responsible for determining secondary distribution platforms and payment channels, hosting and maintenance of game servers, providing customer services and conducting marketing activities. Our responsibility is to deliver games to our co-publishers, and thus we consider game developers to be our customers and consider ourselves as the agent of game developers in the arrangements with such co-publishers. Accordingly, we record revenue net of amounts paid to game developers and revenue-sharing amounts paid to third-party distribution platforms or payment channels.

- (2) We act as principal

During the Track Record Period, there was a game license arrangement under which we take primary responsibilities of further game development and updates, game operation in overseas markets, including determining platforms and payment channels, providing customer services, hosting game servers, if needed, and controlling game and services specifications and pricing during the license period. Under this type of game license arrangement, we considered us as a principal in this arrangement. Accordingly, we record the online game revenue from this third party licensed game on a gross basis. Commission fees paid to platforms and payment channels and amortization of license fees paid to third party game developer are recorded as cost of revenue.

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Proprietary games

For proprietary games, as we take primary responsibilities of game development and game operation, including determining distribution platforms and payment channels, providing customer services, hosting game servers, and controlling game and services specifications and pricing, we consider ourselves as a principal in such arrangement. Accordingly, we record revenue generated from these games on a gross basis, and record commission fees paid to distribution platforms and payment channels and amounts paid to IP providers as cost of revenue.

(2) *Timing of revenue recognition*

Third-party developed games

- Games operated directly by us in the overseas markets

We recognize the service revenue when all four of the following criteria are met: (1) the amount of revenue can be measured reliably, (2) it is probable that the economic benefits associated with the service will flow to us, (3) the stage of completion of the service at the end of the reporting period can be measured reliably, and (4) the costs incurred for the service and costs to complete the service can be measured reliably.

For the purposes of determining when services have been provided to users, we have determined the following:

- Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. Our users will not continue to benefit from the virtual items thereafter. Revenue is recognized when the items are consumed and the related services are rendered.
- Durable virtual items represent items that are accessible and beneficial to paying users over an extended period of time. We recognize revenue ratably over the average life of durable virtual items for the applicable game, which we make best estimates to be average playing period of paying players (“the Player Relationship Period”). We estimate the Player Relationship Period on a game-by-game basis and re-assess such periods semi-annually. We consider the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period.

If we do not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, we recognize such revenue for that game ratably over the Player Relationship Period.

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- Games subcontracted to co-publishers

We recognize revenue of games subcontracted to co-publishers ratably over the Player Relationship Period, as (1) we have a continuous obligation to game developers to coordinate co-publishers for providing service to users, and (2) we do not have the ability to differentiate revenue from games subcontracted to co-publishers attributable to durable virtual items from consumable virtual items for a specific game.

Proprietary games

We recognize revenue of proprietary games ratably over the Player Relationship Period or when the virtual items are consumed, which is similar to the games operated directly by us mentioned above.

Licensing revenue

We also authorize third parties to operate online games and receive up-front license fees from third-party licensee operators that have obtained an exclusive right to operate our games in specified geographic markets. Since we are obligated to provide after-sale services, we recognize revenue from the initial license fees ratably over the license period.

Server rental revenue

We derive server rental revenue primarily from server rental arrangements through which we allow third parties to use the servers rented by us over a specified period of time. We recognize such revenue ratably over the term of the lease.

Advertising revenue

We also provide advertising placement for a specified period of time on the interface of web games. We recognize such revenue ratably over the duration of advertising placement.

Current and Deferred Income Tax

Our tax expense comprises current and deferred tax. We recognize income tax in the consolidated statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, we also recognize tax in other comprehensive income or directly in equity, respectively.

Current income tax

We calculate current income tax charges on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where we operate and generate taxable income. Our management periodically evaluates positions taken in tax returns with respect to situations in which the application of tax regulations is uncertain and subject to interpretation. We also establish provisions where appropriate on the basis of amounts expected to be paid to the taxing authorities.

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Deferred income tax

Inside basis differences

We recognize deferred income tax, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, we do not recognize deferred tax liabilities if they arise from the initial recognition of goodwill, and do not account for the deferred income tax 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. We determine deferred income tax using tax rates and laws that have been enacted or substantively enacted as of 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.

We recognize deferred income tax assets only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, 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.

We recognize deferred income tax assets on deductible temporary differences arising from investments in subsidiaries 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

We offset deferred income tax assets and liabilities 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 taxing authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provision for Impairment of Trade Receivables

We record impairment of trade receivables based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires our management's judgment and estimates. We make provision when there is objective evidence that we will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expenses or write-back of provision for trade receivable in the period in which such estimate has been changed.

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PRINCIPAL INCOME STATEMENT COMPONENTS

The following table sets forth our summary consolidated statements of comprehensive income for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(US\$ except for percentages)									
	(Unaudited)									
Revenue	22,775,694	100.0	28,008,030	100.0	28,445,686	100.0	14,658,856	100.0	13,829,731	100.0
Cost of revenue	(2,784,251)	(12.2)	(10,039,380)	(35.8)	(12,910,243)	(45.4)	(6,603,705)	(45.0)	(6,163,937)	(44.6)
Gross profit	19,991,443	87.8	17,968,650	64.2	15,535,443	54.6	8,055,151	55.0	7,665,794	55.4
Selling and marketing expenses	(6,816,061)	(29.9)	(6,705,064)	(23.9)	(3,267,798)	(11.5)	(1,867,361)	(12.7)	(1,468,046)	(10.6)
Administrative expenses	(2,376,818)	(10.4)	(4,183,937)	(14.9)	(3,368,894)	(11.8)	(2,906,727)	(19.8)	(2,043,499)	(14.8)
Research and development expenses	(1,844,645)	(8.1)	(1,313,210)	(4.7)	(1,232,660)	(4.3)	(531,074)	(3.6)	(349,760)	(2.5)
Other gains/ (losses), net	192,930	0.8	712,718	2.5	976,497	3.4	325,764	2.2	(411,372)	(3.0)
Operating profit	9,146,849	40.2	6,479,157	23.1	8,642,588	30.4	3,075,753	21.0	3,393,117	24.5
Finance income/ (costs), net	254	0.0	1,750	0.0	(53,776)	(0.2)	(12,100)	(0.1)	14,472	0.1
Shares of (loss)/ profit of an associate	-	-	-	-	(36,666)	(0.1)	-	-	(54,603)	(0.4)
Profit before income tax	9,147,103	40.2	6,480,907	23.1	8,552,146	30.1	3,063,653	20.9	3,352,986	24.2
Income tax expense	(2,081,576)	(9.1)	(1,930,703)	(6.9)	(1,612,619)	(5.7)	(609,516)	(4.2)	(1,084,098)	(7.8)
Profit for the year/period	<u>7,065,527</u>	<u>31.0</u>	<u>4,550,204</u>	<u>16.2</u>	<u>6,939,527</u>	<u>24.4</u>	<u>2,454,137</u>	<u>16.7</u>	<u>2,268,888</u>	<u>16.4</u>
Profit attributable to the owners	<u>7,502,481</u>	<u>32.9</u>	<u>4,473,988</u>	<u>16.0</u>	<u>6,939,527</u>	<u>24.4</u>	<u>2,454,137</u>	<u>16.7</u>	<u>2,268,888</u>	<u>16.4</u>
Add:										
Listing-related expenses	284,278	1.2	1,033,675	3.7	625,867	2.2	581,098	4.0	854,476	6.2
Share-based compensation	-	-	612,443	2.2	-	-	-	-	-	-
Adjusted net profit⁽¹⁾	<u>7,349,805</u>	<u>32.3</u>	<u>6,196,322</u>	<u>22.1</u>	<u>7,565,394</u>	<u>26.6</u>	<u>3,035,235</u>	<u>20.7</u>	<u>3,123,364</u>	<u>22.6</u>

(1) See “— Principal Income Statement Components — Non-IFRS Measures” for details.

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Revenue

We generate our revenue primarily from (1) the sale of virtual items in the online games we publish, and to a lesser extent, (2) the licensing arrangements through which we authorize co-distributors to publish online games, (3) the server rental arrangements through which we allow third parties to use the servers rented by us, and (4) the provision of advertising placement services to third parties in the web games we publish.

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

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(US\$ except for percentages)										
(Unaudited)										
Online game	21,899,314	96.2	27,192,715	97.1	27,588,973	97.0	14,161,424	96.6	13,613,159	98.4
Licensing	272,600	1.2	403,283	1.4	566,727	2.0	322,887	2.2	176,947	1.3
Server rental	441,452	1.9	300,560	1.1	238,770	0.8	139,590	1.0	29,820	0.2
Advertising	162,328	0.7	111,472	0.4	51,216	0.2	34,955	0.2	9,805	0.1
Total	22,775,694	100.0	28,008,030	100.0	28,445,686	100.0	14,658,856	100.0	13,829,731	100.0

The increase in our revenue generated from online games in 2014, 2015 and 2016 primarily reflected the growth our mobile game business. The increase in our revenue generated from licensing in 2014, 2015 and 2016 primarily reflected the co-distribution of our online games, in particular, our proprietary mobile games. The decrease in our revenue generated from server rental during the Track Record Period reflected a reduction in the number of servers co-publishers rented from us to publish web games licensed from us. The decrease in our revenue from advertising during the Track Record Period reflected a slowdown of our web game business following our strategic expansion of business focuses to develop and launch mobile games, which generally carry less imbedded advertising placement.

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Online game revenue by game formats

We offer online games on web and mobile platforms. The following table sets forth a breakdown of our online game revenue by game formats for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(US\$ except for percentages)										
(Unaudited)										
Web games	20,398,486	89.6	15,659,772	55.9	10,199,039	35.9	5,578,006	38.1	4,363,244	31.5
Mobile games	1,500,828	6.6	11,532,943	41.2	17,389,934	61.1	8,583,418	58.5	9,249,915	66.9
Total	21,899,314	96.2	27,192,715	97.1	27,588,973	97.0	14,161,424	96.6	13,613,159	98.4

Our revenue from web games decreased during the Track Record Period, which reflected a slowdown of our web game business primarily due to (1) the slowdown of the global web game market which resulted in a scarcity of viable web games we were able to identify for publishing, (2) a decline in the revenue generated from our existing web games as they progressed in their respective lifecycles, and (3) the gradual build-up of user bases from our recent games launched in the third quarter of 2016 and the first half of 2017.

Our revenue from mobile games increased significantly during the Track Record Period, which reflected our strategic business expansion to develop and launch mobile games beginning in 2014 and the considerable success of our mobile games.

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Cost of Revenue

Our cost of revenue consists primarily of commission charges by third-party distribution platforms and payment channels, server rental expenses, royalty fees, amortization of license fees, compensation and benefits for employees involved in the operation of our online games, and tax surcharges. Our cost of revenue was US\$2.8 million, US\$10.0 million, US\$12.9 million, US\$6.6 million and US\$6.2 million in 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 12.2%, 35.8%, 45.4%, 45.0% and 44.6% of our revenue for the same periods, respectively. The following table sets forth a breakdown of our cost of revenue for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(US\$ except for percentages)						(Unaudited)			
Commission charges	1,092,681	4.8	6,486,965	23.1	9,576,690	33.6	4,757,696	32.4	5,195,320	37.6
Server rental expenses	1,446,161	6.4	1,371,789	4.9	1,409,908	5.0	720,290	4.9	713,027	5.2
Royalty fees	68,172	0.3	1,071,988	3.8	1,230,100	4.3	609,373	4.2	126,809	0.9
Amortization of license fees	75,204	0.3	1,006,213	3.6	611,726	2.2	426,056	2.9	66,580	0.5
Employee benefit expenses	97,697	0.4	75,580	0.3	43,571	0.2	62,719	0.4	45,538	0.3
Tax surcharges	4,336	0.0	18,439	0.1	25,116	0.1	11,212	0.1	15,199	0.1
Other expenses	-	-	8,406	0.0	13,132	0.0	16,359	0.1	1,464	0.0
Total	2,784,251	12.2	10,039,380	35.8	12,910,243	45.4	6,603,705	45.0	6,163,937	44.6

Commission charges

We typically adopt revenue sharing arrangements with third-party distribution platforms and payment channels and recognize revenue from our portion of the gross billings after deduction of the fees paid to such platforms and channels. We include fees paid to distribution platforms and payment channels in cost of revenue (1) for mobile games published on Google Play, in which case we presented fees paid to Google Play on a gross basis, and (2) for our proprietary mobile games, in which case we presented fees paid to distribution platforms and payment channels on a gross basis. In addition, we include fees paid to payment channels in cost of revenue for web games published through our own websites. We recorded commission charges by third-party distribution platforms and payment channels of US\$1.1 million, US\$6.5 million, US\$9.6 million, US\$4.8 million and US\$5.2 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 4.8%, 23.1%, 33.6%, 32.4% and 37.6% of our revenue for the same periods.

The commission charges generally increased significantly during the Track Record Period, which reflected our strategic business expansion to develop and launch mobile games beginning in 2014, as a result of which we presented certain fees paid to distribution platforms and payment channels on a gross basis as cost of revenue.

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Server rental expenses

Server rental expenses represent fees we paid for using servers maintained by third parties to publish our online games. Our server rental expenses generally remained stable during the Track Record Period, primarily due to the enhanced efficiency for data servers to host mobile games.

Royalty fees

Royalty fees represent primarily the portion of revenue from games that is shared with IP providers for incorporating their IPs in our mobile games. Our royalty fees generally increased significantly from 2014 to 2016, which reflected our strategic business expansion to develop and launch mobile games beginning in 2014, as a result of which we launched several casual shooting games in mobile formats incorporating certain IP elements licensed from 7Road and a special edition of mobile *DDTank* featuring sports figures and themes licensed from Barcelona Football Club.

Amortization of license fees

License fees represent the one-off fees paid to game developers for granting us the right to distribute their games within certain regions as stipulated under content distribution arrangements. Our amortization of license fees generally increased significantly during the Track Record Period, primarily due to (1) the phasing-out of certain web games which resulted in accelerated amortization and (2) the launch of new online games.

Tax surcharges

Our business operations in China are subject to certain surcharges, including primarily city construction tax, education surcharges and local education surcharges. The following table sets forth the material tax surcharges and their rates applicable to us during the Track Record Period.

Category	Tax Rate	Basis of Levies
City construction tax	7.0%	Actual business tax and value-added tax payments
Education surcharges	3.0%	Actual business tax and value-added tax payments
Local education surcharges	2.0%	Actual business tax and value-added tax payments

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Gross Profit and Gross Profit Margin

For 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, our gross profit was US\$20.0 million, US\$18.0 million, US\$15.5 million, US\$8.1 million and US\$7.7 million, respectively. For 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, our gross profit margin was 87.8%, 64.2%, 54.6%, 55.0% and 55.4%, respectively. The decrease in gross profit margin from 2014 to 2016 was primarily due to an increase in our cost of revenue driven by our strategic business expansion to develop and launch mobile games, as a result of which we presented certain fees paid to IP licensor, distribution platforms and payment channels on a gross basis as cost of revenue.

For licensed games (primarily web games), approximately 40-65% of the gross billings are recorded as revenue, which means that (1) approximately 20%-40% of the gross billings paid to distribution platforms (excluding Google Play) and (2) approximately 20-30% of the remaining net billings paid to game developers are pre-deducted from the revenue. We generally present commission charges from Google Play, license fees and server rental fees as cost of revenue for those licensed games according to the relevant accounting policies. In 2014, 2015, 2016 and the six months ended 30 June, 2017, we generated 97.5%, 64.3%, 39.4% and 32.0% of the total online game revenue from licensed games.

For proprietary games (primarily mobile games), approximately all gross billings are recorded as revenue, and generally all commission charges paid to distribution platforms (approximately 30-85% of the gross billings), royalty fees paid to IP licensors and server rental fees are presented as cost of revenue. In 2014, 2015, 2016 and the six months ended June 30, 2017, we generated 2.5%, 35.7%, 60.6% and 68.0% of the total online game revenue from proprietary games.

Due to the foregoing differences in accounting treatment, the gross profit margin for licensed games is relatively high compared to that of proprietary games. As such, the decrease in the gross profit margin from 2014 to 2016 is in line with the decrease in the revenue contribution from our licensed web games and an increase in the revenue contribution from our proprietary mobile games.

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We have historically published primarily web games licensed by third parties in the overseas markets. In recent years, we strategically expanded our business focuses to develop and launch proprietary mobile games. The following table sets forth a detailed breakdown of our licensed and proprietary online games by game formats.

	Year ended December 31,						Six months ended June 30	
	2014		2015		2016		2017	
	Amount	% of online game revenue	Amount	% of online game revenue	Amount	% of online game revenue	Amount	% of online game revenue
(US\$ except for percentage)								
Web games								
Licensed web games	20,398,486	93.1	15,659,772	57.6	10,199,039	37.0	4,304,883	31.6
Proprietary web games	-	-	-	-	-	-	58,361	0.4
Mobile games								
Proprietary mobile games	544,324	2.5	9,694,513	35.6	16,712,204	60.5	9,198,863	67.6
Licensed mobile games	956,504	4.4	1,838,430	6.8	677,730	2.5	51,052	0.4
Total	21,899,314	100.0	27,192,715	100.0	27,588,973	100.0	13,613,159	100.0

(1) Proprietary web game refers to *Omega Zodiac* (since April 2017). Proprietary mobile games refer to *Devil Age* and mobile *DDTank* series.

As shown in the table above, the revenue contribution from our licensed web games decreased from 93.1% in 2014 to 31.6% in the six months ended June 30, 2017, whereas the revenue contribution from our proprietary mobile games increased from 2.5% in 2014 to 67.6% in the six months ended June 30, 2017.

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Other Gains/(Losses), Net

Our other gains/(losses) consist primarily of foreign exchange gains/(losses) in relation to our transfer pricing arrangements. We had net other gains of US\$0.2 million, US\$0.7 million, US\$1.0 million and US\$0.3 million in 2014, 2015, 2016 and the six months ended June 30, 2016 and other losses of US\$0.4 million in the six months ended June 30, 2017, respectively, accounting for 0.8%, 2.5%, 3.4%, 2.2% and 3.0% of our revenue for the same periods, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of advertising expenses, employee benefit expenses incurred by our marketing department, office rental expenses, office charge, traveling and entertainment expenses, and certain other expenses. We incurred selling and marketing expenses of US\$6.8 million, US\$6.7 million, US\$3.3 million, US\$1.9 million and US\$1.5 million in 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 29.9%, 23.9%, 11.5%, 12.7% and 10.6% of our revenue for the same periods, respectively. The following table sets forth the components of our selling and marketing expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(US\$ except for percentages)									
	(Unaudited)									
Advertising expenses	6,162,585	27.0	5,410,920	19.3	1,908,638	6.7	1,088,758	7.4	871,830	6.3
Employee benefit expenses	641,691	2.8	1,231,717	4.4	1,357,441	4.8	777,341	5.3	593,874	4.3
Other expenses ⁽¹⁾	11,785	0.1	62,427	0.2	1,719	0.0	1,262	0.0	2,342	0.0
Total	6,816,061	29.9	6,705,064	23.9	3,267,798	11.5	1,867,361	12.7	1,468,046	10.6

(1) Other expenses consist of office rental expenses, office charge, traveling and entertainment expenses and miscellaneous expenses with respect to selling and marketing.

Our advertising expenses decreased significantly during the Track Record Period, primarily due to a decrease in our advertisement for web games following our strategic business expansion to develop and launch mobile games. As we pay higher commission fees for using mobile platforms, which include placement and promotion of our mobile game products in their App marketplaces, we typically do not incur separate advertising expenses in relation to our mobile games.

FINANCIAL INFORMATION

Our employee benefit expenses for the marketing department increased significantly from US\$0.6 million in 2014 to US\$1.2 million in 2015 and further increased by 10.2% to US\$1.4 million in 2016, primarily due to the increase in headcount and average compensation for employees as a result of our business expansion. Our employee benefit expenses decreased by 23.6% from US\$0.8 million in the six months ended June 30, 2016 to US\$0.6 million in the six months ended June 30, 2017, primarily due to our cost control measures to optimize our workforce structure.

Administrative Expenses

Our administrative expenses consist primarily of employee benefit expenses, listing-related expenses, impairment charges, office rental expenses, and depreciation and amortization. We incurred administrative expenses of US\$2.4 million, US\$4.2 million, US\$3.4 million, US\$2.9 million and US\$2.0 million in 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 10.4%, 14.9%, 11.8%, 19.8% and 14.8% of our revenue for the same periods, respectively.

The following table sets forth the components of our administrative expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(US\$ except for percentages)									
	(Unaudited)									
Employee benefit expenses ⁽¹⁾	773,147	3.4	1,851,575	6.6	1,169,948	4.1	615,739	4.2	380,152	2.7
Depreciation & amortization	51,080	0.2	138,416	0.5	174,340	0.6	89,416	0.6	82,139	0.6
Listing-related expenses	284,278	1.2	1,033,675	3.7	625,867	2.2	581,098	4.0	854,476	6.2
Other professional service fees	230,485	1.0	206,762	0.7	183,248	0.6	101,951	0.7	64,428	0.5
Office rental expenses	169,828	0.7	415,136	1.5	348,254	1.2	176,861	1.2	170,757	1.2
Impairment charges/(reversal of impairment charges)	368,491	1.6	195,367	0.7	677,073	2.4	1,280,396	8.7	350,174	2.5
Other expenses ⁽²⁾	499,509	2.3	343,006	1.2	190,164	0.7	61,266	0.4	141,373	1.1
Total	2,376,818	10.4	4,183,937	14.9	3,368,894	11.8	2,906,727	19.8	2,043,499	14.8

(1) Includes expenses incurred in 2015 for share-based compensation of US\$612,443 in relation to certain Share transfers to Mr. LU Yuanfeng in September 2015. For details, see Note 16 to the Accountant's Report in Appendix I to this prospectus.

(2) Other expenses consist of office charge, travelling and entertainment expenses and miscellaneous expenses.

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Our employee benefit expenses for the administrative department increased significantly from US\$0.8 million in 2014 to US\$1.9 million in 2015, primarily due to the increase in headcount and average compensation for employees as a result of our business expansion. Our employee benefit expenses for the administrative department decreased by 36.8% from US\$1.9 million in 2015 to US\$1.2 million in 2016 and decreased by 38.3% from US\$0.6 million for the six months ended June 30, 2016 to US\$0.4 million for the six months ended June 30, 2017, primarily due to our cost control measures implemented since 2016. See “Business — Employees” for details of our cost control measures.

Listing-related expenses represent fees paid to professional parties in connection with the Global Offering.

Other professional service fees primarily represent fees paid to engage auditors and an external tax consultant to provide professional tax compliance and consulting services in light of the complex tax regimes we are subject to.

Impairment charges primarily represent write-off of uncollectible trade receivables. The increase in impairment charges in 2016 primarily reflected our tightened trade receivables management practices.

Research and Development Expenses

Our research and development expenses consist primarily of employee benefit expenses incurred by our research and development department and outsourcing expenses for services we engaged to develop mobile games. We incurred research and development expenses of US\$1.8 million, US\$1.3 million, US\$1.2 million, US\$0.5 million and US\$0.3 million in 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, accounting for 8.1%, 4.7%, 4.3%, 3.6% and 2.5% of our revenue for the same periods, respectively.

The following table sets forth a breakdown of our research and development expenses during the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(US\$ except for percentages)									
	(Unaudited)									
Employee benefit expenses	966,007	4.2	1,214,614	4.3	1,229,285	4.3	530,772	3.6	338,098	2.4
Outsourcing expenses	878,638	3.9	98,596	0.4	3,375	0.0	302	0.0	11,662	0.1
Total	1,844,645	8.1	1,313,210	4.7	1,232,660	4.3	531,074	3.6	349,760	2.5

Our research and development expenses decreased by 28.8% from US\$1.8 million in 2014 to US\$1.3 million in 2015, as we transitioned from outsourced research and development to in-house research and development model for greater control over the research process and improved efficiency.

FINANCIAL INFORMATION

Our employee benefit expenses for research and development personnel as a percentage of our revenue decreased during the Track Record Period, primarily due to our cost control measures implemented since 2016. See “Business — Employees” for details of our cost control measures.

Finance Income, Net

Our finance income consists primarily of foreign exchange gain on cash and cash equivalent and interest income on bank deposit. Our finance costs primarily represent foreign exchange losses. Our net finance income was US\$254, US\$1,750 and US\$14,472 in 2014, 2015 and the six months ended June 30, 2017, respectively. Our finance loss was US\$53,776 and US\$12,100 in 2016 and the six months ended June 30, 2016.

Income Tax Expenses

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operated. Deferred income tax arises from the timing difference between accounting and taxable profits. The following table sets forth our income tax expenses for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
			(US\$)		
				(Unaudited)	
Current income tax	2,076,667	1,973,767	1,692,580	701,317	1,207,997
Deferred income tax	4,909	(43,064)	(79,961)	(91,801)	(123,899)
Total	2,081,576	1,930,703	1,612,619	609,516	1,084,098

We were not subject to any income tax in the Cayman Islands or the British Virgin Islands pursuant to the tax rules and regulations of the Cayman Islands or the British Virgin Islands during the Track Record Period.

Our Hong Kong subsidiaries were subject to a profits tax of 16.5% on the estimated assessable profits during the Track Record Period.

Our PRC subsidiaries were subject to enterprise income tax of 25.0% during the Track Record Period. Zhang Ying Kong was subject to such statutory rate on its deemed profit (核定徵收) before 2016.

FINANCIAL INFORMATION

Our international footprint has subjected us to unique tax risks in relation to the countries and regions where we operate online games. We were subject to value-added tax in the European Union and China and sales tax in a number of states in the United States during the Track Record Period. As the implication of global and local tax regulations on our operations became increasingly complicated, we engaged an external tax consultant in May 2014 to provide professional tax compliance and consulting services. After consultation with our tax consultant, our Directors provided tax provisions for PRC enterprise income tax, EU value-added tax and U.S. state sales tax. We have completed the statutory tax filing procedures and settled the outstanding tax liabilities with the competent tax authorities in the United States, the European Union and China. For details, see “Business — Taxation and Related Arrangements.”

Our effective tax rate was 23%, 30%, 19%, 20% and 32% in 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017. We may be subject to taxation in the jurisdictions in which we operate. Our effective tax rate was higher in 2015 and the six months ended June 30, 2017, primarily due to a significant amount of non-deductible listing-related expenses accrued in 2015.

As of the Latest Practicable Date, we made all material tax filings and paid all material outstanding tax liabilities with the relevant tax authorities in jurisdictions, and we are not aware of any outstanding or potential dispute with such tax authorities.

Profit for the Year/Period and Net Profit Margin

As a result of the foregoing, we had profit of US\$7.1 million, US\$4.6 million, US\$6.9 million, US\$2.5 million and US\$2.3 million for 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively. Our net profit margin was 31.0%, 16.2%, 24.4%, 16.7% and 16.4% for 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively.

Non-IFRS Measures

To supplement our consolidated statements of comprehensive income which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our operating performance. We also believe that such non-IFRS measures provide useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management and in comparing financial results across accounting periods and to those of our peer companies.

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Adjusted net profit eliminates the effect of certain non-cash or non-recurring items: listing-related expenses and share-based compensation expenses. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest IFRS performance measure, which should be considered when evaluating our performance. The following table reconciles our adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
			(US\$)		
				(Unaudited)	
Profit for the year/period	7,065,527	4,550,204	6,939,527	2,454,137	2,268,888
Add:					
Listing-related expenses	284,278	1,033,675	625,867	581,098	854,476
Share-based compensation	–	612,443	–	–	–
Adjusted Net Profit	<u>7,349,805</u>	<u>6,196,322</u>	<u>7,565,394</u>	<u>3,035,235</u>	<u>3,123,364</u>

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit for the year, operating profit or any other operating performance measure that is calculated in accordance with IFRS. In addition, because such measure may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Revenue

Our revenue decreased by 5.7% from US\$14.7 million for the six months ended June 30, 2016 to US\$13.8 million for the six months ended June 30, 2017, primarily due to a 21.8% decrease in revenue from our web games from US\$5.6 million to US\$4.4 million, as our existing web games progressed in their respective lifecycles and in particular, our top revenue-generating web game, *Wartune*, entered into the late stage of its lifecycle.

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Cost of revenue

Our cost of revenue decreased by 6.7% from US\$6.6 million for the six months ended June 30, 2016 to US\$6.2 million for the six months ended June 30, 2017, generally consistent with the decrease in our revenue during the same periods.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by 4.8% from US\$8.1 million for the six months ended June 30, 2016 to US\$7.7 million for the six months ended June 30, 2017. Our gross profit margin increased from 55.0% to 55.4% for the same periods.

Other gains/losses, net

We recorded net other gains of US\$0.3 million for the six months ended June 30, 2016 and net other losses of US\$0.4 million for the six months ended June 30, 2017, respectively. Our gains and losses for the six months ended June 30, 2016 and 2017 primarily consisted of foreign exchange losses in relation to our transfer pricing arrangements.

Selling and marketing expenses

Our selling and marketing expenses decreased by 21.4% from US\$1.9 million for the six months ended June 30, 2016 to US\$1.5 million for the six months ended June 30, 2017, primarily due to (1) a 23.6% decrease in employee benefit expenses from US\$0.8 million to US\$0.6 million as a result of our cost control measures to optimize our workforce structure, and (2) a 19.9% decrease in advertising expenses from US\$1.1 million to US\$0.9 million as a result of a decrease in our advertisement for web games following our strategic business expansion to develop and launch mobile games. As we pay higher commission fees for using mobile platforms, which include placement and promotion of our mobile game products in their App marketplaces, we do not incur separate advertising expenses in relation to our mobile games.

Administrative expenses

Our administrative expenses decreased by 29.7% from US\$2.9 million for the six months ended June 30, 2016 to US\$2.0 million for the six months ended June 30, 2017, primarily due to (1) a 72.7% decrease in impairment charges from US\$1.3 million to US\$0.4 million, and (2) a 38.3% decrease in employee benefit expenses for administrative department from US\$0.6 million to US\$0.4 million as a result of our cost control measures to optimize our workforce structure.

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Research and development expenses

Our research and development expenses decreased by 34.1% from US\$0.5 million for the six months ended June 30, 2016 to US\$0.3 million for the six months ended June 30, 2017 primarily due to a 36.3% decrease in employee benefit expenses for research and development department from US\$0.5 million to US\$0.3 million as we had built a scalable and standardized game development process, which allows us to minimize the duplication of development efforts by the end of 2016.

Finance income, net

Our net finance loss was US\$12,100 for the six months ended June 30, 2016. Our net finance income was US\$14,472 for the six months ended June 30, 2017.

Profit before tax

As a result of the foregoing, our profit before tax was US\$3.1 million and US\$3.4 million for the six months ended June 30, 2016 and 2017, respectively.

Income tax expenses

Our income tax expenses increased by 77.9% from US\$0.6 million for the six months ended June 30, 2016 to US\$1.1 million for the six months ended June 30, 2017, primarily due to an increase in profit before tax and the non-deductible listing-related expenses. Our effective tax rate was 20% and 32% in the six months ended June 30, 2016 and 2017.

Profit for the period and net profit margin

As a result of the foregoing, our net profit decreased by 7.5% from US\$2.5 million for the six months ended June 30, 2016 to US\$2.3 million for the six months ended June 30, 2017. Our net profit margin decreased from 16.7% for the six months ended June 30, 2016 to 16.4% for the six months ended June 30, 2017.

Adjusted net profit for the period and adjusted net profit margin

Our adjusted net profit was US\$3.0 million and US\$3.1 million for the six months ended June 30, 2016 and 2017, respectively. Our adjusted net profit margin was 20.7% and 22.6% for the six months ended June 30, 2016 and 2017, respectively.

FINANCIAL INFORMATION

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenue

Our revenue increased by 1.6% from US\$28.0 million in 2015 to US\$28.4 million in 2016, primarily due to primarily due to a 50.8% increase in revenue from our mobile games from US\$11.5 million in 2015 to US\$17.4 million in 2016 as our web games achieved considerable success following our strategic business expansion to develop and launching mobile games, partially offset by a 34.9% decrease in revenue from our web games from US\$15.7 million in 2015 to US\$10.2 million in 2016 as our existing web games progressed in their respective lifecycles and in particular, our top revenue-generating web game, *Wartune*, entered into the late stage of its lifecycle.

Cost of revenue

Our cost of revenue increased by 28.6% from US\$10.0 million in 2015 to US\$12.9 million in 2016, primarily due to (1) a 47.6% increase in commission charges by platforms and third-party payment channels from US\$6.5 million in 2015 to US\$9.6 million in 2016, generally consistent with the growth of our mobile game business, for which we presented certain fees paid to distribution platforms and payment channels on a gross basis as cost of revenue, and (2) a 14.7% increase in royalty fees from US\$1.1 million in 2015 to US\$1.2 million in 2016, generally consistent with the growth of our mobile games.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by 13.5% from US\$18.0 million in 2015 to US\$15.5 million in 2016. Our gross profit margin decreased from 64.2% in 2015 to 54.6% in 2016, primarily due to the growth of our mobile games, for which we presented certain fees paid to distribution platforms and payment channels on a gross basis as cost of revenue.

Other gains/losses, net

We recorded net other gains of US\$0.7 million in 2015 and US\$1.0 million in 2016, respectively. Our gains in 2015 and 2016 primarily consisted of foreign exchange gains in relation to our transfer pricing arrangements.

Selling and marketing expenses

Our selling and marketing expenses decreased by 51.3% from US\$6.7 million in 2015 to US\$3.3 million in 2016, primarily due to a 64.7% decrease in advertising expenses from US\$5.4 million in 2015 to US\$1.9 million in 2016, as a result of (1) lower marketing expenses for our existing web games and (2) our strategic business expansion to develop and launch mobile games. Unlike web games where we normally incur additional advertising expenses to attract more users, we pay higher commission fees, which are accounted for under cost of revenue, directly to mobile game distribution platforms for, among others, their placement and promotion of our mobile games.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses decreased by 19.5% from US\$4.2 million in 2015 to US\$3.4 million in 2016, primarily due to a 36.8% decrease in employee benefit expenses for administrative department, primarily due to our cost control measures to optimize our workforce structure.

Research and development expenses

Our research and development expenses decreased by 6.1% from US\$1.3 million in 2015 to US\$1.2 million in 2016, primarily due to a 96.6% decrease in outsourcing expenses from US\$0.1 million in 2015 to US\$3,375 in 2016 as we transitioned from outsourced to in-house research and development efforts for greater control over the research process and improved efficiency.

Finance income, net

We recorded net finance income of US\$1,750 in 2015 and net finance loss of US\$53,776 in 2016.

Profit before tax

As a result of the foregoing, our profit before tax was US\$6.5 million in 2015 and US\$8.6 million in 2016, respectively.

Income tax expenses

Our income tax expenses decreased by 16.5% from US\$1.9 million in 2015 to US\$1.6 million in 2016, primarily due to a decrease in non-deductible listing-related expenses. Our effective tax rate was 30% in 2015 and 19% in 2016.

Profit for the year and net profit margin

As a result of the foregoing, our net profit increased by 52.5% from US\$4.6 million in 2015 to US\$6.9 million in 2016. Our net profit margin increased from 16.2% in 2015 to 24.4% in 2016.

Adjusted net profit for the year and adjusted net profit margin

Our adjusted net profit was US\$6.2 million and US\$7.6 million in 2015 and 2016, respectively. Our adjusted net profit margin was 22.1% and 26.6% in 2015 and 2016, respectively.

FINANCIAL INFORMATION

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenue

Our revenue increased by 23.0% from US\$22.8 million in 2014 to US\$28.0 million in 2015, primarily due to a significant increase in revenue from our mobile games from US\$1.5 million in 2014 to US\$11.5 million in 2015 following our strategic business expansion to develop and launch mobile games, partially offset by a 23.2% decrease in revenue from our web games from US\$20.4 million in 2014 to US\$15.7 million in 2015 as our existing web games progressed in their respective lifecycles and in particular, as our top revenue-generating web game, *Wartune*, entered into the late stage in its lifecycle.

Cost of revenue

Our cost of revenue increased significantly from US\$2.8 million in 2014 to US\$10.0 million in 2015, primarily due to (1) a significant increase in commission charges paid to third-party distribution platforms and payment channels from US\$1.1 million in 2014 to US\$6.5 million in 2015, as of result of the growth of our mobile game business, for which we presented certain fees paid to distribution platforms and payment channels on a gross basis as cost of revenue, and (2) a significant increase in royalty fees from US\$0.1 million in 2014 to US\$1.1 million in 2015, generally consistent with the growth of our mobile game business.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by 10.1% from US\$20.0 million in 2014 to US\$18.0 million in 2015. Our gross profit margin decreased from 87.8% in 2014 to 64.2% in 2015, primarily due to the growth of our mobile game business, for which we presented certain fees paid to distribution platforms and payment channels on a gross basis as cost of revenue.

Other gains, net

We recorded net other gains of US\$0.2 million and US\$0.7 million in 2014 and 2015, respectively. Our gains in 2014 and 2015 primarily consisted of foreign exchange gains in relation to our transfer pricing arrangements.

Selling and marketing expenses

Our selling and marketing expenses decreased by 1.6% from US\$6.8 million in 2014 to US\$6.7 million in 2015, primarily due to a 12.2% decrease in advertising expenses from US\$6.2 million in 2014 to US\$5.4 million in 2015 as a result of our strategic business expansion to develop and launch mobile games. Unlike web games where we normally incur additional advertising expenses to attract more users, we pay higher commission fees, which are accounted for under cost of sales directly to mobile game distribution platforms for, among others, their placement and promotion of our mobile games.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses increased by 76.0% from US\$2.4 million in 2014 to US\$4.2 million in 2015, primarily due to (1) an increase in headcount and average compensation driven by our business expansion and (2) listing-related expenses.

Research and development expenses

Our research and development expenses decreased by 28.8% from US\$1.8 million in 2014 to US\$1.3 million in 2015, primarily due to an 88.8% decrease in outsourcing expenses from US\$0.9 million in 2014 to US\$0.1 million in 2015 as we transitioned from outsourced research and development to in-house research and development model for greater control over the research process and improved efficiency, partially offset by a 25.7% increase in employee benefit expenses from US\$1.0 million in 2014 to US\$1.2 million in 2015, primarily due to an increase in headcount and average compensation driven by our business expansion.

Finance income, net

Our net finance income was US\$254 and US\$1,750 in 2014 and 2015, respectively.

Profit before tax

As a result of the foregoing, our profit before tax was US\$9.1 million and US\$6.5 million in 2014 and 2015, respectively.

Income tax expenses

Our income tax expenses decreased by 7.2% from US\$2.1 million in 2014 to US\$1.9 million in 2015, primarily due to a decrease in profit before tax. Our effective tax rate was 23% in 2014 and 30% in 2015.

Profit for the year and net profit margin

Our net profit decreased by 35.6% from US\$7.1 million in 2014 to US\$4.6 million in 2015, primarily due to an increase in administrative expenses in 2015 as a result of an increase in (1) headcount and average compensation driven by our business expansion and (2) listing expenses. Our net profit margin decreased from 31.0% in 2014 to 16.2% in 2015, primarily due to an increase in (1) our cost of revenue driven by our strategic business expansion to develop and launch mobile games, as a result of which we presented certain fees paid to distribution platforms and payment channels on a gross basis as cost of revenue and (2) our listing-related expenses incurred for the preparation of the Global Offering, partially offset by a decrease in research and development expenses in 2015.

Adjusted net profit for the year and adjusted net profit margin

Our adjusted net profit was US\$7.3 million and US\$6.2 million in 2014 and 2015, respectively. Our adjusted net profit margin was 32.3% and 22.1% in 2014 and 2015, respectively.

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DISCUSSION OF CERTAIN ITEMS FROM THE CONSOLIDATED BALANCE SHEET

The following table sets forth our summary consolidated balance sheet as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
ASSETS				
Non current assets				
Property, plant and equipment, net	101,979	524,992	401,507	333,169
Intangible assets, net	593,942	635,846	68,748	474,772
Investment in an associate ⁽¹⁾	–	–	684,873	646,317
Prepayments	712,657	25,000	50,000	50,000
Deferred income tax assets	–	58,198	147,891	291,102
	<u>1,408,578</u>	<u>1,244,036</u>	<u>1,353,019</u>	<u>1,795,360</u>
Current assets				
Trade receivables	6,045,137	5,555,892	3,834,112	4,391,853
Prepayments and other receivables	5,875,422	8,599,063	13,206,541	12,650,494
Cash and cash equivalents	16,336,408	16,812,751	8,130,169	9,649,131
	<u>28,256,967</u>	<u>30,967,706</u>	<u>25,170,822</u>	<u>26,691,478</u>
Total assets	<u>29,665,545</u>	<u>32,211,742</u>	<u>26,523,841</u>	<u>28,486,838</u>
EQUITY AND LIABILITIES				
Equity attributable to owners of the company				
Share capital	8,582	10,000	10,000	11,111
Shares held for the Share Option Scheme	–	–	–	(1,111)
Reserves	31,057	122,401	(394,315)	(6,976)
Accumulated earnings	12,564,738	4,297,073	11,175,806	13,444,694
	<u>12,604,377</u>	<u>4,429,474</u>	<u>10,791,491</u>	<u>13,447,718</u>
Non-controlling interests	(601,392)	–	–	–
Total equity	12,002,985	4,429,474	10,791,491	13,447,718
Liabilities				
Non-current liabilities				
Deferred revenue	143,708	175,834	17,347	–
Deferred income tax liabilities	–	15,193	27,362	44,441
	<u>143,708</u>	<u>191,027</u>	<u>44,709</u>	<u>44,441</u>
Current liabilities				
Trade payables	5,731,807	5,837,009	6,248,178	5,784,942
Deferred revenue	4,465,652	3,647,280	3,731,483	3,648,756
Receipt in advance	85,116	268,582	650,434	628,913
Other payables and accruals	3,919,833	5,032,149	3,193,451	2,410,360
Current income tax liabilities	3,316,444	4,996,551	1,864,095	2,521,708
Dividends payables	–	7,809,670	–	–
	<u>17,518,852</u>	<u>27,591,241</u>	<u>15,687,641</u>	<u>14,994,679</u>
Total liabilities	<u>17,662,560</u>	<u>27,782,268</u>	<u>15,732,350</u>	<u>15,039,120</u>
Total equity and liabilities	<u>29,665,545</u>	<u>32,211,742</u>	<u>26,523,841</u>	<u>28,486,838</u>

(1) Our investment in an associate represents our investment in a VR studio in China.

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Property, Plant and Equipment

Our property, plant and equipment primarily represent office equipment, computers, motor vehicles and leasehold improvement. We had property, plant and equipment of US\$0.1 million, US\$0.5 million, US\$0.4 million and US\$0.3 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The significant increase in our property, plant and equipment from December 31, 2014 to December 31, 2015 was primarily due to the relocation and renovation of our offices in Guangzhou, China and purchases of equipment and office supplies to accommodate our increased headcount.

Intangible Assets, net

Our intangible assets primarily represent prepaid license fees and computer software. We had intangible assets of US\$0.6 million, US\$0.6 million, US\$0.1 million and US\$0.5 million as of December 31, 2014, 2015, 2016 and June 30, 2017, respectively. The decrease of our intangible assets from December 31, 2015 to December 31, 2016 was primarily due to the annual amortization of existing prepaid license fees following the launch of the relevant games. The increase of our intangible assets from December 31, 2016 to June 30, 2017 was primarily due to the license fees paid for our web game *Omega Zodiac* during the first half of 2017.

Trade Receivables

Our trade receivables primarily represent amounts arising from publishing online games, including sales proceeds from in-game purchases generated through third-party distribution platforms, certain payment channels and co-publishers which were not yet paid to or drawn by us. We had trade receivables of US\$6.0 million, US\$5.6 million, US\$3.8 million and US\$4.4 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The decrease in our trade receivables from December 31, 2014 to December 31, 2015 and 2016 generally reflected our increased bargaining power and enhanced collection efforts. The increase in our trade receivables from December 31, 2016 to June 30, 2017 primarily reflected our enhanced collection efforts towards year ends. The following table sets forth the details of our trade receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(US\$)			
Trade receivables	6,531,650	6,237,772	5,193,065	6,100,980
Less: impairment provision	(486,513)	(681,880)	(1,358,953)	(1,709,127)
Trade receivables – net	6,045,137	5,555,892	3,834,112	4,391,853

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We made provisions for impairment of US\$0.5 million, US\$0.7 million, US\$1.4 million and US\$1.7 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively, on receivables primarily from certain distribution platforms and co-publishers which we then believed could not be collected due to the lapse of considerable time. The increase in impairment provisions during the Track Record Periods was primarily due to certain Android-based distribution platforms in China that was slow in remitting our share of the game proceeds as we strategically expanded our business focus to launch mobile games. We made appropriate impairment provisions per the pertinent accounting policies and will seek to enhance our collection efforts as our business in China grows.

We grant credit terms (1) of up to 60 days generally to third-party distribution platform and (2) of up to 120 days to co-publishers in China, consistent with the industry norms. The following table sets forth an aging analysis of our trade receivables based on the invoice date and net of provision as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
0-30 days	3,069,831	2,019,653	1,854,386	2,438,260
30-90 days	2,718,678	2,068,329	1,363,835	743,755
90-180 days	391,190	1,499,624	627,115	1,019,227
Over 180 days	351,951	650,166	1,347,729	1,899,738
Total	6,531,650	6,237,772	5,193,065	6,100,980

The increase in trade receivables over 180 days as of June 30, 2017 as compared to December 31, 2016 was primarily due to the longer payment term with our co-publishers through certain Android-based platforms in China. As of October 31, 2017, we had settled approximately 63.7% of our trade receivables outstanding as of June 30, 2017.

As of December 31, 2014, 2015 and 2016 and June 30, 2017, our trade receivables past due but not impaired were US\$0.2 million, US\$1.4 million, US\$0.4 million and US\$0.8 million, respectively. These overdue amounts were receivables related to certain third-party platforms and payment channels that had never committed any credit defaults in the past and were assessed to be financially trustworthy. Based on our past experience, our management believes that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality of the trade receivables from the date that credit was initially granted up to the end of each reporting period and that the overdue amounts can be recovered.

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We seek to maintain strict control over outstanding receivables and have established a credit control department to minimize credit risk. In addition, our senior management regularly review overdue balances. We do not hold any collateral or other credit enhancements over our trade receivables balances, and our trade receivables are non-interest-bearing. Our policy for impairment loss on trade receivables is based on an evaluation of collectability and aging analysis of the receivables, which requires the use of judgment and estimation. Provisions are applied to the receivables when there are events or changes in circumstances indicate that the balances may not be collectible. We closely review the trade receivable balance and any overdue balances on an ongoing basis and assess the collectability of overdue balances.

Our average trade receivables turnover days decreased during the Track Record Period, which generally reflected our increasing bargaining power and enhanced collection efforts. The following table sets forth our average trade receivables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2014	2015	2016	2017
Trade receivables turnover days ⁽¹⁾	88.1	75.6	60.2	53.5

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by revenue for the relevant period multiplied by 365 or 180 days.

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Prepayments and Other Receivables

We had prepayments and other receivables of US\$6.6 million, US\$8.6 million, US\$13.3 million and US\$12.7 million as of December 31, 2014, 2015, 2016 and June 30, 2017, respectively. The following table sets forth the details of our prepayments and other receivables as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
Included in non-current assets				
Prepayment for intangible assets	600,000	25,000	–	–
Prepayment for leasehold improvements	112,657	–	–	–
Prepayment for equity investment	–	–	50,000	50,000
	712,657	25,000	50,000	50,000
Included in current assets				
Receivables from payment channels	3,379,314	7,466,675	9,413,281	10,364,296
Amounts due from related parties	2,103,511	108,788	2,506,215	138,860
Prepayment for listing expenses	113,246	475,253	458,062	815,041
Deferred cost	50,761	332,424	541,012	704,144
Prepaid royalty fees	73,766	100,684	129,500	288,094
Others ⁽¹⁾	154,824	115,239	158,471	340,059
	5,875,422	8,599,063	13,206,541	12,650,494
Total	6,588,079	8,624,063	13,256,541	12,700,494

(1) Others include deposits, prepaid advertising charges, prepaid server rental charges and miscellaneous.

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Prepayment for intangible assets

Prepayment for intangible assets represents the fees prepaid to game developers for granting us the right to distribute their games. The significant decrease in prepayment for license fees from December 31, 2014 to December 31, 2015 was primarily due to a corresponding increase in intangible assets as certain prepaid license fees were recorded as intangible assets after the launch of the relevant games. All the existing prepaid license fees were recorded as intangible assets before December 31, 2016, and we did not subsequently enter into any new content distribution agreement that requires prepayment of license fees throughout the remainder of the Track Record Period.

Prepayment for leasehold improvements

Prepayment for leasehold improvements as of December 31, 2014 represents prepaid expenses for the renovation of our new offices in Guangzhou, China.

Prepayment for equity investment

Prepayment for equity investment as of December 31, 2016 and June 30, 2017 represents fees prepaid for our investment in a VR studio in the United States.

Receivables from payment channels

Receivables from payment channels represent the undrawn funds in the PayPal accounts. The significant increase in receivables from payment channels from December 31, 2014 to June 30, 2017 was primarily due to our steady flow of cash generated from our operating activities which allowed us to deploy funds from our cash at bank instead of withdrawing funds from such PayPal accounts. For operational convenience, we did not withdraw our funds from our PayPal accounts because (1) we could use the undrawn funds to settle our operating expenses as some of our suppliers prefer settlement through PayPal, and (2) withdrawing a large amount of funds from PayPal accounts is subject to certain verification procedures aimed to protect the safety of the account, which we believe is inconvenient for our operations as we currently have enough cash to deploy. We may withdraw the funds accumulated in our PayPal accounts at any time. We will assess our cash position from time to time and withdraw funds from our PayPal accounts when needed.

Amounts due from related parties

See “— Related Party Transactions” below.

Prepayment for listing expenses

Prepayment for listing expenses represents prepayments to engage professional parties in connection with the Global Offering.

Deferred cost

Deferred cost represents the commission charges prepaid to third-party platforms that have continuing obligations to allow us to publish games on their platforms during the cooperation period after the initial payment of commission charges.

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Prepaid royalty fees

Prepaid royalty fees represent the fixed fees prepaid to IP providers and certain game developers. Such royalty fees are either paid in advance and deferred on the consolidated balance sheet as prepaid royalties or accrued subsequently. The increase in prepaid royalty fees from December 31, 2016 to June 30, 2017 was primarily due to prepaid royalty fees with respect to certain newly launched or licensed games.

Cash and Cash Equivalents

Our cash and cash equivalents consist primarily of our cash at bank and on hand. The following table sets forth the components of our cash and cash equivalents as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
Cash at bank	16,330,510	16,810,672	8,130,100	9,649,131
Cash on hand	5,898	2,079	69	–
Total	16,336,408	16,812,751	8,130,169	9,649,131

The significant decrease in our cash and cash equivalents from December 31, 2015 to December 31, 2016 was primarily due to settlement of certain historical tax liabilities.

During the Track Record Period, our cash and cash equivalents were primarily denominated in US\$, RMB, HK\$ and EUR. The following table sets forth the details of our cash and cash equivalents denominated in the four currencies as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
US\$	15,529,582	14,306,883	3,630,708	4,733,578
RMB	449,463	521,894	1,090,934	1,018,014
HK\$	348,634	1,153,285	2,237,903	2,693,231
EUR	8,729	830,689	1,170,624	1,204,308
	16,336,408	16,812,751	8,130,169	9,649,131

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Trade Payables

Our trade payables primarily represent the portion of revenue that third-party distribution platforms, payment channels and co-publishers have generated but not yet paid by us to game developers and IP providers. We had trade payables of US\$5.7 million, US\$5.8 million, US\$6.2 million and US\$5.8 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The following table sets forth the details of our trade payables as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
Related parties	175,018	5,012,089	4,711,375	4,253,851
Third parties	5,556,789	824,920	1,536,803	1,531,091
Total	5,731,807	5,837,009	6,248,178	5,784,942

The increase in trade payables from 2014 to 2016 was primarily due to the growth of our mobile game business, which resulted in an increase in gross billings subject to revenue sharing arrangements with game developers and IP providers, including 7Road. The significant increase in trade payables to related parties as of December 31, 2015 was due to 7Road's investment in us in November 2015, as a result of which a subsidiary of 7Road became a substantial Shareholder. See “— Related Party Transactions” below for details of trade payables to related parties. The decrease of trade payables from December 31, 2016 to June 30, 2017 primarily reflected the enhanced collection efforts of our game developers and IP providers towards year ends. As of October 31, 2017, we had settled approximately 29.7% of our trade payables outstanding as of June 30, 2017.

Our game developer and IP provider partners generally grant us credit terms ranging from 30 to 90 days. The following table sets forth the aging analysis of our trade payables based on invoice date as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
0-90 days	3,862,575	2,609,266	1,882,301	1,812,262
91-180 days	1,866,466	2,748,132	1,848,766	1,220,708
180-360 days	2,766	424,513	1,392,100	1,474,449
Over 360 days	–	55,098	1,125,011	1,277,523
Total	5,731,807	5,837,009	6,248,178	5,784,942

The significant increase in trade payables that are due from over 90 days was primarily due to agreed prolonged settlement of trade payables with 7Road.

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During the Track Record Period, our trade payables were denominated in US\$ and RMB. The following table sets forth the details of the carrying amounts of our trade payables in the two currencies.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
US\$	5,675,422	5,242,511	4,998,024	4,912,256
RMB	56,385	594,498	1,250,154	872,686
Total	5,731,807	5,837,009	6,248,178	5,784,942

The following table sets forth our average trade payables turnover days for the periods indicated.

	Year ended December 31,			Six months
	2014	2015	2016	ended June 30, 2017
Trade payables turnover days ⁽¹⁾	763.4	210.3	170.8	175.7

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by cost of revenue for the relevant period multiplied by 365 or 180 days.

Our average trade payables turnover days in 2014 was 763.4 days, primarily due to the significantly lower cost of revenue in 2014, which reflected recognition of revenue from our portion of the gross billings after deduction of the commission charges paid to third-party distribution platforms and payment channels for our web games. As we strategically expanded our business to develop and launch mobile games, our average trade payables turnover days decreased significantly throughout the remainder of the Track Record Period, primarily due to the significantly higher cost of revenue in the relevant periods, which reflected presentation of commission charges on a gross basis.

We had significantly higher trade payables turnover days than trade receivables turnover days during the Track Record Period. As our suppliers include major online game distribution platforms such as Facebook, Apple Inc.'s App Store and Google Play, there is limited room for negotiating more flexible commercial terms, so the trade receivables turnover days tend to be stable and the decreasing trend during the Track Record Period reflected our increasing bargaining power and enhanced collection efforts as we grew our business over the years. Due to our leadership in publishing online games developed by China-based game developers in the international market, we believe we had considerable bargaining power over the negotiation of commercial terms with China-based game developers, and therefore, our trade payables turnover days were generally longer during the Track Record Period.

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Other Payables and Accruals

We had other payables and accruals of US\$3.9 million, US\$5.0 million, US\$3.2 million and US\$2.4 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The following table sets forth the details of our other payables and accruals as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
Other taxes payable	1,701,395	1,929,292	300,183	348,356
Salary and staff welfare payables	1,112,824	1,424,915	1,072,653	719,561
Listing expenses payable	288,319	814,024	664,195	755,879
Accrued professional service fees	119,616	239,232	284,119	12,075
Advertising payables	607,439	253,884	200,209	251,636
Amount due to related parties	–	90,801	420,642	62,059
Rent payable	34,023	70,779	84,310	80,704
Others	56,217	209,222	167,140	180,090
Total	3,919,833	5,032,149	3,193,451	2,410,360

During the Track Record Period, our other payables and accruals were denominated in US\$ and RMB. The following table sets forth the details of the carrying amounts of our trade payables in the two currencies as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
US\$	2,709,139	3,212,191	1,364,702	1,288,967
RMB	1,210,694	1,819,958	1,828,749	1,121,393
	3,919,833	5,032,149	3,193,451	2,410,360

Our other payables and accruals are non-interest-bearing. During the Track Record Period, we did not default on any other payables and accruals that would have a material adverse effect on our financial position.

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Other taxes payable

Other taxes payable represent the value-added tax, sales tax and others. The increase in other taxes payable from December 31, 2014 to December 31, 2015 was primarily due to the accumulation of unpaid EU and PRC value-added tax and U.S. state sales tax. The decrease in other taxes payable from December 31, 2015 to December 31, 2016 was primarily due to the payment of outstanding taxes.

Salary and staff welfare payables

Salary and staff welfare payables represent salaries and annual bonuses accrued but not yet paid to our employees. The increase in salary and staff welfare payables from December 31, 2014 to December 31, 2015 was primarily due to an increase in headcount and average compensation driven by business expansion. The decrease in salary and staff welfare payables from December 31, 2015 to December 31, 2016 was primarily due to our cost control measures to optimize our workforce structure.

Listing fees payable

Listing fees payable represent the payments to engage professional parties in connection with the Global Offering.

Advertising payables

Advertising payables represent advertising expenses for the promotion of our games accrued but not yet paid to relevant third parties. The decrease in advertising payables from December 31, 2014 to December 31, 2015 was primarily due to our strategic business expansion to develop and launch mobile games. As we pay higher commission fees for using mobile platforms, which include placement and promotion of our mobile game products in their App marketplaces, we typically do not incur separate marketing expenses in relation to our mobile games. The increase in advertising payables from December 31, 2016 to June 30, 2017 was primarily due to the promotion of our games that are at the growth stage.

Amounts due to related parties

See “— Related Party Transactions” below.

Deferred Revenue

Deferred revenue under non-current liabilities consists primarily of advance license fees paid by our co-publishers, for which the game was not yet launched by the relevant period end. The increase in deferred revenue under non-current liabilities from December 31, 2014 to December 31, 2015 was primarily due to advance license fees for the co-distribution of a new game that was not yet launched by the year end. We subsequently amortized the advance license fees after the launch of the relevant game and did not enter into new co-distribution arrangements that require advance license fees from the co-publishers, which resulted in a significant decrease in deferred revenue under non-current liabilities as of December 31, 2016 and June 30, 2017.

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Deferred revenue under current liabilities consists primarily of the proceeds from the in-game sale of virtual items where there is still an implied obligation to be provided by us. The balance of our deferred revenue as of a stated date is affected by the timing of the relevant in-game purchases and the user consumption patterns, which may result in erratic fluctuations between each stated date. As we strategically expanded our business focus to develop and launch mobile games, our deferred revenue generally decreased during the Track Record Period, as mobile games generally have shorter average lifecycles (approximately 12 months) than web games (approximately 24 months). As a result, the deferred revenue from mobile games is typically amortized faster than that from web games, leading to smaller balances at the stated dates.

SHAREHOLDERS' EQUITY

Our total equity was US\$12.0 million, US\$4.4 million, US\$10.8 million and US\$13.4 million as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively. The following table sets forth details of our equity as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
Equity attributable to owners of our Company				
Share capital	8,582	10,000	10,000	11,111
Shares held for the Share Option Scheme	–	–	–	(1,111)
Reserves	31,057	122,401	(394,315)	(6,976)
Accumulated earnings	12,564,738	4,297,073	11,175,806	13,444,694
	12,604,377	4,429,474	10,791,491	13,447,718
Non-controlling interests	(601,392)	–	–	–
Total equity	12,002,985	4,429,474	10,791,491	13,447,718

The decrease in our total equity from December 31, 2014 to December 31, 2015 was primarily due to the declaration of certain special dividends of US\$12.1 million payable to the Founders in August 2015.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our capital expenditures and working capital requirements mainly through cash generated from our operating activities and capital injection from shareholders, and we do not intend to raise material external debt financing in the near future. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash flow generated from our operating activities, other funds raised from the capital markets from time to time and the proceeds from this Global Offering.

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Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	(US\$)				
Net cash generated from operating activities	7,466,323	1,358,078	249,912	113,686	2,050,252
Net cash used in investing activities	(1,243,011)	(868,069)	(845,554)	(64,641)	(226,754)
Net cash generated from/(used in) financing activities	64,686	19,849	(7,978,376)	(102,377)	(410,261)
Net increase/decrease in cash and cash equivalents	6,287,998	509,858	(8,574,018)	(53,332)	1,413,237
Cash and cash equivalents at beginning of year/period	10,049,553	16,336,408	16,812,751	16,812,751	8,130,169
Exchange losses/(gains) on cash and cash equivalents	(1,143)	(33,515)	(108,564)	(5,577)	105,725
Cash and cash equivalents at end of the year/period	16,336,408	16,812,751	8,130,169	16,753,842	9,649,131

Net cash generated from operating activities

Cash inflows from operating activities consist primarily of proceeds we receive from the sales of in-game virtual items. Cash outflows from our operating activities consist primarily of payments for royalty fees, employee compensation and benefits, selling and marketing expenses, server rental expenses and other operating expenses. Our net cash flow generated from operating activities reflects our profit before income tax, as adjusted for non-cash items, such as depreciation of property, plant and equipment, amortization of intangible assets, and share-based compensation expenses, and the effects of changes in working capital items.

The significant decrease in the net cash generated from operating activities from 2014 to 2016 was primarily due to the increase in our prepayments and other receivables in 2015 as a result of an increase in the unwithdrawn funds accumulated in PayPal, a payment channel, due to our strong cash inflows and abundant cash at bank, and the settlement of historical tax liabilities in 2016. The net cash generated from operation activities increased significantly in the six months ended June 30, 2017.

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For the six months ended June 30, 2017, we had net cash generated from operating activities of US\$2.1 million. This amount represents our profit before income tax of US\$3.4 million, adjusted mainly by (1) foreign exchange losses of US\$0.3 million and impairment charges on trade receivables of US\$0.4 million, (2) changes in working capital items that positively affected operating cash flow, including a decrease in prepayments and other receivables of US\$0.9 million primarily due to the withdrawal of funds accumulated in PayPal accounts, (3) changes in working capital items that negatively affected operating cash flow, including an increase in trade receivables of US\$0.9 million primarily due to slower collection in mid-year, a decrease in other payables and accruals of US\$0.8 million primarily due to settlement of certain historical tax liabilities.

For 2016, we had net cash generated from operating activities of US\$0.2 million. This represents our profit before income tax of US\$8.6 million, adjusted mainly by (1) exchange gain of US\$0.9 million, impairment charges on trade receivables of US\$0.7 million and amortization of intangible assets of US\$0.6 million, (2) changes in working capital items that positively affected operating cash flow, including a decrease in trade receivables of US\$1.0 million and an increase in trade payables of US\$0.4 million primarily reflecting our increased bargaining power and enhanced collection efforts, (3) changes in working capital items that negatively affected operating cash flow, including an increase in prepayments and other receivables of US\$4.3 million primarily due to an increase in the unwithdrawn funds accumulated in PayPal accounts due to our strong cash inflows and abundant cash at bank, a decrease in other payables and accruals of US\$1.8 million primarily due to settlement of certain historical tax liabilities, and (4) income tax paid of US\$4.5 million due to settlement of historical tax liabilities.

For 2015, we had net cash generated from operating activities of US\$1.4 million. This amount represents our profit before income tax of US\$6.5 million, adjusted mainly by (1) amortization of intangible assets of US\$1.0 million, foreign exchange gains of US\$0.8 million, and share-based compensation of US\$0.6 million, (2) changes in working capital items that positively affected operating cash flow, including an increase in other payables and accruals primarily due to prolonged settlement with game developers, and (3) changes in working capital items that negatively affected operating cash flow, including an increase in prepayments and other receivables of US\$6.5 million primarily due to an increase in the unwithdrawn funds accumulated in PayPal accounts from user payment due to our strong cash inflows and abundant cash at bank, and a decrease in deferred revenue of US\$0.8 million primarily due to the progress in the game lifecycles.

For 2014, we had net cash generated from operating activities of US\$7.5 million. This amount represents our profit before income tax of US\$9.1 million, adjusted primarily by (1) impairment charges on trade receivables of US\$0.4 million and foreign exchange gains of US\$0.2 million, (2) changes in working capital items that positively affected operating cash flow, including an increase in deferred revenue US\$1.2 million consistent with our business growth and an increase in other payables and accruals of US\$0.9 million primarily due to an increase in tax liabilities, and (3) changes in working capital items that negatively affected operating cash flow, including an increase in prepayments and other receivables of US\$2.4

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million primarily due to the unwithdrawn funds accumulated in PayPal accounts from user payment due to our strong cash inflows and abundant cash at bank, and an increase in trade receivables of US\$1.5 million consistent with our business growth.

Net cash used in investing activities

For the six months ended June 30, 2017, we had net cash used in investing activities of US\$0.2 million, primarily attributable to purchases of intangible assets.

For 2016, we had net cash used in investing activities of US\$0.8 million, primarily attributable to payment of investment in associate of US\$0.7 million in relation to our investment in a VR studio in China.

For 2015, we had net cash used in investing activities of US\$0.9 million, primarily attributable to purchases of property, plant and equipment of US\$0.5 million for our new offices in Guangzhou, China and purchases of intangible assets of US\$0.4 million in relation to the licenses for newly launched games.

For 2014, we had net cash used in investing activities of US\$1.2 million, primarily attributable to purchases for intangible assets of US\$1.1 million in relation to the licenses for newly launched games.

Net cash generated from financing activities

For the six months ended June 30, 2017, our net cash used in financing activities was US\$0.4 million, primarily representing payment for deferred costs for the Global Offering.

For 2016, our net cash used in financing activities was US\$8.0 million, primarily representing distribution to Shareholders of US\$7.9 million and payment for deferred costs for the Global Offering of US\$0.1 million.

For 2015, our net cash generated from financing activities was US\$19,849, primarily attributable to capital contributions from Shareholders of US\$0.3 million, partially offset by distribution to Shareholders of US\$0.2 million and payment for deferred costs for the Global Offering of US\$0.1 million.

For 2014, our net cash generated from financing activities was US\$64,686, primarily representing capital contributions from Shareholders.

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Working Capital

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of	As of
	2014	2015	2016	June 30, 2017	October 31, 2017
	(US\$)				
Current assets					
Trade receivables	6,045,137	5,555,892	3,834,112	4,391,853	3,970,047
Prepayments and other receivables	5,875,422	8,599,063	13,206,541	12,650,494	13,618,121
Cash and cash equivalents	16,336,408	16,812,751	8,130,169	9,649,131	7,207,468
Total current assets	28,256,967	30,967,706	25,170,822	26,691,478	24,795,636
Current liabilities					
Trade payables	5,731,807	5,837,009	6,248,178	5,784,942	5,713,374
Deferred revenue	4,465,652	3,647,280	3,731,483	3,648,756	3,348,520
Receipt in advance	85,116	268,582	650,434	628,913	744,604
Other payables and accruals	3,919,833	5,032,149	3,193,451	2,410,360	1,735,488
Current income tax liabilities	3,316,444	4,996,551	1,864,095	2,521,708	356,487
Dividends payables	–	7,809,670	–	–	–
Total current liabilities	17,518,852	27,591,241	15,687,641	14,994,679	11,898,473
Net current assets	10,738,115	3,376,465	9,483,181	11,696,799	12,897,163

Our net current assets increased from US\$11.7 million as of June 30, 2017 to US\$12.9 million as of October 31, 2017, generally in line with our continued business expansion.

Our net current assets increased from US\$9.5 million as of December 31, 2016 to US\$11.7 million as of June 30, 2017, generally consistent with our business growth.

FINANCIAL INFORMATION

Our net current assets increased from US\$3.4 million as of December 31, 2015 to US\$9.5 million as of December 31, 2016, primarily due to the combined effect of an increase in prepayments and other receivables of US\$4.6 million as of December 31, 2016, consisting primarily of amounts due from related parties and receivables from distribution platforms and co-publishers, a decrease in cash and cash equivalents of US\$8.7 million as of December 31, 2016 as a result of the settlement of historical tax liabilities, a decrease in other payables and accruals of US\$1.8 million as of December 31, 2016, a decrease in current income tax liabilities of US\$3.1 million as of December 31, 2016, and a decrease of dividends payable of US\$7.8 million as of December 31, 2016.

Our net current assets decreased from US\$10.7 million as of December 31, 2014 to US\$3.4 million as of December 31, 2015, primarily due to an increase in dividends payables of US\$7.8 million as of December 31, 2015.

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents, cash generated from operations, and shareholders' contribution. We manage our cash flow and working capital by closely monitoring and managing our operations. We also diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations. We generally maintained stable working capital position during the Track Record Period.

Taking into consideration of the financial resources presently available to us, including the expected cash generated from our operations and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures consist primarily of purchases of property, plant and equipment, including renovation of office space and servers and computers for our network infrastructure and office equipment, and purchases of intangible assets for licenses to publish games developed by third parties and softwares. Our capital expenditures were US\$634,517, US\$1,628,551, US\$125,554 and US\$476,754 as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively.

FINANCIAL INFORMATION

Capital Commitments

The following table sets forth our capital expenditure contracted for at the end the year but not yet incurred as of the dates indicated.

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(US\$)			
Not later than one year	449,211	-	-	-

Operating Lease Commitments

We lease office buildings under non-cancellable operating lease agreements with leases terms between four to five years. The following table sets forth our future aggregate minimum lease payments under non-cancellable operating leases as of the dates indicated.

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(US\$)			
Not later than one year	361,533	355,222	337,467	393,133
Later than one year and not later than two years	370,078	358,737	323,126	334,433
Later than two year and not later than three years	374,297	345,356	293,502	128,504
Later than three year and not later than five years	690,922	314,609	792	-
Total	1,796,830	1,373,924	954,887	856,070

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

FINANCIAL INFORMATION

INDEBTEDNESS

As of October 31, 2017, we had an unused credit card facility of approximately US\$100,000. Saved as disclosed in this prospectus, we did not have any bank loans or other borrowings, or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities as of October 31, 2017, being the latest practicable date for our statement of indebtedness. Our Directors confirm that there has not been any material change in our indebtedness since October 31, 2017.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities.

KEY FINANCIAL RATIOS

	Year ended December 31,			Six months ended
	2014	2015	2016	June 30, 2017
Profitability ratios				
Gross profit margin ⁽¹⁾	87.8%	64.2%	54.6%	55.4%
Net profit margin ⁽²⁾	31.0%	16.2%	24.4%	16.4%
Adjusted net profit margin ⁽³⁾	32.3%	22.1%	26.6%	22.6%
Return on equity ⁽⁴⁾	83.5%	55.4%	91.2%	18.7%
Adjusted return on equity ⁽⁵⁾	86.9%	75.4%	99.4%	25.8%
Return on total assets ⁽⁶⁾	29.3%	14.7%	23.6%	8.2%
Adjusted return on total assets ⁽⁷⁾	30.5%	20.0%	25.8%	11.4%
Liquidity ratios				
Current ratio ⁽⁸⁾	1.6	1.1	1.6	1.8

(1) The calculation of gross profit margin is based on gross profit for the year or period divided by revenue for the respective year or period and multiplied by 100.0%.

(2) The calculation of net profit margin is based on profit for the year or period divided by revenue for the respective year or period and multiplied by 100.0%.

(3) The calculation of adjusted net profit margin is based on the adjusted net profit divided by revenue for the respective year or period and multiplied by 100.0%. For reconciliation of adjusted net profit, a non-IFRS measure, to its closest IFRS measures, see “— Principal Income Statement Components — Non-IFRS Measures” for details.

(4) The calculation of return on equity is based on profit for the year or period divided by the average of the opening and closing balances of total equity in the relevant year or period and multiplied by 100.0%.

(5) The calculation of adjusted return on equity is based on the adjusted net profit divided by the average of the opening and closing balances of total equity in the relevant year or period and multiplied by 100.0%.

(6) The calculation of return on total assets is based on profit for the year or period divided by the average of the opening and closing balances of total assets in the relevant year or period and multiplied by 100.0%.

FINANCIAL INFORMATION

- (7) The calculation of adjusted return on total assets is based on the adjusted net profit divided by the average of the opening and closing balances of total assets in the relevant year or period and multiplied by 100.0%.
- (8) The calculation of current ratio is based on current assets divided by current liabilities.

Our gross profit margin was 87.8%, 64.2%, 54.6%, 55.0% and 55.4% for 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our net profit margin was 31.0%, 16.2%, 24.4%, 16.7% and 16.4% for 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. Our adjusted net profit margin was 32.3%, 22.1%, 26.6%, 20.7% and 22.6% for 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. See “— Period to Period Comparison of Results of Operations” for a discussion of the factors affecting our gross profit margin, net profit margin and adjusted net profit margin during the Track Record Period.

Return on Equity

Our return on equity decreased from 83.5% in 2014 to 55.4% in 2015, primarily due to a decrease in our profit in 2015 primarily as a result of a significant increase in (1) cost of revenue reflecting the inclusion of certain fees paid to distribution platforms and payment channels on a gross basis following our strategic business expansion to develop and launch mobile games and (2) listing-related expenses. Our return on equity increased from 55.4% in 2015 to 91.2% in 2016, primarily due to an increase in our profit in 2016 driven by the growth of our mobile games and a decrease in selling and marketing expenses primarily as a result of a decrease in our advertisement for web games following our strategic business expansion to develop and launch mobile games.

Adjusted Return on Equity

Our adjusted return on equity is affected primarily by the same factors discussed in “— Key Financial Ratios — Return on Equity.”

Return on Total Assets

Our return on total assets decreased from 29.3% in 2014 to 14.7% in 2015, primarily due to an increase in property, plant and equipment from our enlarged office space, an increase in intangible assets for licenses we obtained to publish games developed by third parties and an increase in prepayments and other receivables, generally consistent with our business growth. Our return on total assets increased from 14.7% in 2015 to 23.6% in 2016, primarily due to the implementation of cost control measures and the phasing-out of non-performing games.

FINANCIAL INFORMATION

Adjusted Return on Total Assets

Our adjusted return on total assets is affected primarily by the same factors discussed in “— Key Financial Ratios — Return on Total Assets.”

Current Ratio

Our current ratio decreased from 1.6 as of December 31, 2014 to 1.1 as of December 31, 2015, primarily due to an increase in dividends payable as of December 31, 2015. Our current ratio increased from 1.1 as of December 31, 2015 to 1.6 as of December 31, 2016 and further to 1.8 as of June 30, 2017, primarily due to a decrease in current income tax liabilities as a result of the payment of the PRC income tax, and a decrease in other payable and accruals as a result of the payment of the PRC and EU value-added tax and the U.S. sales tax.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we obtained licenses to publish games developed by our related parties and outsourced research and development capabilities from certain related parties to support our operations. The following table sets forth details of the license and royalty fees paid or payable to related parties for the periods indicated.

License Fees and Revenue Sharing

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
			(US\$)		
				(Unaudited)	
7Road	–	205,428	1,213,779	602,548	78,388
Anhui Tips	17,708	25,000	42,969	21,484	14,323
	<u>17,708</u>	<u>230,428</u>	<u>1,256,748</u>	<u>624,032</u>	<u>92,711</u>

7Road was a major game developer partner during the Track Record Period. In November 2015, a subsidiary of 7Road became a substantial Shareholder by acquiring a 23.0% interest in our Company, which we believe reflects an affirmation to our growth prospects.

Anhui Tips was engaged in game development and was one of our game developer partners until March 2015 when we ceased collaboration. We continued to amortize the license fees previously paid to Anhui Tips throughout the Track Record Period, and as the relevant game under collaboration had been kept running until its operation ceased in April 2017, there will not be any further license fees to be amortized after the Listing.

FINANCIAL INFORMATION

The following table sets forth details of the balances of trade payables to related parties as of the dates indicated.

	As of December 31,			As of
	2014	2015	2016	June 30, 2017
	(US\$)			
7Road	–	4,951,194	4,641,815	4,184,132
Guangzhou Lanquan	37,630	60,895	69,560	69,719
Anhui Tips	137,388	–	–	–
Total	175,018	5,012,089	4,711,375	4,253,851

The balances represent payable due to revenue sharing between us and our related parties for games licensed by such related parties. Such balances were unsecured, interest-free and repayable according to our agreed credit terms.

Guangzhou Lanquan was a game developer partner for a web game during the Track Record Period and up until April 2017 when we ceased collaboration. As we recognize the portion of revenue shared with web game developers on a net basis, we did not record such amounts paid to Guangzhou Lanquan in our financial statements. Guangzhou Lanquan ceased to be a related party in July 2017 as Mr. LU Yuanfeng transferred all of his interests in Guangzhou Lanquan. We do not expect we will have any transactions with Guangzhou Lanquan after the Listing.

Research and Development Expenses

The following table sets forth details of the outsourcing research and development expenses to related parties for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	(US\$)			(Unaudited)	
Guangzhou Lanquan	81,138	–	–	–	–
Guangzhou Hongquan	146,048	–	–	–	–
Total	227,186	–	–	–	–

We outsourced mobile game development from Guangzhou Lanquan and Guangzhou Hongquan when we initially expanded our strategical business focuses in 2014. We began to build our in-house development capabilities for greater control over the research process and improved efficiency in 2015.

Guangzhou Hongquan was engaged in game development and ceased to be a related party in July 2017 as Mr. LU Yuanfeng transferred all of his interests in Guangzhou Hongquan. We do not expect there will be any transactions between us and Guangzhou Hongquan after the Listing.

FINANCIAL INFORMATION

Certain Other Transactions

We also engaged in transactions with related parties, including our Founders, in connection with our operations and capital contributions or distributions. We did not incur any additional amounts of non-trade nature with our related parties subsequent to the Track Record Period, and we had fully settled all non-trade balances with related parties as of the Latest Practicable Date.

For further details of our related party transactions, see Note 30 to the Accountant's Report in Appendix I to this prospectus. Our Directors confirm that these related party transactions were conducted on normal commercial terms and on an arm's-length basis that are considered fair and reasonable and in the interest of our Shareholders as a whole, and would not distort our results of operations during the Track Record Period or make our historical results not reflective of our future performance.

As advised by our PRC legal advisers, on the basis of public information and the results of litigation search conducted in the public domain, and as confirmed by Mr. LU Yuanfeng, none of Anhui Tips, Guangzhou Lanquan and Guangzhou Hongquan is the subject of any material non-compliant incidents, claims, actual or threatened litigation or legal proceedings.

FINANCIAL RISKS

We are exposed to various types of financial risks in the ordinary course of business, primarily including market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Our overall risk management strategy seeks to minimize the potential adverse effects on our financial performance.

Market Risk

Foreign exchange risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB. We currently do not hedge transactions undertaken in foreign currencies but manage our exposure through constant monitoring to limit as much as possible the amount of our foreign currencies exposures. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. We have certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of our foreign operations is low.

For 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, if U.S. dollar had weakened or strengthened by 5% against RMB with all other variables held constant, our profit for the year or period would have been US\$11,571, US\$39,787, US\$44,411, US\$20,901 and US\$15,847 higher or lower, respectively, mainly as a result of foreign exchange gains or losses on translation of RMB-denominated trade receivables and payables.

FINANCIAL INFORMATION

Interest rate risk

Other than interest-bearing bank deposits, we have no other significant interest-bearing assets. Our Directors do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

Credit Risk

We are exposed to credit risk in relation to our cash and deposits and trade and other receivables.

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 this risk arising from cash and deposits, and financial assets at fair value through profit or loss, we only transact with reputable commercial banks which are all high-credit-quality financial institutions in China and Hong Kong. There has been no recent history of default in relation to these financial institutions.

Individual balances of trade receivables exceeding 10% of our total trade receivables as at December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 accounted for approximately 78%, 55%, 39% and 54% of our total trade receivables, respectively.

Trade receivables at the end of each year of the Track Record Period were due from the platforms and payment channels in cooperation with us. If the strategic relationship with the platforms and payment channels is terminated or scaled-back, or if the platforms and payment channels alter the cooperative arrangements, or if they experience financial difficulties in paying us, our game development receivables might be adversely affected in terms of recoverability. To manage this risk, we maintain frequent communications with the platforms and payment channels to ensure the effective credit control. In view of the history of cooperation with the platforms and payment channels and the sound collection history of receivables due from them, our Directors believe that the credit risk inherent in our outstanding trade receivable balances due from the platforms and payment channels is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of other receivables.

Liquidity Risk

Our objective is to maintain sufficient cash and cash equivalents. We regularly review our major funding positions to ensure that we have adequate financial resources in meeting our financial obligations.

FINANCIAL INFORMATION

The following table sets forth our non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The following table sets forth the contractual undiscounted cash flows as of the dated indicated.

	Less than one year	Between one year and two years	Between two years and five years	Total
	(US\$)			
As of December 31, 2014				
Trade and other payables (excluding salary and staff welfare payables and taxes payable)	6,837,421	–	–	6,837,421
As of December 31, 2015				
Trade and other payables (excluding salary and staff welfare payables and taxes payable)	7,459,853	55,098	–	7,514,951
Dividends payables	7,809,670	–	–	7,809,670
As of December 31, 2016				
Trade and other payables (excluding salary and staff welfare payables and taxes payable)	6,943,782	1,074,883	50,128	8,068,793
As of June 30, 2017				
Trade and other payables (excluding salary and staff welfare payables and taxes payable)	5,849,862	935,902	341,621	7,127,385

LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be approximately US\$9.4 million comprising US\$2.3 million underwriting commission and US\$7.1 million other expenses assuming an Offer Price of HK\$0.74 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of approximately US\$3.6 million, of which approximately US\$2.8 million was charged to our consolidated statements of comprehensive income during the Track Record Period, while the remaining amount of approximately US\$0.8 million was recorded as deferred listing expenses and will be capitalized and deducted from the share premium upon the completion of the Global Offering. We expect to further incur underwriting commission and other listing expenses of approximately US\$5.8 million (including the underwriting commission of approximately US\$2.3 million) upon the completion of the Global Offering, out of which approximately US\$2.7 million will be charged to the consolidated statements of comprehensive income, and approximately US\$3.1 million will be deducted from the share premium.

FINANCIAL INFORMATION

DIVIDEND

We declared special dividends of US\$12.1 million in August 2015 and completed the distribution by December 2016 to the Founders. Other than the foregoing, we did not pay or declare dividends to our Shareholders during the Track Record Period.

We are a holding company incorporated in the Cayman Islands. The payment and amount of our future dividends will depend on the availability of dividends received from our subsidiaries. Distributions from us and our subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements or other agreements that we or they may enter into in the future.

We currently do not have any pre-determined dividend payout ratio. The amount of dividends actually distributed to our Shareholders will depend on our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividends.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rules 13.13 to 13.19 of the Listing Rules upon the listing of the Shares on the Stock Exchange.

DISTRIBUTABLE RESERVES

As of June 30, 2017, we did not have any distributable reserves.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our 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 our financial position had the Global Offering been completed as of June 30, 2017 or at any future date.

	Audited Consolidated Net Tangible Assets of Our Group Attributable to Our Shareholders as of June 30, 2017 ⁽¹⁾	Estimated Net Proceeds from the Global Offering ⁽²⁾	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets of Our Group Attributable to Our Shareholders as of June 30, 2017	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets per Share ⁽³⁾⁽⁴⁾	
	(US\$ except for per share data)			US\$	HK\$
Based on an Offer Price of HK\$0.63 per share	12,972,946	33,663,717	46,636,663	0.03	0.20
Based on an Offer Price of HK\$0.85 per share	12,972,946	47,912,562	60,885,508	0.03	0.26

- (1) The audited consolidated net tangible assets of our Group attributable to our Shareholders as at June 30, 2017 is extracted from the financial information contained in the Accountant's Report set out in Appendix I to this prospectus which is based on the audited consolidated net assets of our Group attributable to our Shareholders as of June 30, 2017 of US\$13,447,718 less intangible assets of US\$474,772.
- (2) The estimated net proceeds from the Global Offering are based on the offering price of HK\$0.63 and HK\$0.85 per Share respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses payable by our Group (excluding approximately US\$2,798,296 listing-related expenses which have been accounted for in the consolidated statement of comprehensive income up to June 30, 2017) but takes no accounts of any Shares which may be issued upon the exercise of the Over-allotment Option or any shares which may be granted and issued by the Company pursuant to the Post-IPO Share Option Scheme.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments as described in note 2 above and is based on that 1,850,000,000 shares were in issue immediately prior to the Listing excluding the 150,000,000 shares held for the Post-IPO Share Option Scheme (assuming that the Global Offering had been completed on June 30, 2017), without taking into 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 by the Company pursuant to the Post-IPO Share Option Scheme.
- (4) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets per Share, the amounts stated in U.S. dollars are converted into Hong Kong dollars at a rate of US\$1.00 to HK\$7.8087. No representation is made that U.S. dollars has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus there has been no material adverse change in our financial, operational or trading position since June 30, 2017.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Business Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering, after deducting the estimated underwriting fees and expenses payable by us in connection with the Global Offering, will be in the amounts set out below:

- approximately HK\$265.5 million, if the Over-allotment Option is not exercised, or approximately HK\$310.4 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$0.63 per Offer Share, being the low-end of the proposed Offer Price range;
- approximately HK\$318.5 million, if the Over-allotment Option is not exercised, or approximately HK\$371.4 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$0.74 per Offer Share, being the mid-point of the proposed Offer Price range; or
- approximately HK\$369.6 million, if the Over-allotment Option is not exercised, or approximately HK\$430.2 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$0.85 per Offer Share, being the high-end of the proposed Offer Price range.

We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below, assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$0.74 per Share (being the mid-point of the indicative range of the Offer Price of HK\$0.63 to HK\$0.85 per Share):

- approximately HK\$127.4 million (equivalent to approximately US\$15.4 million, or approximately 40.0% of our total estimated net proceeds) to acquire popular IPs or other related assets from, or invest in or acquire, overseas or China-based online game developers or IP providers. In particular, we intend to use approximately HK\$89.2 million to invest in or acquire game developers and IP providers and approximately HK\$38.2 million to acquire IPs or other related assets primarily relating to popular cartoons and movies. As of the Latest Practicable Date, we had no finalized or definitive understandings, commitments or agreements for investment or acquisition and had not engaged in any related negotiations;
- approximately HK\$79.6 million (equivalent to approximately US\$9.6 million, or approximately 25.0% of our total estimated net proceeds) to fund our in-house research and development efforts in respect of developing proprietary online games and other IPs. In particular, we intend to use approximately HK\$22.3 million to recruit more research and development talents with competitive compensation and approximately HK\$57.3 million to expand and upgrade our research and development centers;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$47.8 million (equivalent to approximately US\$5.8 million, or approximately 15.0% of our total estimated net proceeds) to further support the expansion of our online game business, which includes enhancing network and technology infrastructure and improving game analytics. In particular, we intend to use approximately HK\$28.7 million for enhancing technology infrastructure and approximately HK\$19.1 million for improving game analytics;
- approximately HK\$31.8 million (equivalent to approximately US\$3.8 million, or approximately 10.0% of our total estimated net proceeds) to support our marketing and promotion campaigns, which includes the promotion of our brand “Game Hollywood” and other marketing activities and campaigns. In particular, we intend to use approximately HK\$12.7 million for our brand promotion and approximately HK\$19.1 million for marketing activities and campaigns; and
- the balance of the net proceeds, which is HK\$31.9 million (equivalent to approximately US\$3.8 million, or approximately 10.0% of our total estimated net proceeds) to be used for working capital and other general corporate purposes.

In the event that the Offer Price is fixed below or above the mid-point of the indicative price range, the net proceeds allocated to the above purposes will be adjusted on a pro rata basis. Any additional proceeds received from the exercise of the Over-allotment Option will be allocated to the above purposes on a pro rata basis.

To the extent that our net proceeds are not sufficient to fund the above purposes, we intend to fund the balance through a variety of means, including our internal resource, cash generated from our operations and debt and equity financing. To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

UNDERWRITING

HONG KONG UNDERWRITERS

China Securities (International) Corporate Finance Company Limited
CSC Securities (HK) Limited
China Galaxy International Securities (Hong Kong) Co., Ltd
GF Securities (Hong Kong) Brokerage Limited
CMB International Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be offered as mentioned herein (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by written notice from the Sole Global Coordinator to the Company, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force any change or development involving a prospective change or development, or any event or series of events, matters or circumstances likely to result in or representing a change or development, or prospective change or development concerning or relating to:
 - (i) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the Cayman Islands, the United States, Canada, any member of the European Union, Japan, Singapore or any other relevant jurisdiction (each a ***Relevant Jurisdiction***); or

UNDERWRITING

- (ii) any local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock, equity securities and bond markets, money and foreign exchange markets and inter-bank markets), or any monetary or trading settlement system or matters and/or disaster (including, without limitation a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against the currency of any of the United States, the European Union, the United Kingdom or Japan) in or affecting any Relevant Jurisdiction; or
- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency of war, epidemic, pandemic, outbreak of disease, economic sanction, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), riot, public disorder, economic sanctions or acts of God) in or affecting any Relevant Jurisdiction; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or any Relevant Jurisdiction or the Global Offering; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Tokyo Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Cayman Islands, Hong Kong, Japan or the PRC declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (vi) any adverse change or development involving prospective adverse change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (vii) any 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 the commencement by any governmental, political or regulatory body of any action against any Director in his or her capacity as such or an announcement by any governmental, political or regulatory body that it intends to take any such action; or

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- (viii) a contravention by any member of the Group of a material provision of the Companies Ordinance or Companies (Winding Up and Miscellaneous Provisions) Ordinance or companies law of Cayman Islands or the Listing Rules or the laws of such member company's own jurisdiction; or
- (ix) the issue or requirement to issue by the Company of a supplementary prospectus, Application Form, preliminary or final offering circular pursuant to the Companies Ordinance or Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole opinion of the Sole Global Coordinator, materially adverse to the marketing for or implementation of the Global Offering; or
- (x) any adverse change or development involving a reasonably likely adverse change of any of the risks set out in the section headed "Risk Factors" in the Prospectus (as defined in the Hong Kong Underwriting Agreement) or the occurrence of any such events therein; or
- (xi) any demand by creditors for repayment of indebtedness or a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xii) any litigation or claim being threatened or instigated against the Company or any member of the Group or any Director; or
- (xiii) the chairman and chief executive officer of the Company vacating his or her office for any reason; or
- (xiv) an Authority (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xv) a material breach by any member of the Group of the Listing Rules or applicable Laws (as defined in the Hong Kong Underwriting Agreement); or
- (xvi) a prohibition on the Company or any of the Controlling Shareholders from offering, allotting, issuing, selling or delivering the Offer Shares pursuant to the terms of the Global Offering; or
- (xvii) non-compliance of the Prospectus (or any other documents used in connection with the offer and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or

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- (xviii) the issue or requirement to issue by the Company of any supplement or amendment to the Prospectus (or to any other documents used in connection with the contemplated offer and sale of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

- (xix) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which in any such case, whether individually or in aggregate and in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters),

- (A) is or may or will be or is reasonably likely to be materially adverse to, or prejudicially affect, the general affairs or the business or financial or trading or other condition or prospects of the Company and its subsidiaries taken as a whole; or

- (B) has or may have or will have or is reasonably likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable, incapable, inexpedient or inadvisable for any part of the Hong Kong Underwriting Agreement (including underwriting), the International Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged or which prevents the processing of applications and/or payments pursuant to the Global Offering or underwriting thereof; or

- (C) makes or will or is likely to make it impracticable, inexpedient or inadvisable to proceed with or to market the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement), the formal notice relating to the Hong Kong Public Offering or the Final Offering Circular (as defined in the Hong Kong Underwriting Agreement); or

- (D) has or will have or may 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

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- (b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters:
- (i) that any statement contained in the Hong Kong Public Offering Documents, the Formal Notice (as defined in the Hong Kong Underwriting Agreement) and any notices, announcements, advertisements, communications, or other documents in the agreed form issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become untrue, incorrect or incomplete in any material respect or misleading, or that any forecasts, estimates, expression of opinion, intention or expectation expressed in such documents are not in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would, had it arisen immediately before the date of the Prospectus, not having been disclosed in the Prospectus, constitutes a material omission therefrom; or
 - (iii) any material breach of, or any event or circumstance rendering the Warranties (as defined in the Hong Kong Underwriting Agreement) given by the Warrantors (as defined in the Hong Kong Underwriting Agreement) in the Hong Kong Underwriting Agreement is (or might when repeated be) and the International Underwriting Agreement being untrue or misleading or inaccurate in any respect; or
 - (iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
 - (v) any breach of any of the obligations or undertakings of the Warrantors under the Hong Kong Underwriting Agreement or the International Underwriting Agreement which has or may have or will have or is reasonably likely to have a material adverse effect on the success of the Global Offering or the business or financial conditions or prospects of the Group; or
 - (vi) any breach of any of the obligations of any party (other than the Sole Global Coordinator or the Underwriters, if applicable) to any of the Operative Documents (as defined in the Hong Kong Underwriting Agreement) which has or may have or will have or is reasonably likely to have a material adverse effect on the success of the Global Offering or the business or financial conditions or prospects of the Group; or
 - (vii) any material adverse change or development involving prospective material adverse change in the assets, liabilities, conditions, earnings, profits, losses, business, properties, results of operations, in the financial or trading position or prospects or performance of the Company and its subsidiaries taken as a whole; or

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- (viii) any expert named in the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix IV to the Prospectus has withdrawn its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents; or
- (ix) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold under the Global Offering is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (x) the Company withdraws the Hong Kong Public Offering Documents or the Global Offering;

then the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) may in its sole discretion and upon giving notice to the Company on or prior to 8:00 a.m. on the Listing Date, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into our Company’s equity securities (whether or not of a class already issued) may be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or our Company’s securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, except pursuant to the Stock Borrowing Agreement or save for exceptions permitted under Note (2) to Rule 10.07(2) of the Listing Rules (the “Permissible Pledge”) or disposal pursuant to the Permissible Pledge, each of them will not and will procure that its associates or companies controlled by it or its nominees or trustees (as the case may be) will not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (“R.10.07 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 of the Shares in respect of which he or it is shown by this prospectus to be the beneficial owner (whether direct or indirect); and

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- (b) in the period of six months immediately after the expiry of the R10.07 First Six Month Period (“R10.07 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 (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be or cease to deem to be our Controlling Shareholder.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that within the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of matters referred in above by any of the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, the Company has undertaken to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that:

- (A) except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Capitalization Issue, and the exercise of any option granted before the Global Offering under the share option scheme of the Company, it will not, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date including the date falling six months after the Listing Date (the “First Six-Month Period”):
- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right,

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warrant or contract to purchase or subscribe for, lend, purchase any option, right, warrant or contract to sell, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of the Company or any interest therein (including, but not limited to, any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or

- (ii) enter into any swap, derivative, lending, repurchase, mortgage or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i), (ii) or (iii) above,

whether any of the foregoing transactions described in sub-paragraphs (i) to (iv) above is to be settled by delivery of share capital or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of shares or such other securities will be completed within the aforesaid period).

If the Company enters into any of the foregoing transactions described in sub-paragraphs (i) to (iv) above during the period of six months commencing on the date on which the First Six-Month Period expires (the “Second Six-Month Period”), the Company must take all necessary steps to ensure that it will not create a disorderly or false market in the securities of the Company.

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Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that

- (A) except pursuant to the Global Offering, the Over-allotment Option or if applicable, the Stock Borrowing Agreement and the Capitalisation Issue, none of the Controlling Shareholders will, without the prior written consent of the Sole Global Coordinator, at any time during the First Six-Month Period:
- (i) offer, pledge, charge, mortgage, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now owned or hereinafter acquired, owned directly by the Controlling Shareholders (including holding as a custodian) or with respect to which any of the Controlling Shareholders has beneficial ownership (collectively the “Lock-up Shares”) (the foregoing restriction is expressly agreed to preclude the Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares); or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
 - (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) to (iii) above,

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whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, in cash or otherwise (whether or not the issue of shares or such other securities will be completed within the aforesaid period).

During the Second Six-Month Period, the Controlling Shareholders will not enter into any of the foregoing transactions in sub-clauses (i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholders will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company.

Until the expiry of the Second Six-Month period, in the event that any of the Controlling Shareholders enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, inter alia, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers for the International Offering Shares being offered pursuant to the International Offering.

Our Company is 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 from the date of the Price Determination Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 75,000,000 additional Shares representing 15% of the Offer Shares initially offered under the Global Offering, at the same price per Share under the International Offering to cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Underwriters will receive underwriting commissions at the rate of 2.5% of the aggregate Offer Price payable for the Offer Shares (including the Shares to be issued pursuant to the Over-allotment Option). The Sponsor is entitled to a sponsor’s fee in the amount of HK\$6.0 million. Furthermore, our Company agrees, at its sole and absolute discretion, to pay to the Underwriters a discretionary incentive fee per Offer Share of up to 6.5%. The aggregate underwriting commissions, incentive fee (if any), documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and other professional fees, and printing and other expenses in relation to the Global Offering are estimated to amount to approximately US\$9,384,964 in total (based on the Offer Price of HK\$0.74 per Share, being the mid-point of the indicative Offer Price range of HK\$0.63 to HK\$0.85 per Share and assuming the Over-allotment Option is not exercised), and are payable by our Company.

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ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters, together referred to as “Syndicate Members”, may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or the stabilizing process.

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 account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and 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 activities 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 Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant 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 sections headed “Structure and Conditions of the Global Offering — Over-Allotment Option and Stock Borrowing Arrangement” and “Structure and Conditions of the Global Offering — Stabilization.” These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

When engaging in any of these activities, it should be noted that the Syndicate Members are subject to certain restrictions, including the following:

- the Syndicate Members (other than the stabilizing manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

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UNDERWRITERS' INTERESTS IN OUR COMPANY

The Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set out in the paragraph headed “— Commissions and Expenses” in this section for further information.

Save for their obligations under the Underwriting Agreements, as of the Latest Practicable Date, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

SOLE SPONSOR'S INDEPENDENCE

CSCI satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE AND CONDITIONS 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:

- (a) the Hong Kong Public Offering of 50,000,000 Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described in the paragraph headed “— The Hong Kong Public Offering” below; and
- (b) the International Offering of an aggregate of 450,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

The 500,000,000 Offer Shares initially being offered in the Global Offering will represent approximately 25% of our enlarged total number of issued Shares immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not apply under both of these methods for the Offer Shares.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a several basis under the terms of the Hong Kong Underwriting Agreement and is subject to the Company and the Sole Global Coordinator, on behalf of the Underwriters, agreeing on the Offer Price. The Hong Kong Public Offering and the International Offering are subject to the conditions set forth in the paragraph headed “Conditions of the Global Offering” in this section. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are expected to be conditional upon each other.

Number of Shares Initially Offered

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement and described in the paragraph headed “Conditions of the Global Offering” in this section) for the subscription in Hong Kong of, initially 50,000,000 Shares at the Offer Price (representing approximately 10% of the total number of the Offer Shares).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely 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 Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist 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 Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account of any reallocation) is to be divided into two pools for allocation purposes: Pool A and Pool B. Accordingly, the maximum number of Hong Kong Public Offer Shares initially in Pool A and Pool B will be 25,000,000 and 25,000,000, respectively. The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5.0 million and up to a total value of Pool B (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If 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 that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for 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 Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 25,000,000 Hong Kong Public Offer Shares (being 50% of the 50,000,000 Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 100,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Shares available under the Hong Kong Public Offering will be 150,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering prior to the exercise of the Over-allotment Option;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 150,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 200,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering prior to the exercise of the Over-allotment Option; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 200,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 250,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering prior to the exercise of the Over-allotment Option.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B 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. In addition, the Sole Global Coordinator may in its sole discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public 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 Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking 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.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The listing of the 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\$0.85 per Offer Share in addition to the 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 the paragraph headed “— Pricing and Allocation” below, is less than the maximum price of HK\$0.85 per Offer 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 in the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The International Offering is expected to be fully underwritten by the International Underwriters on a several basis. The Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

Number of Offer Shares Offered

Subject to reallocation as described above, the International Offering will consist of an initial offering of 450,000,000 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised). The International Offering will be offered by us outside of the United States in reliance on Regulation S.

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. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “— Pricing and Allocation” below and 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 Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the 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 the Shareholders as a whole.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Sole Global Coordinator (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 them to identify the relevant applications 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.

OVER-ALLOTMENT OPTION AND STOCK BORROWING ARRANGEMENT

We expect to grant to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 75,000,000 Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Underwriting Agreement up to the 30th day after the last day for lodging of applications under the Hong Kong Public Offering and from time to time, to require the Company to allot and issue up to an aggregate of 75,000,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share at which Offer Shares were initially offered under the International Offering, to cover over-allocations in the International Offering, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. The Sole Global Coordinator may, at its option, also cover such over-allocations by purchasing the Offer Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 3.61% of the Company's enlarged total number of issued Shares immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In order to facilitate settlement of over-allocations in connection with the International Offering, the Stabilizing Manager may choose to borrow up to 75,000,000 shares from LYF Digital Holdings Limited pursuant to the Stock Borrowing Agreement. The stock borrowing arrangement under the Stock Borrowing Agreement will comply with the requirement, set out in Rule 10.07(3) of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

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 about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between our Company and the Joint Bookrunners on the Price Determination Date, which is expected to be on or about Friday, December 8, 2017 and in any event no later than Monday, December 11, 2017.

The Offer Price will not be more than HK\$0.85 per Offer Share and is expected to be not less than HK\$0.63 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.gamehollywood.com) and the website of the Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Joint Bookrunners, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Joint Bookrunners, will under no circumstances be set outside the Offer Price range stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of and results of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Thursday, December 14, 2017 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.gamehollywood.com) and the website of the Stock Exchange (www.hkexnews.hk).

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 newly issued 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. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, as stabilizing manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. CSCI has been appointed as the Stabilizing Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the Hong Kong Securities and Futures Ordinance.

Any such stabilizing activity will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilization including the Securities and Futures (Price Stabilizing) Rules made under the Hong Kong Securities and Futures Ordinance. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilization activity is required to be brought to an end within 30 days from the last date for lodging application under the Hong Kong Public Offering which is expected to be on or around Friday, December 8, 2017. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 75,000,000 Shares, which is 15% of the Shares initially available under the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Following any over-allotment of Shares in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period to cover such over-allotment. The possible stabilizing action which may be taken by the Stabilizing Manager, its affiliates or any person acting for it in connection with the Global Offering may involve (i) purchases of Shares, (ii) establishing, hedging and liquidating positions in Shares, (iii) exercising the Over-allotment Option in whole or in part, (iv) stock borrowing and/or (v) offering or attempting to do any of (i), (ii), (iii) or (iv) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it 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 Sunday, January 7, 2018, being the 30th day after the date of closing of the application lists under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action 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 Shares.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Sole Global Coordinator, its affiliates or any person acting for them may cover such over-allocation by using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 75,000,000 Shares, representing no more than 15% of the Offer Shares initially available under the Global Offering.

CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting 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 and the options that may be granted under the Share Option Scheme) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement and the Stock Borrowing Agreement on or before the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times);

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners on or before Monday, December 11, 2017, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its 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 the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus. In the meantime, all application monies will be held in (a) 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).

We expect to issue share certificates for the Offer Shares on Thursday, December 14, 2017. Share certificates issued in respect of Hong Kong Public Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised.

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 Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options that may be granted under the Post-IPO Share Option Scheme).

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 AND CONDITIONS OF THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made for the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, December 15, 2017, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, December 15, 2017. The Shares will be traded in board lots of 4,000 Shares each.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offering Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for the Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering;
- are an associate or a close associate (both as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Hong Kong Public 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 from 9:00 a.m. on Tuesday, December 5, 2017 until 12:00 noon on Friday, December 8, 2017 from:

- (i) any of the following offices of the Joint Bookrunners:

**China Securities (International)
Corporate Finance Company Limited**
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(ii) any of the branches of the following receiving bank:

Wing Lung Bank Limited

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Hong Kong Head Office	45 Des Voeux Road
	Johnston Road Branch	118 Johnston Road
Kowloon	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnavon Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road
	Sheung Shui Branch	128 San Fung Avenue

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, December 5, 2017 until 12:00 noon on Friday, December 8, 2017 from the Depository Counter of HKSCC at 1/F One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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 Wing Lung Bank (Nominees) Limited – Digital Hollywood Interactive Limited Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, December 5, 2017 — 9:00 a.m. to 5:00 p.m.
- Wednesday, December 6, 2017 — 9:00 a.m. to 5:00 p.m.
- Thursday, December 7, 2017 — 9:00 a.m. to 5:00 p.m.
- Friday, December 8, 2017 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, December 8, 2017, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public 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 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 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 the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen 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 the 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 Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, December 5, 2017 until 11:30 a.m. on Friday, December 8, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, December 8, 2017 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different 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 **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public 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 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 Public 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 the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public 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 Public 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 Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - 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 the 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 Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public 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;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public 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 the 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 Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance 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.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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 the 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 Public Offer Shares on your behalf;
- 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 of 4,000 Hong Kong Public Offer Shares. Instructions for more than 4,000 Hong Kong Public 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 Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Tuesday, December 5, 2017 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, December 6, 2017 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, December 7, 2017 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, December 8, 2017 — 8:00 a.m. to 12:00 noon⁽¹⁾

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, December 5, 2017 until 12:00 noon on Friday, December 8, 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, December 8, 2017, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public 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 Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the 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 the Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors and the Sole Global Coordinators and Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Public Offer Shares.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, December 8, 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- 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).

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

9. HOW MUCH ARE THE HONG KONG PUBLIC 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 **HK eIPO White Form** service in respect of a minimum of 4,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, 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 the section headed “Structure of 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
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 8, 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, December 8, 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

11. PUBLICATION OF RESULTS

The 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 Public Offer Shares on Thursday, December 14, 2017 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at **www.gamehollywood.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 the Company's website at **www.gamehollywood.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Thursday, December 14, 2017;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a "search by ID" function on a 24-hour basis from 8:00 am on Thursday, December 14, 2017 to 12:00 midnight on Wednesday, December 20, 2017;
- by telephone enquiry line by calling 3691-8488 between 9:00 a.m. and 6:00 p.m. from Thursday, December 14, 2017 to Tuesday, December 19, 2017 (excluding Saturday, Sunday and Public Holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, December 14, 2017 to Saturday, December 16, 2017 at all the designated branches and sub-branches of receiving banks.

If the 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 Public 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."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the 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 Hong Kong 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 the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public 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

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offering Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- 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;
- the Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.85 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 "Structure and Conditions 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 Thursday, December 14, 2017.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Public 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 Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in 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 Public 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 around Thursday, December 14, 2017. 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 Friday, December 15, 2017 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public 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 the Company's Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 14, 2017 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 despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, December 14, 2017, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, December 14, 2017, 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 Thursday, December 14, 2017, 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 Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 14, 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Company's Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 14, 2017, or such other date as notified by the Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, December 14, 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public 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 Thursday, December 14, 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, December 14, 2017. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 14, 2017 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 Public 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 Public 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 Thursday, December 14, 2017. Immediately following the credit of the Hong Kong Public 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 Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- 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 Thursday, December 14, 2017.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-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 DIGITAL HOLLYWOOD INTERACTIVE LIMITED AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

Introduction

We report on the historical financial information of Digital Hollywood Interactive Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-73, which comprises the consolidated balance sheets as at December 31, 2014, 2015 and 2016 and June 30, 2017, the balance sheets of the Company as at December 31, 2014, 2015 and 2016 and June 30, 2017 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the 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-73 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated December 5, 2017 (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.

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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 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 December 31, 2014, 2015 and 2016 and June 30, 2017 and the consolidated financial position of the Group as at December 31, 2014, 2015 and 2016 and June 30, 2017 and of its consolidated statements of comprehensive income and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended June 30, 2016 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 27 to the Historical Financial Information which states that no dividends have been paid by Digital Hollywood Interactive Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

December 5, 2017

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB ("Underlying Financial Statements").

The Historical Financial Information is presented in United States Dollars ("USD") except when otherwise indicated.

(A) CONSOLIDATED BALANCE SHEETS

	Note	As at December 31,			As at
		2014	2015	2016	June 30,
		USD	USD	USD	2017
				USD	
ASSETS					
Non-current assets					
Property, plant and equipment, net	6	101,979	524,992	401,507	333,169
Intangible assets, net	7	593,942	635,846	68,748	474,772
Investment in an associate	10	–	–	684,873	646,317
Prepayments	13	712,657	25,000	50,000	50,000
Deferred income tax assets	11	–	58,198	147,891	291,102
		<u>1,408,578</u>	<u>1,244,036</u>	<u>1,353,019</u>	<u>1,795,360</u>
Current assets					
Trade receivables	12	6,045,137	5,555,892	3,834,112	4,391,853
Prepayments and other receivables	13	5,875,422	8,599,063	13,206,541	12,650,494
Cash and cash equivalents	14	16,336,408	16,812,751	8,130,169	9,649,131
		<u>28,256,967</u>	<u>30,967,706</u>	<u>25,170,822</u>	<u>26,691,478</u>
Total assets		<u>29,665,545</u>	<u>32,211,742</u>	<u>26,523,841</u>	<u>28,486,838</u>
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	15	8,582	10,000	10,000	11,111
Shares held for the Share Option Scheme	15	–	–	–	(1,111)
Reserves	17	31,057	122,401	(394,315)	(6,976)
Retained earnings		12,564,738	4,297,073	11,175,806	13,444,694
		<u>12,604,377</u>	<u>4,429,474</u>	<u>10,791,491</u>	<u>13,447,718</u>
Non-controlling interests		<u>(601,392)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total equity		<u>12,002,985</u>	<u>4,429,474</u>	<u>10,791,491</u>	<u>13,447,718</u>
Liabilities					
Non-current liabilities					
Deferred revenue	20	143,708	175,834	17,347	–
Deferred income tax liabilities	11	–	15,193	27,362	44,441
		<u>143,708</u>	<u>191,027</u>	<u>44,709</u>	<u>44,441</u>
Current liabilities					
Trade payables	18	5,731,807	5,837,009	6,248,178	5,784,942
Deferred revenue	20	4,465,652	3,647,280	3,731,483	3,648,756
Receipt in advance		85,116	268,582	650,434	628,913
Other payables and accruals	19	3,919,833	5,032,149	3,193,451	2,410,360
Current income tax liabilities		3,316,444	4,996,551	1,864,095	2,521,708
Dividend payable	30(f)	–	7,809,670	–	–
		<u>17,518,852</u>	<u>27,591,241</u>	<u>15,687,641</u>	<u>14,994,679</u>
Total liabilities		<u>17,662,560</u>	<u>27,782,268</u>	<u>15,732,350</u>	<u>15,039,120</u>
Total equity and liabilities		<u>29,665,545</u>	<u>32,211,742</u>	<u>26,523,841</u>	<u>28,486,838</u>

(B) BALANCE SHEETS — THE COMPANY

	<i>Note</i>	As at December 31,			As at
		2014	2015	2016	June 30,
		USD	USD	USD	2017
				USD	
ASSETS					
Non-current assets					
Investments in subsidiaries	9	100	455,449	455,449	455,449
Prepayments	13	–	–	50,000	50,000
		100	455,449	505,449	505,449
Current assets					
Amount due from subsidiaries	9	8,582	9,857	53,844	43,987
Prepayments and other receivables	13	113,246	475,253	458,062	815,041
Cash and cash equivalents		–	63,876	62,625	814,612
		121,828	548,986	574,531	1,673,640
Total assets		121,928	1,004,435	1,079,980	2,179,089
EQUITY AND LIABILITIES					
Equity					
Share capital	15	8,582	10,000	10,000	11,111
Shares held for the Share Option Scheme	15	–	–	–	(1,111)
Reserves	17	–	1,067,692	1,067,692	1,067,692
Accumulated losses	17	(403,894)	(2,181,567)	(2,904,265)	(3,793,839)
Total equity		(395,312)	(1,103,875)	(1,826,573)	(2,716,147)
Liabilities					
Current liabilities					
Amount due to subsidiaries		109,306	1,055,098	1,958,283	4,132,982
Other payables and accruals	19	407,934	1,053,212	948,270	762,254
Total liabilities		517,240	2,108,310	2,906,553	4,895,236
Total equity and liabilities		121,928	1,004,435	1,079,980	2,179,089

(C) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31,			Six months ended June 30,	
		2014 USD	2015 USD	2016 USD	2016 USD	2017 USD
					(Unaudited)	
Revenue	5	22,775,694	28,008,030	28,445,686	14,658,856	13,829,731
Cost of revenue	22	(2,784,251)	(10,039,380)	(12,910,243)	(6,603,705)	(6,163,937)
Gross profit		19,991,443	17,968,650	15,535,443	8,055,151	7,665,794
Selling and marketing expenses	22	(6,816,061)	(6,705,064)	(3,267,798)	(1,867,361)	(1,468,046)
Administrative expenses	22	(2,376,818)	(4,183,937)	(3,368,894)	(2,906,727)	(2,043,499)
Research and development expenses	22	(1,844,645)	(1,313,210)	(1,232,660)	(531,074)	(349,760)
Other gains/(losses), net	21	192,930	712,718	976,497	325,764	(411,372)
Operating profit		9,146,849	6,479,157	8,642,588	3,075,753	3,393,117
Finance income	24	1,982	1,818	2,501	1,838	14,472
Finance costs	24	(1,728)	(68)	(56,277)	(13,938)	–
Finance income/(costs), net	24	254	1,750	(53,776)	(12,100)	14,472
Share of loss of an associate	10	–	–	(36,666)	–	(54,603)
Profit before income tax		9,147,103	6,480,907	8,552,146	3,063,653	3,352,986
Income tax expense	25	(2,081,576)	(1,930,703)	(1,612,619)	(609,516)	(1,084,098)
Profit for the year/period		<u>7,065,527</u>	<u>4,550,204</u>	<u>6,939,527</u>	<u>2,454,137</u>	<u>2,268,888</u>
Other comprehensive income						
Items that may reclassified subsequently to profit or loss						
– Currency translation differences		(63,900)	(314,076)	(577,510)	(179,604)	387,339
Total comprehensive income for the year/period		<u>7,001,627</u>	<u>4,236,128</u>	<u>6,362,017</u>	<u>2,274,533</u>	<u>2,656,227</u>
Profit attributable to:						
Owners of the Company		7,502,481	4,473,988	6,939,527	2,454,137	2,268,888
Non-controlling interest		(436,954)	76,216	–	–	–
		<u>7,065,527</u>	<u>4,550,204</u>	<u>6,939,527</u>	<u>2,454,137</u>	<u>2,268,888</u>
Total comprehensive income attributable to:						
Owners of the Company		7,428,093	4,142,961	6,362,017	2,274,533	2,656,227
Non-controlling interest		(426,466)	93,167	–	–	–
		<u>7,001,627</u>	<u>4,236,128</u>	<u>6,362,017</u>	<u>2,274,533</u>	<u>2,656,227</u>
Earnings per share (expressed in USD cents per share)						
– Basic	26	<u>0.75</u>	<u>0.45</u>	<u>0.69</u>	<u>0.25</u>	<u>0.23</u>
– Diluted		<u>0.75</u>	<u>0.45</u>	<u>0.69</u>	<u>0.25</u>	<u>0.23</u>
Dividends	27	<u>–</u>	<u>12,138,000</u>	<u>–</u>	<u>–</u>	<u>–</u>

(D) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company				Non- controlling interests	Total equity
		Share capital	Reserves	Retained earnings	Total		
		USD	USD	USD	USD		
Balance at January 1, 2014		–	130,950	5,062,257	5,193,207	(282,081)	4,911,126
Comprehensive income							
Profit/(loss) for the year		–	–	7,502,481	7,502,481	(436,954)	7,065,527
Other comprehensive income							
– currency translation differences	17	–	(74,388)	–	(74,388)	10,488	(63,900)
Total comprehensive income for the year		–	(74,388)	7,502,481	7,428,093	(426,466)	7,001,627
Transaction with owners in their capacity as owners							
Issuance of ordinary shares	15	8,582	–	–	8,582	–	8,582
Capital contribution from owners	17(b)	–	65,320	–	65,320	16,330	81,650
Transaction with non- controlling Interests	17(b), (c),(d)	–	(90,825)	–	(90,825)	90,825	–
Balance at December 31, 2014		<u>8,582</u>	<u>31,057</u>	<u>12,564,738</u>	<u>12,604,377</u>	<u>(601,392)</u>	<u>12,002,985</u>
Balance at January 1, 2015		<u>8,582</u>	<u>31,057</u>	<u>12,564,738</u>	<u>12,604,377</u>	<u>(601,392)</u>	<u>12,002,985</u>
Comprehensive income							
Profit for the year		–	–	4,473,988	4,473,988	76,216	4,550,204
Other comprehensive income							
– currency translation differences	17	–	(331,027)	–	(331,027)	16,951	(314,076)
Total comprehensive income for the year		–	(331,027)	4,473,988	4,142,961	93,167	4,236,128

	Note	Attributable to owners of the Company				Non- controlling interests	Total equity
		Share capital	Reserves	Retained earnings	Total		
		USD	USD	USD	USD		
Transaction with owners in their capacity as owners							
Appropriation to statutory reserves	17(a)	–	148,404	(148,404)	–	–	–
Share-based compensation	16	–	612,443	–	612,443	–	612,443
Issuance of ordinary shares	15	1,418	–	–	1,418	–	1,418
Capital contribution from owners	17(f)	–	283,500	–	283,500	31,440	314,940
Distribution to owners	17(g)	–	(528,437)	–	(528,437)	(72,003)	(600,440)
Transaction with non- controlling interests	17(h)	–	(548,788)	–	(548,788)	548,788	–
Consideration share premium	17(e)	–	455,249	(455,249)	–	–	–
Special dividends	27	–	–	(12,138,000)	(12,138,000)	–	(12,138,000)
Balance at December 31, 2015		<u>10,000</u>	<u>122,401</u>	<u>4,297,073</u>	<u>4,429,474</u>	<u>–</u>	<u>4,429,474</u>
Balance at January 1, 2016		<u>10,000</u>	<u>122,401</u>	<u>4,297,073</u>	<u>4,429,474</u>	<u>–</u>	<u>4,429,474</u>
Comprehensive income							
Profit for the year		–	–	6,939,527	6,939,527	–	6,939,527
Other comprehensive income – currency translation differences	17	–	(577,510)	–	(577,510)	–	(577,510)
Total comprehensive income for the year		<u>–</u>	<u>(577,510)</u>	<u>6,939,527</u>	<u>6,362,017</u>	<u>–</u>	<u>6,362,017</u>
Transaction with owners in their capacity as owners							
Appropriation to statutory reserves	17(a)	–	60,794	(60,794)	–	–	–
Balance at December 31, 2016		<u>10,000</u>	<u>(394,315)</u>	<u>11,175,806</u>	<u>10,791,491</u>	<u>–</u>	<u>10,791,491</u>

(Unaudited)	Note	Attributable to owners of the Company				Non- controlling interests	Total equity
		Share capital	Reserves	Retained earnings	Total		
		USD	USD	USD	USD		
Balance at January 1, 2016		10,000	122,401	4,297,073	4,429,474	–	4,429,474
Comprehensive income							
Profit for the period		–	–	2,454,137	2,454,137	–	2,454,137
Other comprehensive income							
– currency translation differences	17	–	(179,604)	–	(179,604)	–	(179,604)
Total comprehensive income for the period		–	(179,604)	2,454,137	2,274,533	–	2,274,533
Balance at June 30, 2016		10,000	(57,203)	6,751,210	6,704,007	–	6,704,007

	Note	Attributable to owners of the Company				Non- controlling interests	Total equity	
		Share capital	Shares held for the Share Option Scheme	Reserves	Retained earnings			Total
		USD	USD	USD	USD			USD
Balance at January 1, 2017		10,000	–	(394,315)	11,175,806	10,791,491	–	10,791,491
Comprehensive income								
Profit for the period		–	–	–	2,268,888	2,268,888	–	2,268,888
Other comprehensive income								
– currency translation differences	17	–	–	387,339	–	387,339	–	387,339
Total comprehensive income for the period		–	–	387,339	2,268,888	2,656,227	–	2,656,227
Transaction with owners in their capacity as owners								
Issuance of ordinary shares	15	1,111	(1,111)	–	–	–	–	–
Balance at June 30, 2017		11,111	(1,111)	(6,976)	13,444,694	13,447,718	–	13,447,718

(E) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2014	2015	2016	2016	2017
		USD	USD	USD	USD	USD
(Unaudited)						
Cash flows from operating activities						
Cash generated from operations	28	7,478,020	1,373,745	4,793,053	4,410,811	2,546,981
Income tax paid		(11,697)	(15,667)	(4,543,141)	(4,297,125)	(496,729)
Net cash generated from operating activities		<u>7,466,323</u>	<u>1,358,078</u>	<u>249,912</u>	<u>113,686</u>	<u>2,050,252</u>
Cash flows from investing activities						
Purchases of property, plant and equipment		(180,918)	(461,436)	(75,554)	(14,641)	(3,754)
Purchases of intangible assets		(1,064,081)	(406,633)	–	–	(223,000)
Purchases of short term investments		(438,210)	–	–	–	–
Proceeds received upon maturity of short term investments		438,210	–	–	–	–
Prepayment for the right to equity purchase		–	–	(50,000)	(50,000)	–
Payment of investment in associate		–	–	(720,000)	–	–
Interest received from short term investments		1,988	–	–	–	–
Net cash used in investing activities		<u>(1,243,011)</u>	<u>(868,069)</u>	<u>(845,554)</u>	<u>(64,641)</u>	<u>(226,754)</u>
Cash flows from financing activities						
Capital contribution from owners		81,650	314,940	–	–	–
Distribution to owners		–	(153,750)	(7,853,656)	–	–
Proceeds from issuance of ordinary shares		8,582	1,418	–	–	–
Proceeds from shareholder's borrowings		3,470,744	1,288,216	2,146	2,146	–
Repayments of shareholder's borrowings		(3,470,744)	(1,288,216)	(2,146)	(2,146)	–
Payment for deferred IPO costs		(25,546)	(142,759)	(124,720)	(102,377)	(410,261)
Net cash generated from/(used in) financing activities		<u>64,686</u>	<u>19,849</u>	<u>(7,978,376)</u>	<u>(102,377)</u>	<u>(410,261)</u>
Net increase/(decrease) in cash and cash equivalents		<u>6,287,998</u>	<u>509,858</u>	<u>(8,574,018)</u>	<u>(53,332)</u>	<u>1,413,237</u>
Cash and cash equivalents at beginning of year/period		10,049,553	16,336,408	16,812,751	16,812,751	8,130,169
Exchange (losses)/gains on cash and cash equivalents		(1,143)	(33,515)	(108,564)	(5,577)	105,725
Cash and cash equivalents at end of the year/period		<u><u>16,336,408</u></u>	<u><u>16,812,751</u></u>	<u><u>8,130,169</u></u>	<u><u>16,753,842</u></u>	<u><u>9,649,131</u></u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information, reorganisation and basis of presentation****1.1 General information**

Digital Hollywood Interactive Limited (the “Company”) was incorporated in the Cayman Islands on November 24, 2014 as an exempted company with limited liability. The address of the Company’s registered office is P.O. Box 2075, George Town, Grand Cayman KY1-1105, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the development, operations and publishing of web-based games and mobile games business (the “Listing Business”) in North American, Europe, the People’s Republic of China (the “PRC”) and other regions.

On June 30, 2017, Mr. Lu Yuanfeng and his spouse, Ms. Luo Simin, Mr. Huang Deqiang and Mr. Huang Guozhan through LYF Digital Holdings Limited (“LYF”), Angel Age Limited, LXT Digital Holdings Limited (“LXT”) and HDQ Digital Holdings Limited (“HDQ”) (collectively the “Controlling Shareholders”) collectively own 65.948% equity interest of the Company. Ms. Luo Simin became the Controlling Shareholders of the Company since November 2, 2015.

Mr. Lu Yuanfeng, Mr. Huang Deqiang and Mr. Huang Guozhan (collectively as the “Founders”) are the founders of the Group.

1.2 Reorganisation

Prior to the Reorganisation(as defined below), the Listing Business was carried out by Proficient City Limited (“PCL”), a limited liability company incorporated in the British Virgin Islands (“BVI”), Angame Inc. (“Angame”), a limited liability company incorporated in the BVI, Now To Play Game Limited (“N2PG”), a limited liability company incorporated in Hong Kong, 廣州市歲月年代軟件科技有限公司 (Guangzhou Suiyue Niandai Software Technology Company Limited, “Guangzhou Suiyue Niandai”), a limited company incorporated in the PRC and 廣州掌贏控信息科技有限公司 (Guangzhou Zhang Ying Kong Information Technology Company Limited, “Zhang Ying Kong”), a limited company established in the PRC, which were controlled collectively by the Controlling Shareholders.

In preparation for the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”), the Group underwent a reorganisation (the “Reorganisation”) to establish the Company as the ultimate holding company of the Listing Business. Details of the Reorganisation are set out below:

- (1) On November 14, 2014, 北京游萊信息科技有限公司 (Beijing You Lai Information Technology Company Limited, “Beijing You Lai”) was incorporated in the PRC by the Founders and was owned as to 84%, 8% and 8% by Mr. Lu Yuanfeng, Mr. Huang Deqiang and Mr. Huang Guozhan, respectively. On August 5, 2015, Ms. Luo Simin, Mr. Cai Feng and Mr. Luo Weiyuan invested RMB240,000, RMB5,000 and RMB5,000 in Beijing You Lai in exchange for 19.2%, 0.4% and 0.4% of its equity interest, respectively. Consequently, Beijing You Lai was owned to 67.2%, 6.4%, 6.4%, 19.2%, 0.4% and 0.4% by Mr. Lu Yuanfeng, Mr. Huang Deqiang, Mr. Huang Guozhan, Ms. Luo Simin, Mr. Cai Feng and Mr. Luo Weiyuan, respectively. The registered capital has not yet been paid till the date of this report.

- (2) On November 24, 2014, the Company was incorporated in Cayman Islands with an authorised capital of 50,000,000 shares of USD0.001 each, a total of 8,582,420 ordinary shares were issued and paid as follows:

Shareholder	Number of shares	Equity interest in %
LYF (Note (a))	7,209,240	84%
HDQ (Note (b))	686,590	8%
LXT (Note (c))	686,590	8%
	8,582,420	100%

- (a) On November 21, 2014, LYF was incorporated in BVI and was owned 100% by Mr. Lu Yuanfeng.
- (b) On November 21, 2014, HDQ was incorporated in BVI and was owned 100% by Mr. Huang Deqiang.
- (c) On November 21, 2014, LXT was incorporated in BVI and was owned 100% by Mr. Huang Guozhan.
- (3) On November 25, 2014, Digital Hollywood International Limited (“Hollywood BVI”) was incorporated in BVI as wholly-owned subsidiary of the Company.
- (4) On December 5, 2014, Game Hollywood Hong Kong Limited (“Hollywood HK”) was incorporated in Hong Kong as wholly-owned subsidiary of Hollywood BVI.
- (5) On May 13, 2015, 廣州游萊信息科技有限公司 (Guangzhou You Lai Information Technology Company Limited, “Guangzhou You Lai”) was incorporated in the PRC as a wholly-owned subsidiary of Hollywood HK.
- (6) On July 17, 2015, 北京游堂信息科技有限公司 (Beijing You Tang Information Technology Company Limited, “Beijing You Tang”) was incorporated in the PRC by the Controlling Shareholders and was owned as to 84%, 8% and 8% by Mr. Lu Yuanfeng, Mr. Huang Deqiang and Mr. Huang Guozhan, respectively. Subsequently, on September 9, 2015, Hong Kong resident Mr. Yu Ching Ming subscribed for the capital of RMB200,000 (equivalent to USD31,440) in Beijing You Tang which changed from a PRC domestic entity to a sino-foreign entity. Since then, Beijing You Tang was owned as to 75.6%, 7.2%, 7.2% and 10% by Mr. Lu Yuanfeng, Mr. Huang Deqiang, Mr. Huang Guozhan and Mr. Yu Ching Ming.
- (7) On July 28, 2015, Beijing You Tang acquired entire the equity interest in Guangzhou Suiyue Niandai from the Controlling Shareholders for a consideration of RMB500,000 (equivalent to USD73,250), which was based on the book value of its registered capital and settled in cash.
- (8) On July 31, 2015, Beijing You Tang acquires the entire equity interest in Zhang Ying Kong from Mr. Lu Yuanfeng, Mr. Luo Weiyuan and Mr. Cai Feng for a consideration of RMB1,000,000 (equivalent to USD162,150, which is based on the book value of its registered capital. RMB500,000 (equivalent to USD80,500) due to Mr. Lu Yuanfeng, Mr. Luo Weiyuan and Mr. Cai Feng was settled in cash; RMB400,000 (equivalent to USD65,320) due to Mr. Lu Yuanfeng was offset against the amount due from Mr. Lu Yuanfeng as at December 31, 2015; and the remaining amount of RMB100,000 (equivalent to USD16,330) due to Mr. Luo Weiyuan and Mr. Cai Feng was settled on August 24, 2017.

- (9) On August 28, 2015, the Company acquired the entire equity interest of PCL from the Controlling Shareholders by allotting and issuing 35,760 shares to LYF, 3,410 shares to HDQ, 3,410 shares to LXT. After the acquisition, PCL is a wholly-owned subsidiary of the Company.
- (10) On September 7, 2015, the Company acquired the entire equity interest of Angame by allotting and issuing 405,284 shares to LYF, 81,057 shares to Ace Million Inc. (“Ace Million”), a wholly-owned company of Mr. Cai Feng and 54,038 shares to Azure Rolle Limited (“Azure Rolle”), a wholly-owned company of Mr. Luo Weiyuan. After the acquisition, Angame is a wholly-owned subsidiary of the Company.
- (11) On September 11, 2015, Ms. Luo Simin, Mr. Cai Feng, Mr. Luo Weiyuan and the Controlling Shareholders transferred their equity interest of Beijing You Lai to Beijing You Tang at nil consideration.
- (12) On October 20, 2015, Hollywood HK acquired the entire equity interest of Beijing You Tang from the Controlling Shareholders and Yu Ching Ming for a consideration of RMB2,000,000 (equivalent to USD314,940), which was based on the book value of its registered capital. After the acquisition, Beijing You Tang becomes the wholly-owned subsidiary of Hollywood HK. RMB288,000 (equivalent to USD43,986) due to Mr. Huang Guozhan and Mr. Huang Deqiang had been settled in cash in 2016; RMB1,512,000 (equivalent to USD239,514) due to Mr. Lu Yuanfeng was offset against the amount due from Mr. Lu Yuanfeng as at December 31, 2015; the remaining amount of RMB200,000 (equivalent to USD31,440) due to Mr. Yu Ching Ming was settled on July 7, 2017.

Upon the completion of the Reorganisation, the Company became the holding company of the other companies comprising the Group.

Particulars of the subsidiaries of the Group as at the date of this report and during the Track Record Period are set out below:

Company Name	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity interest held as at December 31, 2014	Equity interest held as at December 31, 2015	Equity interest held as at December 31, 2016	Equity interest held as at June 30, 2017	Equity interest held as at the date of this report	Principal activities and place of operation	Note
<u>Directly owned</u>									
Hollywood BVI	BVI/November 25, 2014	USD100	100%	100%	100%	100%	100%	Investment holding/BVI	(1)
PCL	BVI/January 25, 2011	USD50,000	100%	100%	100%	100%	100%	Operation of web-based and mobile games/ Global markets, mainly in North American market	(1)
Angame	BVI/July 5, 2005	USD100	75%	100%	100%	100%	100%	Operation of mobile games/mainly in Vietnam and Malaysia	(1)
<u>Indirectly owned</u>									
Hollywood HK	Hong Kong /December 5, 2014	Hong Kong dollar ("HKD") 1	100%	100%	100%	100%	100%	Operation of online games/mainly in Hong Kong and Taiwan	(2)
N2PG	Hong Kong/ March 29, 2011	HKD10,000	100%	100%	100%	100%	100%	Operation of web-based game overseas/mainly in North American market	(3)
Guangzhou You Lai	The PRC/May 13, 2015	USD2,000,000	n/a	100%	100%	100%	100%	Technical support services/the PRC	(4)
Beijing You Tang	The PRC/July 17, 2015	RMB2,000,000	n/a	100%	100%	100%	100%	Investment holding/the PRC	(4)
Zhang Ying Kong	The PRC/March 6, 2013	RMB1,000,000	75%	100%	100%	100%	100%	Development of mobile games/the PRC	(4)
Guangzhou Suiyue Niandai	The PRC/June 12, 2010	RMB500,000	100%	100%	100%	100%	100%	Marketing and technical support service/the PRC	(4)
Beijing You Lai	The PRC/November 14, 2014	RMB1,000,000	100%	100%	100%	100%	100%	Investment holding/the PRC	(4)

Notes:

- (1) No audited financial statements have been prepared for these companies as there is no statutory requirement under their place of incorporation.
- (2) The statutory financial statements of Hollywood HK for the period from December 5, 2014 to December 31, 2014 and the year ended December 31, 2015 and 2016 were audited by CT CPA & Company Certified Public Accountants, Hong Kong.
- (3) The statutory financial statements of N2PG, for the years ended December 31, 2014, 2015 and 2016 were audited by CT CPA & Company, Certified Public Accountants, Hong Kong.

- (4) No audited financial statements have been prepared for these companies as there is no statutory audit requirement under the relevant rules and regulations in the PRC.
- (5) The Company has set up a structured entity ("Share Scheme Trust") solely for the purpose of administering and holding the Company's shares for the Share Option Scheme (Note 15(b)), the Company has the power to direct the relevant activities of Share Scheme Trust and it has the ability to use its power over Share Scheme Trust to affect its exposure to returns. Therefore, the assets and liabilities of Share Scheme Trust are included in the Group's balance sheet and the shares it held are presented as a deduction in equity as shares held for the Share Option Scheme.

1.3 Basis of Presentation

The Controlling Shareholders collectively owned and controlled the Listing Business immediately prior to and after the Reorganisation. Pursuant to the Reorganisation, the Listing Business was transferred to and held by the Company. The Company and these companies set up during the Reorganisation are new companies which have not been involved in any business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a recapitalisation of the Listing Business and does not result in any changes in management of such business and the ultimate controlling shareholders of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business. For the purpose of this report, the Historical Financial Information has been prepared and presented using carrying amounts of income expense, assets and liabilities of the Listing Business for all periods presented.

Intercompany transactions, balances and unrealised 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 Historical Financial Information of the Group has been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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.

The preparation of Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to Historical Financial Information are disclosed in Note 4.

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2017, are consistently applied to the Group for the Track Record Period.

The following new standards, amendments and interpretations to existing standards, which are relevant to the Group, have been issued and are effective for further reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
IFRS 2 (Amendment) (Note(a))	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRS 15 (Note(b))	Revenue from Contracts with Customers	January 1, 2018
IFRS 15 (Amendment) (Note(b))	Clarifications to IFRS 15	January 1, 2018
IFRS 9 (Note(c))	Financial Instruments	January 1, 2018
IFRIC 22 (Note(a))	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle (Note(a))	Retirement of short-term exemptions in IFRS 1 Clarifying measurement of investments under IAS 28	January 1, 2018
Amendment to IAS 28 (Note(a))	Investments in associates and joint ventures	January 1, 2018
IFRIC 23 (Note(a))	Uncertainty over income tax treatments	January 1, 2019
IFRS 16 (Note(d))	Leases	January 1, 2019
IFRS 10 and IAS 28 (Amendments) (Note(a))	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

- (a) The Group has already commenced an assessment of the impact of these new or revised standards, and amendments, certain of which are relevant to the Group's operations. 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.
- (b) IFRS 15 establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps approach to revenue recognition:

- (a) Step 1: Identify the contract(s) with a customer
- (b) Step 2: Identify the performance obligations in the contract
- (c) Step 3: Determine the transaction price
- (d) Step 4: Allocate the transaction price to each performance obligation
- (e) Step 5: Recognise revenue when each performance obligation is satisfied

The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under IFRS 15, an entity normally recognises revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018.

Under IFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact of IFRS 15 on the revenue recognition may take into consideration when multiple performance obligations are identified. Based on the preliminary assessment, the Group has not identified multiple performance obligations and expects no material impact upon adoption of IFRS 15 to the financial statements other than the presentation of additional disclosure.

- (c) IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

During the Track Record Period, all of the Group's financial assets and financial liabilities were carried at amortised costs or fair value through profit or loss which would likely continue to be measured on the same basis under IFRS 9, while the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

- (d) The Group is a lessee of certain office spaces and servers which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in Note 2.24, is to record the rental expenses in the Group's consolidated statement of comprehensive income for the current year with the related operating lease commitments being separately disclosed in Note 31(b). IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the balance sheet. Instead, all non-current leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the consolidated balance sheet. In the consolidated statement of comprehensive income, as a result, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard is not expected to apply until the financial year beginning on or after January 1, 2019. As at June 30, 2017, the operating lease commitments of the Group amounted to USD856,070, the impact of adoption of IFRS 16 is therefore not expected to have a significant effect on the financial statements of the Group.

2.2 *Subsidiaries*

2.2.1 *Consolidation*

A subsidiary is an entity (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 with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also 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 dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 *Associates*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in an associate include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Gains or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

2.4 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.5 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the Historical 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"). Historical Financial Information is presented in USD, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income or costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other (losses)/gains — net".

(c) 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average 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 exchange differences are recognised in other comprehensive income.

2.6 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss statement 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 costs over their estimated useful lives, as follows:

Leasehold improvements	Shorter of estimated useful lives or remaining lease term
Office equipment	5 years
Computers	3 years

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 recognised within "Other (losses)/gains — net" in the consolidated statements of comprehensive income.

2.7 Intangible assets

(a) Licenses

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives of 6 months to 5 years.

(b) Computer software

Acquired computer software stated at historical cost less amortisation. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised over their estimated useful lives of three years.

(c) *Research and development expenditures*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria includes: (1) it is technically feasible to complete the game product so that it will be available for use; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. During the Track Record Period, there were no development costs meeting these criteria and capitalised as intangible assets.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

Research and development expenses consist primarily of (i) salary and benefits for the Group's research and development personnel, and (ii) the technology outsourcing payment to third-party companies.

During the Track Record Period, all research and development expenditures were recognised in the statement of comprehensive income as dissatisfaction of the recognition criteria for capitalisation.

2.8 *Prepaid royalty fees*

The Group licenses online games from game developers and pays royalty fees to game developers as sharing of proceeds earned from selling in-game virtual tokens ("Game Tokens") and other virtual items (Note 2.22). Royalty fees are either paid in advance and deferred on the consolidated balance sheet as prepaid royalties or accrued according to the licensed period. These royalty fees are expensed to cost of revenues (where the Group is a principal) or offset against the revenues (where the Group is an agent).

At each balance sheet date, the Group evaluates the recoverability of prepaid royalty fees to determine amounts that it deems unlikely to be realised through revenues generated from the games. This evaluation considers multiple factors, including the term of the agreement, forecasted demand, game life cycle status, game development plans, and current and anticipated game revenue levels, as well as other qualitative factors such as the success of similar games. To the extent that this evaluation indicates that the remaining prepaid royalty payments are not recoverable, the Group records an impairment charge to administrative expenses in the period that impairment is indicated.

2.9 *Impairment of non-financial assets*

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 *Financial assets*

2.10.1 *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the Track Record Period, the Group only had financial assets at fair value through profit or loss and loans and receivables.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading or designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. A financial asset that is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and hybrid instrument that contained one or more embedded derivatives is designated as fair value through profit or loss. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "other receivables" and "cash and cash equivalents" in the consolidated balance sheet.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'Other (losses)/gains-net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the group's right to receive payments is established.

2.11 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The 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 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.13 Trade and other receivables

Trade receivables are amounts due from platforms or payment channels for proceeds earned from selling Game Tokens and other virtual items (Please refer to Note 2.22). 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand and deposits at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital and shares held for the Share Option Scheme

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

The consideration paid by Share Scheme Trust (see Note 15(b)) for acquiring the Company's shares, including any directly attributable incremental cost, is presented as "Shares held for the Share Option Scheme" and the amount is deducted from total equity.

When Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for the Share Option Scheme", with a corresponding adjustment made to "Share premium".

2.16 Trade payables

Trade payables are obligations to pay for 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Deferred revenue and deferred cost

For game publishing service revenues, deferred revenue primarily consists of the unamortised revenue from sales of Game Tokens and virtual items for web-based games and mobile games, where there is still an implied obligation to be provided by the Group and will be recognised as revenue when all of the revenue recognition criteria are met. For licensing revenues, deferred revenues represent the unamortised balance of the initial license fee paid by licensees.

Deferred cost primarily consists of the unamortised commission charges by Platforms.

2.18 Receipt in advance

The Group also authorises third parties to operate its online games and receives royalty fees from third parties as sharing of proceeds earned from selling Game Tokens and other virtual items (Note 2.22). Royalty fees from third parties are either paid in advance and deferred on the consolidated balance sheet as receipt in advance or accrued subsequently. These receipt in advance are recognised as revenues when the condition of revenue sharing is met.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the 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.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised 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 realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and an associate, 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.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries 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 utilised.

(c) 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.

2.20 Employee benefits*(a) Defined contribution plans*

The Group's companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and other defined contribution social security plans organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable and other social security payables to all existing and future retired employees under these plans and the Group has no further obligation beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised 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 and maternity leave are not recognised until the time of leave.

2.21 Share-based Compensation*Equity-settled Share-based Compensation Transactions*

In September 2015, Mr. Huang Deqiang and Mr. Huang Guozhan transferred some of their interests in the Listing Business directly to Mr. Lu Yuanfeng to compensate his past services to the Group (Note 16). The fair value of the services received in exchange of the grant for the equity interest is recognised as expense.

In terms of shares awarded to Mr. Lu Yuanfeng, the total amount to be expensed is determined by reference to the fair value of shares awarded as fair value of the services could not be estimated reliably. The directors have used the discounted cash flow method to determine the total fair value of these shares rewarded.

As there was no future service conditions attached to the award, the share-based awards were vested immediately. The fair value of the share-based awards was charged to the profit or loss for the year ended December 31, 2015.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the provision of services in the ordinary course of the Group's activities and is recorded net of value-added tax. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Game publishing service revenue

The Group is a publisher of online games developed by third party game developers or its own. The Group licenses online games from game developers and earns game publishing service revenue by making a localised version of the licensed games and publishing them to the game players through distribution platforms, include major social networking websites (such as Facebook), online application stores (such as Apple Inc.'s App Store ("Apple App") and Google Play installed in mobile telecommunications devices), web-based and mobile game portals in certain countries and regions (collectively referred to as "Platforms"), including the Group's websites. The games licensed to the Group are operated under a free-to-play model whereby game players can play the games free of charge and are charged for the purchase of Game Tokens or other virtual items via payment channels, such as the various mobile carriers and third-party internet payment systems (collectively referred to as "payment channels").

(i) *Principal Agent Consideration*

Third party developed games

Proceeds earned from selling Game Tokens and other virtual items are shared between the Group and game developers, with the amount paid to game developers generally calculated based on face value of Game Tokens or other virtual items determined by game developers, after deducting certain deductible fees, multiplied by a predetermined percentage for each game. The deductible fees are predetermined and negotiated game by game, including the fees paid to the payment channels and the Platforms, as well as the credit allowable for deduction for each game.

(1) The Group acts as Agent

With respect to the Group's game licenses arrangements entered into during the Track Record Period, the Group considered that the (i) game developers are responsible for providing the game product desired by the game players; (ii) the costs incurred by the game developers to develop the games are more than the licensing costs and game localisations costs incurred by the Group; (iii) game developers have the right to determine the pricing of in-game virtual items and the specification, modification or update of the game proposed by the Group. The Group's responsibilities are publishing, providing payment solution and market promotion service, and thus the Group views game developers to be its customers and considers itself as the agent of game developers in the arrangements with game players. Accordingly, the Group records the game publishing service revenue from these licensed games, net of amounts paid to game developers.

Games operated directly by the Group

Games operated directly by the Group are in the form of self-operation on its own websites and cooperation with Platforms, which the Group is responsible for determining Platforms and payment channels, hosting and maintenance of game servers for game running, providing customer service as well as marketing activities. For games self-operated by the Group, payment channels are responsible for payment collections related to the games. For games cooperated with Platforms, Platforms are responsible for distribution, platform maintenance, paying player authentication and payment collections related to the games.

As the Group is responsible for identifying, contracting with and maintaining the relationships of Platforms and payment channels, commission fees paid to Platforms and payment channels are included in cost of revenues and presented on a gross basis. The Group considers it is the primary obligor to game developers for the reasons identified above as it has been given latitude by game developers in selecting Platform and payment channels for its service to game developers.

Different from the above analysis, for games cooperated with Facebook and Apple App, the game developers are fully aware of Facebook and Apple App's roles and responsibilities. The Group considered that Facebook, Apple App and itself provide services to the game developers together, as the Group does not have the latitude in selecting and negotiation with Facebook and Apple App and does not have the primary responsibility to game developers for the service provided by them, commission charges by Facebook and Apple App are deducted from revenue.

Games subcontracted to Platforms

Certain games are subcontracted to Platforms to operate directly. For such subcontracted games, Platforms are responsible for determining secondary Platforms and payment channels, hosting and maintenance of game servers for game running, providing customer service as well as marketing activities. The Group's responsibilities are delivering games to Platforms, and thus the Group views the game developers to be its customers and considers itself as the agent of game developers in the arrangements with Platforms, as the Group does not have the primary responsibility to game developers for the service provided by these Platforms. Accordingly, the Group records revenue on a net basis, amounts paid to game developers and revenue-sharing amounts paid to Platforms or third party payment vendors are deducted from revenue.

(2) The Group acts as Principal

During the Track Record Period, there was a game license arrangement under which the Group takes primary responsibilities of further game development and updates, game operation, including determining Platforms and payment channels, providing customer services, hosting game servers, if needed, and controlling game and services specifications and pricing during the license period. Under this type of game license arrangement, the Group considered itself as a principal in this arrangement. Accordingly, the Group records the online game revenue from this third party licensed game on a gross basis. Commission fees paid to Platforms and payment channels and amortisation of license fees paid to third party game developer are recorded as cost of revenues.

Self-developed games

There was a game license arrangement under which the Group takes primary responsibilities of game development and game operation, including determining Platforms and payment channels, providing customer services, hosting game servers, if needed, and controlling game and services specifications and pricing. Under this type of game license agreement, the Group considered itself the principal in this arrangement. Accordingly, the Group records the online game revenues from these games on a gross basis. Commission fees paid to Platforms and payment channels and amounts paid to licensor are recorded as cost of revenue.

(ii) *Timing of revenue recognition*

Third party developed games

(1) The Group acts as Agent

Games operated directly by the Group

The Group recognises the service revenue when all four of the following criteria are met (i) the amount of revenue can be measured reliably, (ii) it is probable that the economic benefits associated with the service will flow to the Group, (iii) the stage of completion of the service at the end of the reporting period can be measured reliably and (iv) the costs incurred for the service and costs to complete the service can be measured reliably.

For the purposes of determining when services have been provided to the respective players, the Group has determined the following:

- Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from 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 recognised ratably over the average life of durable virtual items for the applicable game, which the Group makes best estimates to be average playing period of paying players (“Player Relationship Period”).

The Group estimates the Player Relationship Period on a game-by-game basis and re-assesses such periods semi-annually. 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.

If the Group does not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, the Group recognises revenue from both durable and consumable virtual items for that game ratably over the Player Relationship Period.

Games subcontracted to Platforms

Revenue of games subcontracted to Platforms are recognised ratably over the Player Relationship Period, for (i) the Group has a continuous obligation to game developers to coordinate Platforms for providing service to game players, and (ii) the Group does not have the ability to differentiate revenue from games subcontracted to Platforms attributable to durable virtual items from consumable virtual items for a specific game.

(2) The Group acts as Principal

Revenue of third party developed games when the Group acts as a Principal are recognised ratably over the Player Relationship Period or as the durable virtual items are consumed, which is similar to the policy of third party developed games operated directly by the Group when the Group acts as an Agent mentioned above.

Self-developed games

Revenue of self-developed games are recognised ratably over the Player Relationship Period or as the durable virtual items are consumed, which is similar to the policy of third party developed games when the Group acts as a Principal mentioned above.

(b) Licensing revenue

The Group also authorises third parties to operate its online games. The Group receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate the Group's games in specified geographic areas. Since the Group is obligated to provide services during the license period, the initial license fees are recognised as revenue ratably over the license period.

(c) Server rental revenue

Server rental revenue is derived principally from server rental arrangements. The Group enters into server rental arrangements with third parties to allow them to use the servers rented by the Group over a particular period of time. The Group recognises revenues ratably over the term of the lease.

(d) Advertising revenue

The Group provides advertising placement for a specified period on the interface of web-based games. The Group recognises revenue ratably over the period during which the advertising services were provided.

2.23 Interest income

Interest income mainly represents interest income from bank deposits and is recognised using effective interest method.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group.

Risk management is carried out by the senior management of the Group and approved by the board of directors.

(a) Market risk

(i) *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities and net investment in foreign operations. The finance department of the Group is responsible for monitoring and managing the net position in each foreign currency. The Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currencies exposures.

The Group has certain investments in foreign operations particularly in China, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations considered not material therefore no separated sensitive analysis is included.

For the year ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, if USD had weakened/strengthened by 5% against RMB with all other variables held constant, post-tax profit for the year would have been USD11,571, USD39,787, USD44,411 and USD20,901, USD15,847 higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated receivables and payables.

(ii) *Interest rate risk*

Other than interest-bearing bank deposits, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and bank deposits and trade and other receivables.

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. To manage this risk arising from cash and bank deposits, the Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions in the PRC and Hong Kong. There has been no recent history of default in relation to these financial institutions.

Individual balances of trade receivables exceeding 10% of the Group's total trade receivables as at December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 accounted for approximately 78%, 55%, 39% and 54% of the Group's total trade receivables, respectively.

Trade receivables and certain other receivables at the end of each reporting period were due from the Platforms and payment channels in cooperation with the Group. If the strategic relationship with the Platforms and payment channels is terminated or scaled-back; or if the Platforms and payment channels alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's game development receivables might be adversely affected in terms of recoverability. To

manage this risk, the Group maintains frequent communications with the Platforms and payment channels to ensure the effective credit control. In view of the history of cooperation with the Platforms and payment channels and the sound collection history of receivables due from them, the directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivable balances due from the Platforms and payment channels is low.

For other receivables not due from payment channels, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

(c) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's and the Company'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.

Group

	Less than 1 year	Between 1 year and 2 years	Between 2 year and 5 years	Total
	USD	USD	USD	USD
At December 31, 2014				
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	6,837,421	–	–	6,837,421
At December 31, 2015				
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	7,459,853	55,098	–	7,514,951
Dividend payable	7,809,670	–	–	7,809,670
	<u>15,269,523</u>	<u>55,098</u>	<u>–</u>	<u>15,324,621</u>
At December 31, 2016				
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	6,943,782	1,074,883	50,128	8,068,793
At June 30, 2017				
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	5,849,862	935,902	341,621	7,127,385

<u>Company</u>	Less than 1 year	Between 1 year and 2 years	Between 2 year and 5 years	Total
	USD	USD	USD	USD
At December 31, 2014				
Amount due to subsidiaries and other payables and accruals	517,240	–	–	517,240
At December 31, 2015				
Amount due to subsidiaries and other payables and accruals	2,108,310	–	–	2,108,310
At December 31, 2016				
Amount due to subsidiaries and other payables and accruals	2,906,553	–	–	2,906,553
At June 30, 2017				
Amount due to subsidiaries and other payables and accruals	4,895,236	–	–	4,895,236

3.2 *Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital (including share capital and capital reserves) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In the opinion of the directors of the Company, the Group's capital risk is low.

3.3 *Fair value estimation*

The Group's financial instruments are carried at fair value as at balance sheet dates, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

The following table presents the changes in level 3 asset instruments for each of the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017:

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
	USD	USD	USD	USD
Opening balance	–	–	–	–
Additions	438,210	–	–	–
Disposals	(440,198)	–	–	–
Interest received from short term investments	1,988	–	–	–
Closing balance	–	–	–	–

The level 3 instruments of the Group was a short-term investment in 2014, which was an unlisted treasury management product issued by a commercial bank with maturity of 35 days and expected annualised interest rate of 3.5%. The Group used income method of the discounted cash flows to determine its fair value and classified it as a financial assets at fair value through profit or loss.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimates of the Player Relationship Period in the Group's game development

As described in Note 2.22, the Group recognises revenue from durable virtual items ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for prospectively as a change in accounting estimate.

(b) Provision for impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expenses or write-back of provision for trade receivable in the period in which such estimate has been changed. Based on the Group's assessment on the collectability of trade receivables, impairment provision of USD486,513, USD681,880, USD1,358,953, USD1,709,127 were made as at December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

(c) Current and deferred income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

(d) Fair Value of Share-based Award to Mr. Lu Yuanfeng

As mentioned in Note 2.21, shares of the Company were awarded to Mr. Lu Yuanfeng, who is the chairman and chief executive officer of the Group, whose main responsibilities include developing and implementing high-level strategies, making major corporate decisions, managing the overall operations and resources of the Group. The directors used the discounted cash flow method to determine the total fair value of these shares awarded. Significant judgments on key assumptions, such as discount rate and projections of future performance are required to be made by the directors (Note 16).

The share-based compensation expenses related to share-based payment transactions for the year ended December 31, 2015 would have been USD47,393 lower or USD63,809 higher should the discount rate used in discount cash flow analysis higher/lower by 100 basis points from management's estimates.

5 Revenue and segment information

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
Online game revenue	21,899,314	27,192,715	27,588,973	14,161,424	13,613,159
Licensing revenue	272,600	403,283	566,727	322,887	176,947
Server rental revenue	441,452	300,560	238,770	139,590	29,820
Advertising revenue	162,328	111,472	51,216	34,955	9,805
	<u>22,775,694</u>	<u>28,008,030</u>	<u>28,445,686</u>	<u>14,658,856</u>	<u>13,829,731</u>

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
Online game revenue					
Web-based games	20,398,486	15,659,772	10,199,039	5,578,006	4,363,244
Mobile games	1,500,828	11,532,943	17,389,934	8,583,418	9,249,915
	<u>21,899,314</u>	<u>27,192,715</u>	<u>27,588,973</u>	<u>14,161,424</u>	<u>13,613,159</u>

For management purpose, the executive directors of the Company consider that the Group generates revenue primarily from the provision of game services. The executive directors of the Company review the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regards there is only one segment of the Group, which is used to make strategic decisions.

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue during the Track Record Period.

The revenue generated from top five largest revenue collection platforms, accounted for 84%, 63%, 55%, 52% and 62% of the Group's revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively.

The revenue generated from the games licensed by Shenzhen 7th Road Technology Co., Ltd. ("Shenzhen 7th Road"), the Group's largest game licensor, accounted for 87%, 50%, 30%, 32% and 23% of the Group's revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively. Besides that, no revenue from games licensed by a single company exceeded 10% or more of the Group's revenue during the Track Record Period.

Non-current assets other than financial instruments and deferred income tax assets, by country:

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
BVI	1,184,195	617,981	56,255	11,242
The PRC	222,299	527,832	1,085,885	978,637
Hong Kong	–	25,000	169	451,565
Other locations	2,084	15,025	62,819	62,814
	<u>1,408,578</u>	<u>1,185,838</u>	<u>1,205,128</u>	<u>1,504,258</u>

6 Property, plant and equipment

	Office equipment	Computers	Leasehold improvements	Total
	USD	USD	USD	USD
Year ended December 31, 2014				
Opening net book amount	14,466	68,899	–	83,365
Currency translation differences	(408)	(1,986)	–	(2,394)
Additions	12,404	55,857	–	68,261
Depreciation charge	(5,620)	(41,633)	–	(47,253)
Closing net book amount	20,842	81,137	–	101,979
At December 31, 2014				
Cost	29,060	144,460	–	173,520
Accumulated depreciation	(8,218)	(63,323)	–	(71,541)
Net book amount	20,842	81,137	–	101,979
Year ended December 31, 2015				
Opening net book amount	20,842	81,137	–	101,979
Currency translation differences	(2,139)	(3,844)	(12,586)	(18,569)
Additions	53,927	62,084	458,082	574,093
Depreciation charge	(15,323)	(57,426)	(59,762)	(132,511)
Closing net book amount	57,307	81,951	385,734	524,992
At December 31, 2015				
Cost	80,001	198,097	443,607	721,705
Accumulated depreciation	(22,694)	(116,146)	(57,873)	(196,713)
Net book amount	57,307	81,951	385,734	524,992
Year ended December 31, 2016				
Opening net book amount	57,307	81,951	385,734	524,992
Currency translation differences	(3,756)	(5,450)	(20,912)	(30,118)
Additions	9,502	55,832	10,220	75,554
Depreciation charge	(8,708)	(51,460)	(108,753)	(168,921)
Closing net book amount	54,345	80,873	266,289	401,507
At December 31, 2016				
Cost	83,908	238,802	424,593	747,303
Accumulated depreciation	(29,563)	(157,929)	(158,304)	(345,796)
Net book amount	54,345	80,873	266,289	401,507

	Office equipment	Computers	Leasehold improvements	Total
	USD	USD	USD	USD
Six months ended June 30, 2017				
Opening net book amount	54,345	80,873	266,289	401,507
Currency translation differences	1,256	1,776	5,841	8,873
Additions	1,729	2,025	–	3,754
Depreciation charge	(8,482)	(24,032)	(48,451)	(80,965)
Closing net book amount	48,848	60,642	223,679	333,169
At June 30, 2017				
Cost	87,706	246,840	434,808	769,354
Accumulated depreciation	(38,858)	(186,198)	(211,129)	(436,185)
Net book amount	48,848	60,642	223,679	333,169

Depreciation charges were charged to administrative expenses during the Track Record Period.

7 Intangible assets

	Licenses	Computer software	Total
	USD	USD	USD
Year ended December 31, 2014			
Opening net book amount	97,525	9,430	106,955
Currency translation differences	–	(238)	(238)
Additions	561,874	4,382	566,256
Amortisation	(75,204)	(3,827)	(79,031)
Closing net book amount	584,195	9,747	593,942
At December 31, 2014			
Cost	711,874	15,386	727,260
Accumulated amortisation	(127,679)	(5,639)	(133,318)
Net book amount	584,195	9,747	593,942
Year ended December 31, 2015			
Opening net book amount	584,195	9,747	593,942
Currency translation differences	–	(435)	(435)
Additions	1,040,000	14,458	1,054,458
Amortisation	(1,006,214)	(5,905)	(1,012,119)
Closing net book amount	617,981	17,865	635,846

	Licenses	Computer software	Total
	USD	USD	USD
At December 31, 2015			
Cost	1,751,874	28,991	1,780,865
Accumulated amortisation	(1,133,893)	(11,126)	(1,145,019)
Net book amount	617,981	17,865	635,846
Year ended December 31, 2016			
Opening net book amount	617,981	17,865	635,846
Currency translation differences	–	47	47
Additions	50,000	–	50,000
Amortisation	(611,726)	(5,419)	(617,145)
Closing net book amount	56,255	12,493	68,748
At December 31, 2016			
Cost	1,801,874	28,036	1,829,910
Accumulated amortisation	(1,745,619)	(15,543)	(1,761,162)
Net book amount	56,255	12,493	68,748
Six months ended June 30, 2017			
Opening net book amount	56,255	12,493	68,748
Currency translation differences	–	778	778
Additions	473,000	–	473,000
Amortisation	(66,580)	(1,174)	(67,754)
Closing net book amount	462,675	12,097	474,772
At June 30, 2017			
Cost	2,274,874	28,690	2,303,564
Accumulated amortisation	(1,812,199)	(16,593)	(1,828,792)
Net book amount	462,675	12,097	474,772

Amortisation charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
	(Unaudited)				
Cost of revenue	75,204	1,006,214	611,726	426,056	66,580
Administrative expenses	3,827	5,905	5,419	3,161	1,174
	79,031	1,012,119	617,145	429,217	67,754

8 Financial instruments by categories

	Loans and receivables
	USD
Assets per consolidated balance sheets	
Group	
At December 31, 2014	
Trade and other receivables (excluding prepayments)	11,538,760
Cash and cash equivalents	16,336,408
	<u>27,875,168</u>
At December 31, 2015	
Trade and other receivables (excluding prepayments)	13,136,444
Cash and cash equivalents	16,812,751
	<u>29,949,195</u>
At December 31, 2016	
Trade and other receivables (excluding prepayments)	15,843,883
Cash and cash equivalents	8,130,169
	<u>23,974,052</u>
At June 30, 2017	
Trade and other receivables (excluding prepayments)	15,190,349
Cash and cash equivalents	9,649,131
	<u>24,839,480</u>
Assets per balance sheets	
Company	
At December 31, 2014	
Amounts due from subsidiaries and other receivables (excluding prepayments)	8,582
At December 31, 2015	
Amounts due from subsidiaries and other receivables (excluding prepayments)	9,857
Cash and cash equivalents	63,876
	<u>73,733</u>
At December 31, 2016	
Amounts due from subsidiaries and other receivables (excluding prepayments)	53,844
Cash and cash equivalents	62,625
	<u>116,469</u>
At June 30, 2017	
Amounts due from subsidiaries and other receivables (excluding prepayments)	43,987
Cash and cash equivalents	814,612
	<u>858,599</u>

	Liabilities at amortised cost
	USD
Liabilities per consolidated balance sheets	
Group	
At December 31, 2014	
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	6,837,421
At December 31, 2015	
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	7,514,951
Dividend payable	7,809,670
	15,324,621
At December 31, 2016	
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	8,068,793
At June 30, 2017	
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	7,127,385
Liabilities per balance sheets	
Company	
At December 31, 2014	
Amount due to subsidiaries and other payables and accruals	517,240
At December 31, 2015	
Amount due to subsidiaries and other payables and accruals	2,108,310
At December 31, 2016	
Amount due to subsidiaries and other payables and accruals	2,906,553
At June 30, 2017	
Amount due to subsidiaries and other payables and accruals	4,895,236

9 Investments in subsidiaries — Company

(a) Investments in subsidiaries

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
Investments in subsidiaries	100	455,449	455,449	455,449
Amounts due from subsidiaries (<i>Note i</i>)	8,582	9,857	53,844	43,987
	<u>8,682</u>	<u>465,306</u>	<u>509,293</u>	<u>499,436</u>

Details of the subsidiaries of the Company are set out in Note 1.2 of Section II.

- (i) The amounts due from subsidiaries represented current account balances maintained by the Company with certain subsidiaries.

The balances were unsecured, interest-free and repayable on demand.

10 Investment in an associate

The amounts recognised in the balance sheet are as follows:

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
Associate	<u>—</u>	<u>—</u>	<u>684,873</u>	<u>646,317</u>

The losses recognised in the statement of profit or loss are as follows:

Associate	<u>—</u>	<u>—</u>	<u>36,666</u>	<u>54,603</u>
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Investment in an associate

Set out below are the details of an associate of the Group. The associate as listed below has share capital consisting solely of registered capital, which are held directly by the Group.

Details of investment in an associate as at December 31, 2016 and June 30, 2017.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
上海集鷹科技有限公司 (Shanghai Jiying Technology Company Limited, “Shanghai Jiying”)	The PRC	20	(i) and (ii)	Equity

- (i) The Group has designated a member in the board of directors which enables the Group to exercise significant influence in Shanghai Jiying through the participation in operational, investing and financing actions. Consequently, Shanghai Jiying has been accounted for as an associate.

Shanghai Jiying is a private company engaged in game operation and there is no quoted market price available for its equity.

- (ii) There were no contingent liabilities relating to the Group's interest in the associate.

Summarised historical financial information of the associate

Set out below is the summarised historical financial information of the associate which is accounted for using the equity method.

	Shanghai Jiying	
	As at December 31, 2016	As at June 30, 2017
	USD	USD
Current assets	1,098,923	975,542
Non-current assets	82,886	77,443
Current liabilities	(61,444)	(181,399)
Net assets	1,120,365	871,586

Summarised statement of comprehensive income

	Shanghai Jiying	
	Year ended December 31, 2016	Six months ended June 30, 2017
	USD	USD
Revenue	–	–
Administrative expenses	(183,329)	(273,032)
Interest income	8	17
Income tax expense	–	–
Loss for the year/period	(183,321)	(273,015)
Other comprehensive income	–	–
Total comprehensive loss	(183,321)	(273,015)

The information above reflects the amounts presented in the financial statements of the associate (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised historical financial information

Reconciliation of the summarised historical financial information presented to the carrying amount of investment in an associate.

Summarised Historical Financial Information

	Shanghai Jiying	
	As at December 31, 2016	As at June 30, 2017
	USD	USD
Opening net assets 1 January	–	1,120,365
Capital contribution from founders	1,296,000	–
Loss for the year/period	(183,321)	(273,015)
Currency translation differences	7,686	24,236
	<u>1,120,365</u>	<u>871,586</u>
Closing net assets		
Interest in associate (20%)	224,073	174,317
Goodwill		
– Initial amount	460,800	472,000
– Impairment	–	–
	<u>684,873</u>	<u>646,317</u>
Carrying value		

11 Deferred income tax

The analysis of deferred income tax assets and liabilities is as follows:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
Deferred income tax assets:				
– to be recovered within 12 months	–	58,198	147,891	291,102
Deferred income tax liabilities:				
– to be recovered within 12 months	–	(15,193)	(27,362)	(44,441)
Deferred tax asset – net	<u>–</u>	<u>43,005</u>	<u>120,529</u>	<u>246,661</u>

The movement on the deferred income tax assets is as follows:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
Beginning of the year/period	4,909	–	43,005	120,529
Recognised in profit or loss (Note 25)	(4,909)	43,064	79,961	123,899
Currency translation differences	–	(59)	(2,437)	2,233
End of the year/period	<u>–</u>	<u>43,005</u>	<u>120,529</u>	<u>246,661</u>

Movement in deferred income tax assets without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

	<u>Deferred revenue</u>	<u>Provisions</u>	<u>Total</u>
	USD	USD	USD
Year ended December 31, 2014			
At beginning of the year	4,909	–	4,909
Charged to the income statement	(4,909)	–	(4,909)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of the year	<u>–</u>	<u>–</u>	<u>–</u>
Year ended December 31, 2015			
At beginning of the year	–	–	–
Credited to the income statement	55,383	2,874	58,257
Currency translation differences	–	(59)	(59)
	<u>–</u>	<u>(59)</u>	<u>(59)</u>
At end of the year	<u>55,383</u>	<u>2,815</u>	<u>58,198</u>
Year ended December 31, 2016			
At beginning of the year	55,383	2,815	58,198
Credited to the income statement	64,867	28,446	93,313
Currency translation differences	(2,310)	(1,310)	(3,620)
	<u>(2,310)</u>	<u>(1,310)</u>	<u>(3,620)</u>
At end of the year	<u>117,940</u>	<u>29,951</u>	<u>147,891</u>
Six months ended June 30, 2017			
At beginning of the period	117,940	29,951	147,891
Credited to the income statement	52,344	88,331	140,675
Currency translation differences	514	2,022	2,536
	<u>514</u>	<u>2,022</u>	<u>2,536</u>
At end of the period	<u>170,798</u>	<u>120,304</u>	<u>291,102</u>

Movement in deferred income tax liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

	<u>Deferred Cost</u>	<u>Total</u>
	USD	USD
Year ended December 31, 2015		
At beginning of the year	–	–
Charged to the income statement	(15,193)	(15,193)
	<u>(15,193)</u>	<u>(15,193)</u>
At end of the year	<u>(15,193)</u>	<u>(15,193)</u>
Year ended December 31, 2016		
At beginning of the year	(15,193)	(15,193)
Charged to the income statement	(13,352)	(13,352)
Currency translation differences	1,183	1,183
	<u>1,183</u>	<u>1,183</u>
At end of the year	<u>(27,362)</u>	<u>(27,362)</u>

	Deferred Cost	Total
	USD	USD
Six months ended June 30, 2017		
At beginning of the period	(27,362)	(27,362)
Charged to the income statement	(16,776)	(16,776)
Currency translation differences	(303)	(303)
	<u>(44,441)</u>	<u>(44,441)</u>
At end of the period	<u>(44,441)</u>	<u>(44,441)</u>

Deferred income tax liabilities of USD329,408, USD419,802, USD450,175, and USD538,799 as at the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively, have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled USD6,588,157, USD8,396,034, USD9,003,497, and USD10,775,980 as at the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

12 Trade receivables

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
Trade receivables (<i>Note a</i>)	6,531,650	6,237,772	5,193,065	6,100,980
Less: allowance for impairment of trade receivables (<i>Note (c)</i>)	(486,513)	(681,880)	(1,358,953)	(1,709,127)
	<u>6,045,137</u>	<u>5,555,892</u>	<u>3,834,112</u>	<u>4,391,853</u>

- (a) Trade receivables were arising from the development and operation of online game business. The credit terms of trade receivables granted to the Platforms and third party payment vendors are usually zero to 90 days and zero to 30 days, respectively. Aging analysis based on invoice date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
0-30 days	3,069,831	2,019,653	1,854,386	2,438,260
30-90 days	2,718,678	2,068,329	1,363,835	743,755
90-180 days	391,190	1,499,624	627,115	1,019,227
Over 180 days	351,951	650,166	1,347,729	1,899,738
	<u>6,531,650</u>	<u>6,237,772</u>	<u>5,193,065</u>	<u>6,100,980</u>

- (b) As at December 31, 2014, 2015 and 2016 and June 30, 2017 trade receivables of past due but not impaired were approximately USD196,772, USD1,368,753, USD438,686 and USD847,320, respectively. These related to a number of independent Platforms and third party payment vendors which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables was as follows:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
Outstanding after due dates:				
30-90 days	20,371	26,530	36,025	32,119
90-180 days	176,401	1,342,223	402,661	815,201
	<u>196,772</u>	<u>1,368,753</u>	<u>438,686</u>	<u>847,320</u>

- (c) As at December 31, 2014, 2015 and 2016 and June 30, 2017, trade receivables of USD600,941, USD807,563, USD1,641,352 and USD2,103,763 were impaired. Movements on the Group's provision for impairment of trade receivables are as follows:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
At beginning of the year/period	118,022	486,513	681,880	1,358,953
Provision for impairment	368,491	195,367	677,073	350,174
At end of the year/period	<u>486,513</u>	<u>681,880</u>	<u>1,358,953</u>	<u>1,709,127</u>

The provision and reversal of provision for impaired receivables have been included in "administrative expenses" in the consolidated statements of comprehensive income.

- (d) The carrying amount of the Group's trade receivables are denominated in the following currencies:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
USD	5,789,927	4,408,984	2,529,477	3,159,357
RMB	162,486	1,069,140	1,250,040	1,132,768
HKD	92,724	77,768	54,595	99,728
	<u>6,045,137</u>	<u>5,555,892</u>	<u>3,834,112</u>	<u>4,391,853</u>

- (e) As at December 31, 2014, 2015 and 2016 and June 30, 2017, the fair value of trade receivables approximated their carrying amounts.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

13 Prepayments and other receivables

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
				USD
Group				
Included in non-current assets				
Prepayment for intangible assets	600,000	25,000	–	–
Prepayment for leasehold improvements	112,657	–	–	–
Prepayment for equity investment (Note a)	–	–	50,000	50,000
	<u>712,657</u>	<u>25,000</u>	<u>50,000</u>	<u>50,000</u>
Included in current assets				
Receivables relating to payment channels (Note b)	3,379,314	7,466,675	9,413,281	10,364,296
Amounts due from related parties (Note 30(e))	2,103,511	108,788	2,506,215	138,860
Deferred cost	50,761	332,424	541,012	704,144
Prepayment for listing expenses	113,246	475,253	458,062	815,041
Prepaid royalty fees	57,193	46,271	42,001	288,094
Prepaid advertising charges	73,766	100,684	129,500	33,742
Prepaid server rental expenses	25,615	3,000	15,358	10,977
Deposits	61,218	60,879	10,837	59,872
Others	10,798	5,089	90,275	235,468
	<u>5,875,422</u>	<u>8,599,063</u>	<u>13,206,541</u>	<u>12,650,494</u>
	<u><u>6,588,079</u></u>	<u><u>8,624,063</u></u>	<u><u>13,256,541</u></u>	<u><u>12,700,494</u></u>
Company				
Included in non-current assets				
Prepayment for equity investment (Note a)	–	–	50,000	50,000
Included in current assets				
Prepayment for listing expenses	113,246	475,253	458,062	815,041
	<u>113,246</u>	<u>475,253</u>	<u>508,062</u>	<u>865,041</u>

- (a) Prepayment for the right to equity purchase of certain shares of a company engaged in game operation, which are to be determined at a later stage.
- (b) Receivables relating to payment channels represents the balances in PayPal and Skrill (formerly Moneybookers), for cash collection from game players for games operated on the Group's websites.

14 Cash and cash equivalents

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
Cash on hand	5,898	2,079	69	–
Cash at bank	16,330,510	16,810,672	8,130,100	9,649,131
	<u>16,336,408</u>	<u>16,812,751</u>	<u>8,130,169</u>	<u>9,649,131</u>

Cash and cash equivalents are denominated in the following currencies:

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
USD	15,529,582	14,306,883	3,630,708	4,733,578
RMB	449,463	521,894	1,090,934	1,018,014
HKD	348,634	1,153,285	2,237,903	2,693,231
EURO	8,729	830,689	1,170,624	1,204,308
	<u>16,336,408</u>	<u>16,812,751</u>	<u>8,130,169</u>	<u>9,649,131</u>

The conversion of USD denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

15 Share capital and shares held for the Share Option Scheme

As mentioned in Note 1.3 above, the Historical Financial Information has been prepared as if the current group structure had been in existence throughout each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 or since the respective dates of incorporation/establishment of the combining companies, or since the date when the consolidated companies first came under the control of the Controlling Shareholders, where there is a shorter period. Share capital and reserves during the Track Record Period represents the consolidated share capital and deficits/equities of the companies comprising the Group after elimination of inter-company transactions and balances. Movements in share capital during the Track Record Period mainly comprised:

	Number of ordinary shares	Nominal value of ordinary shares
		USD
Authorised:		
Ordinary shares of USD0.001 each; November 24, 2014 (date of incorporation), December 31, 2014, 2015 and 2016 and June 30, 2017 (Note 1.2(2))	<u>50,000,000</u>	<u>50,000</u>

	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u> USD
Issued and fully paid:		
Issue of ordinary shares on November 24, 2014 (date of incorporation) (Note 1.2(2))	8,582,420	8,582
At December 31, 2014	<u>8,582,420</u>	<u>8,582</u>
Issue of ordinary shares on August 28, 2015 (Note 1.2(9))	42,580	43
Issue of ordinary shares on September 7, 2015 (Note 1.2(10))	540,379	540
Issue of ordinary shares on September 7, 2015 (Note (a))	<u>834,721</u>	<u>835</u>
At December 31, 2015 and 2016	<u>10,000,100</u>	<u>10,000</u>
Shares allotted for the share incentive scheme on May 27, 2017 (Note (b))	<u>1,111,122</u>	<u>1,111</u>
At June 30, 2017	<u><u>11,111,222</u></u>	<u><u>11,111</u></u>

- (a) On September 7, 2015, a share split with percentage of 109.107% was adopted by the Company. As a result, the Company issued of 696,434 shares to LYF, 62,841 shares to HDQ, 62,841 shares to LXT, 7,543 shares to Ace Million and 5,062 shares to Azure Rolle, respectively. After the share split, Mr. Huang Guozhan (“LXT”) and Mr. Huang Deqiang (“HDQ”) transferred 25,541 shares each of the Company owned by them respectively and directly to Mr. Lu Yuanfeng (“LYF”) at nil consideration in return of his past service to the Group (Note 16).
- (b) According to the written resolutions of all the members of the Company dated November 2, 2015, an aggregate of 1,111,122 ordinary shares shall be authorized and reserved for the issuance to the employees, directors and other person of the Group pursuant to the share incentive scheme (the “Share Option Scheme”) to be adopted by the Company. The Company has appointed Core Trust Company Limited as the trustee to assist with the administration and vesting of options granted pursuant to the Share Option Scheme. On May 27, 2017, the Company has allotted and issued a total of 1,111,122 shares to Epic City Limited (“Share Scheme Trust”), a wholly-owned subsidiary of Core Trust Company Limited, which are or will be used to satisfy the options upon exercise. The shares held by Share Scheme Trust are presented as a deduction in equity as shares held for the Share Option Scheme. As at June 30, 2017, no options have been granted to the employees of the Group.

16 Share-based Compensation

Share-based Award to Mr. Lu Yuanfeng

On September 7, 2015, Mr. Huang Deqiang (“HDQ”) and Mr. Huang Guozhan (“LXT”) agreed to award 25,541 shares each of the Company owned by them respectively to Mr. Lu Yuanfeng (“LYF”), who is the chairman and chief executive officer of the Group, whose main responsibilities include developing and implementing high-level strategies, making major corporate decisions, managing the overall operations and resources of the Group, at no consideration for his past contributions made to the Group. As there was no future service conditions attached to the award, the share-based awards were vested immediately.

The share award expenses related to Mr. Lu Yuanfeng were accounted for as an employee benefits expense according to his capacities. The fair value of the share-based awards amounting to USD612,443 was charged to profit or loss for the year ended December 31, 2015. The fair value of awarded shares were calculated based on the Company’s share price at the grant date. The Company adopted discounted cash flow method in determining the Group’s valuation and the key assumption on valuation at the grant date includes the discount rates of 15.72% and projections of future performance.

17 Reserves

	Share premium	Share- based payment reserves	Statutory reserves	Currency translation difference	Other reserves	Total
	USD	USD	USD	USD	USD	USD
Group			(Note a)			
Balance at January 1, 2014	–	–	40,710	13,342	76,898	130,950
Capital contribution from owners (Note b)	–	–	–	–	65,320	65,320
Transaction with non-controlling interests (Note b and Note c and Note d)	–	–	–	–	(90,825)	(90,825)
Currency translation differences	–	–	–	(74,388)	–	(74,388)
Balance at December 31, 2014	<u>–</u>	<u>–</u>	<u>40,710</u>	<u>(61,046)</u>	<u>51,393</u>	<u>31,057</u>
Consideration share premium (Note e)	455,249	–	–	–	–	455,249
Share-based payment (Note 16)	–	612,443	–	–	–	612,443
Capital contribution from owners (Note f)	–	–	–	–	283,500	283,500
Distribution to owners (Note g)	–	–	–	–	(528,437)	(528,437)
Transaction with non-controlling interests (Note h)	–	–	–	–	(548,788)	(548,788)
Appropriation to statutory reserves (Note a)	–	–	148,404	–	–	148,404
Currency translation differences	–	–	–	(331,027)	–	(331,027)
Balance at December 31, 2015	<u>455,249</u>	<u>612,443</u>	<u>189,114</u>	<u>(392,073)</u>	<u>(742,332)</u>	<u>122,401</u>

	Share premium	Share- based payment reserves	Statutory reserves	Currency translation difference	Other reserves	Total
	USD	USD	USD	USD	USD	USD
			(Note a)			
Appropriation to statutory reserves (Note a)	-	-	60,794	-	-	60,794
Currency translation differences	-	-	-	(577,510)	-	(577,510)
Balance at December 31, 2016	<u>455,249</u>	<u>612,443</u>	<u>249,908</u>	<u>(969,583)</u>	<u>(742,332)</u>	<u>(394,315)</u>
(Unaudited) Balance at January 1, 2016	455,249	612,443	189,114	(392,073)	(742,332)	122,401
Currency translation differences	-	-	-	(179,604)	-	(179,604)
Balance at June 30, 2016	<u>455,249</u>	<u>612,443</u>	<u>189,114</u>	<u>(571,677)</u>	<u>(742,332)</u>	<u>(57,203)</u>
Balance at January 1, 2017	455,249	612,443	249,908	(969,583)	(742,332)	(394,315)
Currency translation differences	-	-	-	387,339	-	387,339
Balance at June 30, 2017	<u>455,249</u>	<u>612,443</u>	<u>249,908</u>	<u>(582,244)</u>	<u>(742,332)</u>	<u>(6,976)</u>

	Accumulated losses	Share premium	Share-based payment reserves	Total reserves
	USD	USD	USD	USD
Company				
Balance at January 1, 2014	–	–	–	–
Losses for the year	(403,894)	–	–	–
Balance at December 31, 2014	<u>(403,894)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Balance at January 1, 2015				
Losses for the year	(1,777,673)	–	–	–
Consideration share premium (Note e)	–	455,249	–	455,249
Share-based payment (Note 16)	–	–	612,443	612,443
Balance at December 31, 2015	<u>(2,181,567)</u>	<u>455,249</u>	<u>612,443</u>	<u>1,067,692</u>
Balance at January 1, 2016				
Losses for the year	(722,698)	–	–	–
Balance at December 31, 2016	<u>(2,904,265)</u>	<u>455,249</u>	<u>612,443</u>	<u>1,067,692</u>
(Unaudited)				
Balance at January 1, 2016	(2,181,567)	455,249	612,443	1,067,692
Losses for the period	(645,726)	–	–	–
Balance at June 30, 2016	<u>(2,827,293)</u>	<u>455,249</u>	<u>612,443</u>	<u>1,067,692</u>
Balance at January 1, 2017	(2,904,265)	455,249	612,443	1,067,692
Losses for the period	(889,574)	–	–	–
Balance at June 30, 2017	<u>(3,793,839)</u>	<u>455,249</u>	<u>612,443</u>	<u>1,067,692</u>

- (a) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of subsidiaries located in mainland China, it is required to appropriate 10% of the annual statutory net profits after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.
- (b) On January 1, 2014, Zhang Ying Kong was owned as to 70%, 15% and 15% by Mr. Lu Yuanfeng, Mr. Luo Weiyuan and Mr. Cai Feng, respectively. On November 29, 2014, Mr. Lu Yuanfeng, Mr. Luo Weiyuan and Mr. Cai Feng made additional capital contributions of the amount of RMB400,000 (equivalent to USD65,320), RMB25,000 (equivalent to USD4,083) and RMB75,000 (equivalent to USD12,248) to Zhang Ying Kong, respectively. As a result, Zhang Ying Kong was owned as to 75%, 10% and 15% by Mr. Lu Yuanfeng, Mr. Luo Weiyuan and Mr. Cai Feng, respectively. As Zhang Ying Kong had accumulated losses at the transaction date, the Group recognised an increase of non-controlling interests and a decrease in the equity attributable to owners of the Company of USD122,965 for the acquisition of 5% equity interest in Zhang Ying Kong.

- (c) On January 1, 2014, Angame was owned as to 70%, 15% and 15% by Mr. Lu Yuanfeng, Mr. Luo Weiyuan and Mr. Cai Feng, respectively. On September 25, 2014, Mr. Luo Weiyuan transferred his 5 ordinary shares of Angame to Mr. Lu Yuanfeng at a consideration of USD1. After the acquisition, Angame was owned as to 75%, 10% and 15% by Mr. Lu Yuanfeng, Mr. Luo Weiyuan and Mr. Cai Feng, respectively. The Group recognised a decrease of non-controlling interests and an increase in the equity attributable to owners of the Company of USD743.
- (d) On March 18, 2014 and July 24, 2014, Mr. Chen Yangzhao and Mr. Guo Fuling transferred their 10% equity share of N2PG to PCL at a consideration of USD886, respectively. After the acquisition, N2PG was 100% owned by PCL. The Group recognised a decrease of non-controlling interests and an increase in the equity attributable to owners of the Company of USD31,397.
- (e) Share premium was the difference between the par value of the Company's shares and the fair value of Angame when the Company acquired Angame, please refer to Note 15, Note 1.2(10) for details of the acquisitions of Angame.
- (f) The amount represented the capital contribution from owners when incorporating Beijing You Tang, please refer to Note 1.2(6) for details.
- (g) The amount represented the distribution to owners to acquire other companies during the Reorganisation, please refer to Note 1.2(7), Note 1.2(8), Note 1.2(9), Note 1.2(10) and Note 1.2(12) for details of the acquisition of Guangzhou Suiyue Niandai, Zhang Ying Kong, PCL, Angame and Beijing You Tang, respectively.
- (h) Please refer to Note 1.2(8) and Note 1.2(10) for details of the transactions with non-controlling interests of Zhang Ying Kong and Angame occurred in 2015. The Group recognised an increase of non-controlling interests and a decrease in the equity attributable to owners of the Company of USD548,788 as Zhang Ying Kong had accumulated losses at the transaction date.

18 Trade payables

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	USD
Related parties (<i>Note 30(d)</i>)	175,018	5,012,089	4,711,375	4,253,851
Third Parties	5,556,789	824,920	1,536,803	1,531,091
	<u>5,731,807</u>	<u>5,837,009</u>	<u>6,248,178</u>	<u>5,784,942</u>

Trade payables primarily related to the revenue sharing collected by payment channels and Platforms which is payable to cooperated game developers according to respective cooperation agreements. The credit terms of trade payables granted by the vendors are usually 30 to 90 days.

The aging analysis of trade payables based on invoice date is as follows:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
0-90 days	3,862,575	2,609,266	1,882,301	1,812,262
91-180 days	1,866,466	2,748,132	1,848,766	1,220,708
180-360 days	2,766	424,513	1,392,100	1,474,449
Over 360 days	–	55,098	1,125,011	1,277,523
	<u>5,731,807</u>	<u>5,837,009</u>	<u>6,248,178</u>	<u>5,784,942</u>

The carrying amount of the Group's trade payables are denominated in the following currencies:

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
USD	5,675,422	5,242,511	4,998,024	4,912,256
RMB	56,385	594,498	1,250,154	872,686
	<u>5,731,807</u>	<u>5,837,009</u>	<u>6,248,178</u>	<u>5,784,942</u>

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the fair value of trade payables approximated their carrying amounts.

19 Other payables and accruals

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	USD	USD	USD	USD
Group				
Other taxes payable	1,701,395	1,929,292	300,183	348,356
Salary and staff welfare payables	1,112,824	1,424,915	1,072,653	719,561
Listing expenses payable	288,319	814,024	664,195	755,879
Accrued professional service fees	119,616	239,232	284,119	12,075
Advertising payables	607,439	253,884	200,209	251,636
Amounts due to related parties (Note 30(e))	–	90,801	420,642	62,059
Rent payable	34,023	70,779	84,310	80,704
Others	56,217	209,222	167,140	180,090
	<u>3,919,833</u>	<u>5,032,149</u>	<u>3,193,451</u>	<u>2,410,360</u>

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
Company				
Listing expenses payable	288,319	814,024	664,195	755,879
Accrued professional service fees	119,615	239,188	284,075	6,375
	407,934	1,053,212	948,270	762,254

The carrying amount of the Group's other payables and accruals are denominated in the following currencies:

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
Group				
USD	2,709,139	3,212,191	1,364,702	1,288,967
RMB	1,210,694	1,819,958	1,828,749	1,121,393
	3,919,833	5,032,149	3,193,451	2,410,360
Company				
USD	407,934	1,053,212	948,270	762,254

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the fair value of other payables approximated their carrying amounts.

20 Deferred revenue

Deferred revenue represented service fees prepaid by the game players for the Group's online games in the forms of Game Tokens, virtual items and advance sublicense fee from Platforms for subcontracted games, for which the related services had not been rendered as at December 31, 2014, 2015 and 2016 and June 30, 2017.

21 Other gains/(losses), net

	Year ended December 31,			Six months ended	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
Other gains					
Interest received from short term investments	1,988	–	–	–	–
Foreign exchange gain, net	216,528	749,672	969,563	318,648	–
Others	–	10,989	7,766	7,116	5,072
	218,516	760,661	977,329	325,764	5,072

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Other losses					
Foreign exchange losses, net	–	–	–	–	(416,399)
Others	(25,586)	(47,943)	(832)	–	(45)
	(25,586)	(47,943)	(832)	–	(416,444)
Other gains/(losses), net	192,930	712,718	976,497	325,764	(411,372)

22 Expenses by nature

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analysed as follow:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Commission charges by					
Platforms and third party					
payment vendors	1,092,681	6,486,965	9,576,690	4,757,696	5,195,320
Advertising expenses	6,162,585	5,410,920	1,908,638	1,088,758	871,830
Employee benefits					
expenses (Note (23))	2,478,542	4,373,486	3,800,245	1,986,571	1,357,662
Servers rental expenses	1,446,161	1,371,789	1,409,908	720,290	713,027
Royalty fees	68,172	1,071,988	1,230,100	609,373	126,809
Depreciation and					
amortisation	126,284	1,144,630	786,066	515,472	148,719
Listing expenses	284,278	1,033,675	625,867	581,098	854,476
Other professional service					
fees	230,485	206,762	183,248	101,951	64,428
Office rental expenses	169,828	415,136	348,254	176,861	170,757
Impairment charges on					
trade receivables	368,491	195,367	677,073	1,280,396	350,174
Office charges	162,114	156,991	42,654	8,484	40,384
Outsourcing research and					
development expenses	878,638	98,596	3,375	302	11,662
Travelling and					
entertainment expenses	84,878	88,078	14,719	1,378	22,196
Tax surcharges	4,336	18,439	25,116	18,949	19,399
Other expenses	264,302	168,769	147,642	61,288	78,399
	13,821,775	22,241,591	20,779,595	11,908,867	10,025,242

23 Employee benefits expenses

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Wages and salaries	1,938,397	3,065,772	3,201,027	1,660,227	1,236,890
Share based payment (Note 16)	–	612,443	–	–	–
Pension costs – defined contribution plans (Note a)	253,674	320,109	283,485	151,246	62,804
Other social security costs, housing benefits and other employee benefits	286,471	375,162	315,733	175,098	57,968
	<u>2,478,542</u>	<u>4,373,486</u>	<u>3,800,245</u>	<u>1,986,571</u>	<u>1,357,662</u>

(a) Pension costs — defined contribution plans

Employees of the Group's companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on a fixed percentage of 14% of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 include 1, 2, 2 and 2, 2 directors whose emoluments are reflected in the analysis shown in Note 33, respectively. The emoluments payable to the remaining 4, 3, 3 and 3, 3 individuals for each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 are as follows:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Wages and salaries	114,534	113,862	161,442	81,931	80,666
Pension costs – defined contribution plans	16,035	9,622	11,944	5,760	6,094
Other social security costs, housing benefits and other employee benefits	18,108	13,505	17,303	8,805	8,122
	<u>148,677</u>	<u>136,989</u>	<u>190,689</u>	<u>96,496</u>	<u>94,882</u>

The emoluments fell within the following bands:

	Number of individuals			Number of individuals	
	Year ended December 31,			Six months ended	
	2014	2015	2016	2016	2017
				(Unaudited)	
Emolument band					
Nil – HK\$1,000,000	4	3	3	3	3

During the Track Record Period, neither directors nor the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

24 Finance income/(costs) — net

	Year ended December 31,			Six months ended	
	2014			June 30,	
	2014	2015	2016	2016	2017
				(Unaudited)	
	USD	USD	USD	USD	USD
Finance income					
Interest income	1,982	1,818	2,501	1,838	1,900
Foreign exchange gains, net	—	—	—	—	12,572
	1,982	1,818	2,501	1,838	14,472
Finance costs					
Foreign exchange losses, net	(1,728)	(68)	(56,277)	(13,938)	—
Finance income/(costs) – net	254	1,750	(53,776)	(12,100)	14,472

25 Income tax expense

The income tax expense of the Group for each of the years ended December 31, 2014, 2015 and 2016 and six months ended June 30, 2016 and 2017 is analysed as follows:

	Year ended December 31,			Six months ended	
	2014			June 30,	
	2014	2015	2016	2016	2017
				(Unaudited)	
	USD	USD	USD	USD	USD
Current income tax	2,076,667	1,973,767	1,692,580	701,317	1,207,997
Deferred tax (<i>Note 11</i>)	4,909	(43,064)	(79,961)	(91,801)	(123,899)
	2,081,576	1,930,703	1,612,619	609,516	1,084,098

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) British Virgin Islands income tax

Pursuant to the rules and regulations of the BVI, the company incorporated in BVI are not subject to any income tax.

(c) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for each of the years ended December 31, 2014, 2015 and 2016 and six months ended June 30, 2017.

(d) The PRC Corporate Income Tax ("CIT")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

(e) The PRC withholding tax ("WHT")

According to the applicable the 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%.

During the Track Record Period, the Group does not have any plan to require it's the PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period.

(f) The Vietnam WHT

The Group have subcontracted game to a platform operating in Vietnam. According to the applicable the Vietnam tax regulations, royalty fee generated from Vietnam are subject to a 10% WHT.

The tax on the Group's profit before tax differ from the theoretical amount that would arise using the statutory tax rate in the PRC of 25% as follows:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
	(Unaudited)				
Profit before income tax	9,147,103	6,480,907	8,552,146	3,063,653	3,352,986
Tax calculated at a tax rate of 25%	2,286,776	1,620,227	2,138,037	765,913	838,247
Effect of different tax rates available to different subsidiaries of the Group	(287,812)	(105,916)	(746,350)	(306,405)	(24,553)
WHT	–	67,250	111,907	34,252	81,919
Expenses not deductible for tax purposes	82,612	349,142	109,025	115,756	188,485
Income tax expense	<u>2,081,576</u>	<u>1,930,703</u>	<u>1,612,619</u>	<u>609,516</u>	<u>1,084,098</u>

26 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue less shares held for the Share Option Scheme during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
				(Unaudited)	
Profit attributable to owners of the Company (USD)	7,502,481	4,473,988	6,939,527	2,454,137	2,268,888
Weighted average number of ordinary shares in issue less shares held for the Share Option Scheme (Note a and b)	10,000,100	10,000,100	10,000,100	10,000,100	10,000,100
– Basic earnings per share(in USD/share)	0.75	0.45	0.69	0.25	0.23
– Diluted earnings per share(in USD/share) (Note c)	0.75	0.45	0.69	0.25	0.23

- (a) In determining the weighted average number of ordinary shares in issue: the 582,959 ordinary shares of the Company issued during the Reorganisation(Note 1.2(9), Note 1.2(10)) and the share split on September 7, 2015 were treated as if they had been in issue since 1 January, 2014.
- (b) The earnings per share is based on that 10,000,100 shares were weighted average number of ordinary shares in issue excluding the 1,111,122 shares held for the Share Option Scheme, without taking into account of the proposed capitalisation issue of 1,488,888,778 shares pursuant to the written resolution passed by the shareholders on November 24, 2017 as the capitalisation issue will not become effective until the Listing, or any shares which may be issued upon the exercise of the Over-allotment Option, or any shares which may be granted and issued by the Company pursuant to the Share Option Scheme.
- (c) No options have been granted to the employees of the Group as at June 30, 2017. No adjustment has been made to basic earnings per share to derive the diluted earnings per share for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 as the Company did not have any potential ordinary shares outstanding as at December 31, 2014, 2015 and 2016 and June 30, 2016 and 2017.

27 Dividends

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
				(Unaudited)	
	USD	USD	USD	USD	USD
Special dividends	–	12,138,000	–	–	–

Pursuant to the resolution of the shareholders' meeting held on August 27, 2015, special dividends amounted to USD10,195,920, USD971,040 and USD971,040 were declared to LYF, HDQ and LXT by one subsidiary of the Group before the Reorganisation.

During the Track Record Period, no dividends have been paid by the Company.

28 Cash generated from operations

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD (Unaudited)	USD
Profit before income tax	9,147,103	6,480,907	8,552,146	3,063,653	3,352,986
Adjustments for:					
– Impairment charges on trade receivables (Note 22)	368,491	195,367	677,073	1,280,396	350,174
– Depreciation of property, plant and equipment (Note 6)	47,253	132,511	168,921	86,255	80,965
– Amortisation of intangible assets (Note 7)	79,031	1,012,119	617,145	429,217	67,754
– Share-based compensation expenses (Note 16)	–	612,443	–	–	–
– Share of losses of investment accounted for using the equity method (Note 10)	–	–	36,666	–	54,603
– Interest received from short term investments (Note 21)	(1,988)	–	–	–	–
– Foreign exchange (gains)/losses, net	(230,281)	(845,985)	(904,088)	(363,272)	287,550
	<u>9,409,609</u>	<u>7,587,362</u>	<u>9,147,863</u>	<u>4,496,249</u>	<u>4,194,032</u>
Changes in operating assets and liabilities					
– Trade receivables	(1,471,212)	258,457	1,015,224	(191,293)	(878,454)
– Prepayments and other receivables	(2,445,735)	(6,507,744)	(4,302,141)	(1,889,219)	906,335
– Trade payables	(182,721)	49,539	413,185	2,023,135	(734,244)
– Other payables and accruals	860,223	588,911	(1,788,646)	67,749	(819,093)
– Deferred revenue	1,222,740	(786,246)	(74,284)	5,618	(100,074)
– Advance from customers	85,116	183,466	381,852	(101,428)	(21,521)
	<u>7,478,020</u>	<u>1,373,745</u>	<u>4,793,053</u>	<u>4,410,811</u>	<u>2,546,981</u>
Cash generated from operations	<u>7,478,020</u>	<u>1,373,745</u>	<u>4,793,053</u>	<u>4,410,811</u>	<u>2,546,981</u>

During the Track Record Period, the changes in liabilities arising from financing activities only included changes arising from cash flows of shareholder's borrowings.

29 Significant non-cash transactions

Pursuant to the offset agreement between Mr. Lu Yuanfeng and the Group dated on December 26, 2015, special dividend payable amounted to USD4,328,330 to LYF as well as distributions to Mr. Lu Yuanfeng (Note 1.2(8) and Note 1.2(12)) amounted to USD 304,834 was offset against the amount due from Mr. Lu Yuanfeng as at December 31, 2015.

30 Significant related party transactions

(a) Names and relationships with related parties

The following companies and individuals were related parties of the Group that had transactions and/or balances with the Group during the Track Record Period:

Name of related party	Relationship with the Group
Mr. Lu Yuanfeng	One of the Controlling Shareholders
Mr. Huang Guozhan	One of the Controlling Shareholders
Mr. Huang Deqiang	One of the Controlling Shareholders
Mr. Cai Feng	Non-controlling interest shareholder before the Reorganisation
Mr. Luo Weiyuan	Non-controlling interest shareholder before the Reorganisation
Mr. Yu Ching Ming	Non-controlling interest shareholder before the Reorganisation
Guangzhou Lanquan Information Technology Co., Ltd. ("Guangzhou Lanquan")	An entity controlled by Mr. Lu Yuanfeng, one of the Controlling Shareholders
Guangzhou Hongquan Information Technology Co., Ltd. ("Guangzhou Hongquan")	An entity controlled by Mr. Lu Yuanfeng, one of the Controlling Shareholders
Guangzhou Lanse Dongli Digital Technology Co., Ltd. ("Guangzhou Lanse Dongli")	An entity was held 17% by Mr. Lu Yuanfeng, one of the Controlling Shareholders
Anhui Tips Information Technology Co., Ltd. ("Anhui Tips")	An entity was held 15.6% by Mr. Lu Yuanfeng, one of the Controlling Shareholders
Shenzhen 7th Road	Parent company of 7 Road International Group Limited, one of the shareholders which has 23% equity of the Company with significant influence since November 2, 2015
Shanghai Jiying	Associate of the Group

(b) Significant transaction with related parties

The following significant transactions were carried out between the Group and its related parties during the Track Record Period. 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. During the Track Record Period, the following transactions were carried out with related parties:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
				(Unaudited)	
Continuing transactions					
License fees and royalty fees charged by related parties:					
– Shenzhen 7th Road	–	205,428	1,213,779	602,548	78,388
– Anhui Tips	17,708	25,000	42,969	21,484	14,323
	<u>17,708</u>	<u>230,428</u>	<u>1,256,748</u>	<u>624,032</u>	<u>92,711</u>
Royalty fees offset against revenue:					
– Shenzhen 7th Road	–	1,226,158	5,691,860	3,217,340	1,907,278
– Anhui Tips	256,319	75,417	–	–	–
– Guangzhou Lanquan	37,630	23,265	8,666	6,046	159
	<u>293,949</u>	<u>1,324,840</u>	<u>5,700,526</u>	<u>3,223,386</u>	<u>1,907,437</u>

The transactions of royalty fees charged by related parties amounted to USD293,949, USD1,324,840, USD5,700,526, USD3,223,386 and USD1,907,437 were deducted from revenue according to revenue recognition (Note 2.22) for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively.

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
Discontinuing transactions					
Outsourcing research and development expenses:					
– Guangzhou Lanquan	81,138	–	–	–	–
– Guangzhou Hongquan	146,048	–	–	–	–
	<u>227,186</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Borrowings proceeded from and repaid to shareholder:					
– Mr. Lu Yuanfeng	<u>3,470,744</u>	<u>1,288,216</u>	<u>2,146</u>	<u>–</u>	<u>–</u>

The borrowings with shareholder were unsecured, interest-free.

(c) *Key management personnel compensations*

The compensations paid or payable to key management personnel (including directors, CEO and other senior executives) for employee services are shown below:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	USD	USD	USD	USD	USD
Wages and salaries	66,218	165,019	195,933	101,309	97,101
Pension costs – defined contribution plans	9,271	13,957	15,577	7,680	8,125
Other social security costs, housing benefits and other employee benefits	10,469	19,503	23,044	11,958	11,038
	<u>85,958</u>	<u>198,479</u>	<u>234,554</u>	<u>120,947</u>	<u>116,264</u>

(d) Year-end balances arising from significant transaction with related parties

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
				USD
Trade payables to related parties (<i>Note 18</i>):				
– Shenzhen 7th Road	–	4,951,194	4,641,815	4,184,132
– Guangzhou Lanquan	37,630	60,895	69,560	69,719
– Anhui Tips	137,388	–	–	–
	<u>175,018</u>	<u>5,012,089</u>	<u>4,711,375</u>	<u>4,253,851</u>

The balance represented the payable due to revenue sharing between the Group and related parties for games licensed by related parties.

Balances with related parties were unsecured, interest-free and repayable according to agreed credit term.

(e) Year-end balances arising from operations and capital contributions/distributions

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
				USD
Amount due from related parties (<i>Note 13</i>):				
Non-trade				
– Guangzhou Lanse Dongli (<i>Note i</i>)	113,804	108,788	101,725	104,197
– Guangzhou Hongquan (<i>Note i</i>)	–	–	31,176	31,934
– Shanghai Jiying (<i>Note i</i>)	–	–	–	2,729
– Mr. Lu Yuanfeng (<i>Note ii</i>)	1,988,308	–	2,373,314	–
– Mr. Huang Guozhan	687	–	–	–
– Mr. Huang Deqiang	687	–	–	–
– Mr. Cai Feng	10	–	–	–
– Mr. Luo Weiyuan	15	–	–	–
	<u>2,103,511</u>	<u>108,788</u>	<u>2,506,215</u>	<u>138,860</u>

(i) The balance mainly represented expenditures paid on behalf of related parties by the Group.

(ii) These balance due from shareholder arose from operational activities for the years ended December 31, 2014 and 2016. The balance as at December 31, 2015 was fully offset against the dividend payable to LYF (*Note 29*).

The amounts due from the related parties were unsecured, interest-free and repayable on demand. All non-trading balances have been fully settled as at the date of this report.

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
				USD
Amount due to related parties (Note 19):				
Trade				
– Guangzhou Lanquan	–	–	14,400	14,793
Non-trade				
– Mr. Yu Ching Ming (Note i)	–	31,440	31,440	31,440
– Guangzhou Hongquan	–	–	427	1,100
– Shanghai Jiying (Note ii)	–	–	360,000	–
– Mr. Huang Deqiang	–	21,993	–	–
– Mr. Huang Guozhan	–	21,993	–	–
– Mr. Cai Feng (Note i)	–	11,535	10,785	11,048
– Mr. Luo Weiyuan (Note i)	–	3,840	3,590	3,678
	–	90,801	406,242	47,266
	–	90,801	420,642	62,059

- (i) The balance mainly represented the unsettled capital distribution payables to related parties. Details please refer to Note 1.2(8) and Note 1.2(12).
- (ii) This amount as at December 31, 2016 represented the consideration payable to Shanghai Jiying for equity investment.

The amounts due from the related parties were unsecured, interest-free and repayable on demand. All non-trading balances have been fully settled as at the date of this report.

(f) *Dividend payable to the Owners*

Group

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
				USD
Dividend payable to the owners:				
– Mr. Lu Yuanfeng	–	5,867,590	–	–
– Mr. Huang Deqiang	–	971,040	–	–
– Mr. Huang Guozhan	–	971,040	–	–
	–	7,809,670	–	–

Pursuant to the resolution of the shareholders' meeting held on August 27, 2015, special dividends amounted to USD10,195,920, USD971,040 and USD971,040 were declared to LYF, HDQ and LXT by one subsidiary of the Group. Special dividend payable to Mr. Lu Yuanfeng was paid in cash or offset the amount due from Mr. Lu Yuanfeng. Pursuant to the offset agreements (Note 29), the dividend payable to LYF as at December 31, 2015 after offset the amount due from Mr. Lu Yuanfeng were USD5,867,590.

31 Commitments*(a) Capital commitments*

The Group's capital expenditure contracted for at the end of the year/period but not yet incurred is as follows:

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
Not later than 1 year	449,211	–	–	–

(b) Operating lease commitments

The Group leases office buildings under non-cancellable operating lease agreements. The lease terms are between 4 years to 5 years.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,			As at
	2014	2015	2016	June 30,
	USD	USD	USD	2017
Not later than 1 year	361,533	355,222	337,467	393,133
Later than 1 year and not later than 2 years	370,078	358,737	323,126	334,433
Later than 2 year and not later than 3 years	374,297	345,356	293,502	128,504
Later than 3 year and not later than 5 years	690,922	314,609	792	–
	<u>1,796,830</u>	<u>1,373,924</u>	<u>954,887</u>	<u>856,070</u>

32 Contingent liabilities

There were no significant contingent liabilities as at December 31, 2014, 2015 and 2016 and June 30, 2017.

33 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The remuneration of every director and chief executives for the year ended December 31, 2014 is set out below:

Name	Salaries (i)	Other social security costs, housing benefits and other employee benefits	Pension cost-defined contribution plans	Total
	USD	USD	USD	USD
Executive directors				
Mr. Lu Yuanfeng (Note ii)	5,518	872	773	7,163

The remuneration of every director and chief executive for the year ended December 31, 2015 is set out below:

Name	Salaries (i)	Other social security costs, housing benefits and other employee benefits	Pension cost-defined contribution plans	Total
	USD	USD	USD	USD
Executive directors				
Mr. Lu Yuanfeng (Note ii)	50,596	5,921	4,268	60,785
Mr. Huang Guozhan (Note iii)	12,889	1,055	666	14,610
Non-executive Director				
Mr. Meng Shuqi (Note iv)	–	–	–	–
	63,485	6,976	4,934	75,395

The remuneration of every director and chief executive for the year ended December 31, 2016 is set out below:

Name	Salaries (i)	Other social security costs, housing benefits and other employee benefits	Pension cost-defined contribution plans	Total
	USD	USD	USD	USD
Executive directors				
Mr. Lu Yuanfeng (Note ii)	56,110	6,187	3,981	66,278
Mr. Huang Guozhan (Note iii)	48,984	5,826	3,981	58,791
Non-executive Director				
Mr. Meng Shuqi (Note iv)	—	—	—	—
	<u>105,094</u>	<u>12,013</u>	<u>7,962</u>	<u>125,069</u>

The remuneration of every director and chief executive for the six months ended June 30, 2016 is set out below:

Name	Salaries (i)	Other social security costs, housing benefits and other employee benefits	Pension cost-defined contribution plans	Total
	USD	USD	USD	USD
Executive directors				
Mr. Lu Yuanfeng (Note ii)	28,431	3,148	1,920	33,499
Mr. Huang Guozhan (Note iii)	24,854	2,964	1,920	29,738
Non-executive Director				
Mr. Meng Shuqi (Note iv)	—	—	—	—
	<u>53,285</u>	<u>6,112</u>	<u>3,840</u>	<u>63,237</u>

The remuneration of every director and chief executive for the six months ended June 30, 2017 is set out below:

Name	Salaries (i)	Other social security costs, housing benefits and other employee benefits	Pension cost-defined contribution plans	Total
	USD	USD	USD	USD
Executive directors				
Mr. Lu Yuanfeng (Note ii)	27,304	2,911	2,031	32,246
Mr. Huang Guozhan (Note iii)	23,803	2,736	2,031	28,570
Mr. Huang Deqiang (Note v)	–	–	–	–
Non-executive Director				
Mr. Meng Shuqi (Note iv)	–	–	–	–
	51,107	5,647	4,062	60,816
	51,107	5,647	4,062	60,816

Notes:

- (i) Salary paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiary undertakings.
- (ii) Mr. Lu Yuanfeng was appointed as director and re-designated as executive director as well as chief executives of the Company and chairman of the Board on November 24, 2014.
- (iii) Mr. Huang Guozhan was appointed as director and re-designated as executive director of the Company on November 2, 2015.
- (iv) Mr. Meng Shuqi was appointed as director and re-designated as the non-executive director of the Company on November 2, 2015.
- (v) Mr. Huang Deqiang was appointed as director and re-designated as executive director of the Company on June 28, 2017.

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, no directors waived or agreed to waive any emoluments.

Directors' emoluments during the years ended December 31, 2014, 2015 and 2016 are set out below:

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertaking	Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking			Total 2014	Total 2015	Total 2016	Total 2016
	2014	2015	2016				
	USD	USD	USD	USD	USD	USD	USD
	-	-	-	7,163	75,395	125,069	75,395
							125,069

Directors' emoluments during the six months ended June 30, 2016 and 2017 are set out below:

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertaking	Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking			Total Six months ended June 30, 2016	Total Six months ended June 30, 2017
	Six months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2017		
	USD (Unaudited)	USD (Unaudited)	USD (Unaudited)	USD (Unaudited)	USD
	-	-	63,237	63,237	60,816
					60,816

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

(c) Directors' termination benefits

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(d) Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services subsisted at the end of or at any time during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of or at any time during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

(f) Directors' material interests in transactions, arrangements or contracts

No other 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 or at any time during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, except for the transactions disclosed in Note 30.

34 Subsequent events

- (a) By a shareholders' resolution dated November 24, 2017 and conditional on the share premium account of the Company being credited as a result of issue of new shares pursuant to the proposed offering of the Company's shares, the Company will issue additional 1,488,888,778 shares, credited as fully paid, to the existing shareholders of the Company.

III. 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 June 30, 2017 and up to the date of this report. Saved as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the other companies now comprising the Group in respect of any period subsequent to June 30, 2017.

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 to this prospectus, and is included herein for information 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 CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the owners of the Company as at June 30, 2017 as if Global Offering had taken place on June 30, 2017.

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at June 30, 2017 or at any future date.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2017	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per share	Unaudited pro forma adjusted consolidated net tangible assets per share
	US\$ (Note 1)	US\$ (Note 2)	US\$	US\$ (Note 3)	HK\$ (Note 4)
Based on an offer price of HK\$0.63 per Share	12,972,946	33,663,717	46,636,663	0.03	0.20
Based on an offer price of HK\$0.85 per Share	12,972,946	47,912,562	60,885,508	0.03	0.26

1. The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2017 is extracted from the financial information contained in the Accountant's Report set out in Appendix I to this prospectus which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at June 30, 2017 of US\$13,447,718 less intangible assets of USD\$474,772.
2. The estimated net proceeds from the Global Offering are based on the offering price of HK\$0.63 and HK\$0.85 per Share respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses payable by the Group (excluding approximately US\$2,798,296 listing-related expenses which have been accounted for in the consolidated statement of comprehensive income up to June 30, 2017) but takes no accounts of any Shares which may be issued upon the exercise of the Over-allotment Option or any shares which may be granted and issued by the Company pursuant to the Share Option Scheme.
3. The unaudited pro forma adjusted consolidated net tangible assets per share is arrived at after the adjustments as described in note 2 above and is based on that 1,850,000,000 shares were in issue immediately prior to the Listing excluding the 150,000,000 shares held for the Share Option Scheme (assuming that the Global Offering had been completed on June 30, 2017), without taking into 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 by the Company pursuant to the Share Option Scheme.
4. For the purpose of this unaudited pro forma adjusted consolidated net tangible assets per share, the amounts stated in US dollars are converted into Hong Kong dollar at a rate of US\$1.00 to HK\$7.8087. No representation is made that US dollars has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Digital Hollywood Interactive Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Digital Hollywood Interactive Limited (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 June 30, 2017, 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 December 5, 2017, 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 June 30, 2017 as if the proposed initial public offering had taken place at June 30, 2017. 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 June 30, 2017, 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").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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.

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 June 30, 2017 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

December 5, 2017

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 24, 2014 under the Companies Law. Our Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on November 24, 2017 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of our Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the

necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

Our Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of our Company.

(v) Power of our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by Stock Exchange.

Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to 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 board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors*(i) Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to

retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to our Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or

other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if our Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or 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 his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and our Company's name

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a 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 representative(s) at any meeting of our Company or at any 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 deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

Our Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting, particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address by advertisement in newspapers in accordance with the requirements of the Stock Exchange or placing it on the Company's website or the website of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorized by the board or our Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarized financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarized financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution. Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if our Company is wound up and 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 *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, our Company's 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 amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so 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 and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder

petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from July 19, 2017.

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 for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

Our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or

where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

We were incorporated in the Cayman Islands under the Cayman Companies Law as exempted company with limited liability on November 24, 2014. We have established a principal place of business in Hong Kong at 11th Floor, No. 784 Nathan Road, Kowloon and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 14, 2017 under the same address. Hollywood HK has been appointed as our agent for the acceptance of service of process and notices on our behalf in Hong Kong.

As we were incorporated in the Cayman Islands, our operations are subject to the Cayman Companies Law and to our constitution comprising our Memorandum and the Articles of Association. A summary of certain provisions of our constitution and relevant aspects of the Cayman Companies Law is set out in Appendix III to this prospectus.

2. Changes in Our Share Capital

Our authorized share capital as of the date of our incorporation is US\$50,000 divided into 50,000,000 Shares of US\$0.001 each, which was increased to US\$4,000,000 divided into 4,000,000,000 Shares of US\$0.001 each on November 24, 2017 pursuant to the resolutions in writing of our Shareholders passed on November 24, 2017. The following sets out the changes in our Company's share capital within the two years immediately preceding the issue of this prospectus:

On November 24, 2014, one subscriber Share was issued at a par value to Maricorp Services Ltd., which transferred such share on the same day to LYF Digital Holdings Limited. On the same day, 7,209,239, 686,590 and 686,590 Shares were issued to LYF Digital Holdings Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited, respectively, at par value of US\$0.001 each.

On August 28, 2015, 35,760, 3,410 and 3,410 Shares were issued to LYF Digital Holdings Limited, HDQ Digital Holdings Limited and LXT Digital Holdings Limited, respectively, at par value of US\$0.001 each.

On September 7, 2015, 405,284, 81,057 and 54,038 Shares were issued to LYF Digital Holdings Limited, ACE MILLION Inc. and Azure Rolle Limited, respectively, at par value of US\$0.001 each. On the same day, we further issued 747,516, 37,300, 37,300, 7,543 and 5,062 Shares to LYF Digital Holdings Limited, LXT Digital Holdings Limited, HDQ Digital Holdings Limited, ACE MILLION Inc. and Azure Rolle Limited, respectively, at par value of US\$0.001 each.

Immediately following the completion of the Global Offering (but not taking into account any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), our issued share capital will be US\$2,000,000 divided into 2,000,000,000 Shares of US\$0.001 each, all fully paid or credited as fully paid.

Save as disclosed above and as mentioned in the paragraph headed "4. Resolutions in Writing of Our Shareholders Passed on November 24, 2017" below, there has been no alteration in our share capital within the two years immediately preceding the date of this prospectus.

3. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are set out in the Accountant's Report set out in Appendix I to this prospectus. The following alterations in the share capital or registered capital (as the case may be) of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

Beijing You Lai Information Technology Company Limited

On August 1, 2015, the registered capital of Beijing You Lai Information Technology Company Limited was increased from RMB1.0 million to RMB1.25 million.

Beijing You Tang Information Technology Company Limited

On September 15, 2015, the registered capital of Beijing You Tang Information Technology Company Limited was increased from RMB1.8 million to RMB2.0 million.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within two years immediately preceding the date of this prospectus.

4. Resolutions in Writing of Our Shareholders Passed on November 24, 2017

Pursuant to the written shareholders' resolutions of our Company passed on November 24, 2017, among other things:

- (a) the Memorandum was approved and adopted with immediate effect and the Articles of Association were conditionally approved and adopted with effect from the Listing Date;
- (b) the authorized share capital of our Company was increased from US\$50,000 divided into 50,000,000 shares of par value of US\$0.001 each to US\$4,000,000 divided into 4,000,000,000 shares of par value of US\$0.001 each;
- (c) conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 1,488,888,778 Shares, credited as fully paid at par, to the Shareholder(s) whose name(s) appear(s) on the register of members of our Company as at the date of close of business on one Business Day prior to the Listing Date (the "Record Date") (or to such other person(s) as each of them may direct) by way of capitalization of US\$1,488,888.78 standing to the credit of the share premium account of our Company as a result of the Global Offering, such Shares to be allotted and issued, as nearly as can be without involving fractions, in proportion to the holdings of Shares in our Company of such Shareholder(s) as at the Record Date, so that the such Shares to be allotted and issued shall rank *pari passu* in all respects with the existing issued Shares and our Directors were authorized to issue Shares relating to, and to give effect to, the Capitalization Issue;

- (d) conditional upon all the conditions set out in the section headed “Structure and Conditions of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus being fulfilled:
- (i) the Global Offering, the Over-allotment Option and the Listing were approved and the Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to make or effect such modifications as it thinks fit;
 - (ii) our Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the Global Offering; and
 - (iii) our Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to agree to the price per Offer Share with the Sole Global Coordinator;
- (e) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the Global Offering or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme or similar arrangements pursuant to a specific authority granted by our Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;
- (f) a general unconditional mandate was given to our Directors authorizing them to exercise all the powers of our Company to repurchase, on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first; and

- (g) it was approved that the general mandate mentioned in paragraph (e) above shall be extended by the addition, to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate, of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to purchase shares referred to in paragraph (f) above.

5. Repurchases of Our Own Securities

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of Shares (which must be fully paid up) 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 then Shareholders on November 24, 2017 a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorizing any repurchase by us of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme, such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by our Articles of Association or any other applicable laws to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Companies Law, the par value of any Shares repurchased by us may be provided for

out of our profits or from sums standing to the credit of our share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be repurchased must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorized by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital.

(iii) Trading restrictions

The total number of Shares which we may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering. We may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. We are also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. We are required to procure that the broker appointed by us to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 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.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under the Articles of Association, repurchased Shares shall be treated as cancelled and destroyed.

(v) Suspension of repurchase

Pursuant to the Listing Rules, we may not make any repurchases of Shares after inside information has come to our knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) 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 our results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and

- (ii) the deadline for us to publish an announcement of our 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 in each case ending on the date of the results announcement, we may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.
- (iii) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares 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 Stock Exchange business day following any day on which we may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vi) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of us and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases 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 the Directors believe that such repurchases will benefit us and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position as disclosed in this prospectus and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or gearing levels which in the opinion of the Directors are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 2,000,000,000 Shares in issue immediately following the completion of the Global Offering, could accordingly result in 200,000,000 Shares being repurchased by us during the period prior to (1) the conclusion of our next annual general meeting; (2) the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting, whichever occurs first (the “Relevant Period”).

(d) General

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands. We have not repurchased any Shares since our incorporation.

If, as a result of any repurchase of Shares, a shareholder’s proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (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, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares than in issue could only be implemented with the approval of the Stock Exchange 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 core connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

6. Our Group Reorganization

The companies comprising our Group underwent a Reorganization to reorganize our Group's structure in preparation for the Listing. For more details regarding the Reorganization, see "History, Reorganization and Corporate Structure."

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:


- (a) the deed of non-competition dated November 24, 2017 entered into between the Controlling Shareholders and us regarding non-competition undertakings given by the Controlling Shareholders, the details of which are set out in the section headed "Relationship with Controlling Shareholders — Deed of Non-competition" in this prospectus;
- (b) the deed of indemnity dated November 24, 2017 entered into between the Controlling Shareholders and us pursuant to which the Controlling Shareholders agreed to give certain indemnities in our favor, the details of which are set out in the paragraph headed "E. Other Information — 2. Indemnities" below;
- (c) a cornerstone investment agreement dated November 28, 2017 entered into among our Company, Trilogic Investments Limited, WANG Yongchao, China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, pursuant to which Trilogic Investments Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased for an aggregate amount of US\$3,000,000 at the Offer Price;
- (d) a cornerstone investment agreement dated November 28, 2017 entered into among our Company, Mr. HO Kim Fong, China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, pursuant to which Mr. HO Kim Fong agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased for an aggregate amount of US\$2,000,000 at the Offer Price;
- (e) a cornerstone investment agreement dated November 28, 2017 entered into among our Company, Ms. SWING Jennifer Patricia, China Securities (International) Corporate Finance Company Limited and GF Securities (Hong Kong) Brokerage Limited, pursuant to which Ms. SWING Jennifer Patricia agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased for an aggregate amount of US\$1,000,000 at the Offer Price; and
- (f) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of our Group


As of the Latest Practicable Date, we have registered the following intellectual property rights which, in the opinion of our Directors, are material to our business.

(a) Trademarks





As of the Latest Practicable Date, we have registered the following trademark in the PRC which we consider to be material to the business of our Group:

No.	Trademark	Registration Number	Name of Registered Proprietor	Class	Place of Registration	Duration of Validity
1		16170805	Guangzhou SYND	9	PRC	March 21, 2016 to March 20, 2026

As of the Latest Practicable Date, we have applied for the registration of the following trademark in the PRC which we consider to be material to the business of our Group:

No.	Trademark	Applicant	Type	Date of Application	Application Number
1		Zhang Ying Kong	16	November 8, 2016	21838139






As of the Latest Practicable Date, we have registered the following trademarks in Hong Kong which we consider to be material to the business of our Group:

No.	Trademark	Registration Number	Registered Proprietor	Class	Place of Registration	Duration of Validity
1.		303818179	Hollywood HK	9, 16, 35, 41, 42	Hong Kong	June 24, 2016 to June 23, 2026
2.		303818179	Hollywood HK	9, 16, 35, 41, 42	Hong Kong	June 24, 2016 to June 23, 2026
3.		303818179	Hollywood HK	9, 16, 35, 41, 42	Hong Kong	June 24, 2016 to June 23, 2026
4.		303818179	Hollywood HK	9, 16, 35, 41, 42	Hong Kong	June 24, 2016 to June 23, 2026

As of the Latest Practicable Date, we have applied for the registration of the following trademarks in the United States which we consider to be material to the business of our Group:

No.	Trademark	Applicant	Type	Date of Application	Application Number
1.	ALERT OF WAR	Hollywood HK	9	May 2, 2017	87433986
2.	DEVIL AGE	Hollywood HK	9, 41	October 24, 2016	87213974
3.	HEROES CRASH	Hollywood HK	9	May 1, 2017	87432437
4.	LEGION STRIKE	Hollywood HK	9	May 1, 2017	87432419

As of the Latest Practicable Date, we have registered the following trademarks in the United States which we consider to be material to the business of our Group:

No.	Trademark	Registration Number	Registered Proprietor	Class	Place of Registration	Duration of Validity
1.		4175380	Now To Play Game	41	the United States	July 17, 2012 to July 16, 2022
2.	ETERNAL FURY	5108855	Proficient City	9	the United States	December 27, 2016 to December 26, 2026
3.		5108854	Proficient City	9	the United States	December 27, 2016 to December 26, 2026
4.	LANCE TOWN	5118387	Hollywood HK	9	the United States	January 10, 2017 to January 19, 2027
5.		5118386	Hollywood HK	9	the United States	January 10, 2017 to January 19, 2027
6.	LEGEND KNIGHT	4895409	Proficient City	41	the United States	February 2, 2016 to February 1, 2026
7.	ORK BUSTER	5105177	Hollywood HK	41	the United States	December 20, 2016 to December 19, 2026
8.		5105178	Hollywood HK	41	the United States	December 20, 2016 to December 19, 2026
9.		5109911	Proficient City	41	the United States	December 27, 2016 to December 26, 2026
10.	STALLION RACE	5109910	Proficient City	41	the United States	December 27, 2016 to December 26, 2026

(b) Domain Names

As of the Latest Practicable Date, we have registered the following domain names which we consider to be material to the business of our Group:

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
1	www.wingsdk.cn	Zhang Ying Kong	April 20, 2016	April 20, 2018
2	zykong.com	Zhang Ying Kong	September 16, 2013	September 16, 2018
3	gamehollywood.com	Guangzhou You Lai	August 25, 2014	August 25, 2018
4	proficientcity.com	Hollywood HK	March 30, 2012	March 30, 2021

(c) Copyrights

As of the Latest Practicable Date, we have registered the following copyrights which we consider to be material to the business of our Group:

No.	Name of Copyright	Class Number/Class	Copyright Registration Number	Name of Registered Proprietor	Place of Registration	Date of Registration
1	Efunfun S Software V1.0 (彈彈堂掌上版遊戲軟件 V1.0) (彈彈堂S)	30105-0000	2015SR093153	Zhang Ying Kong	PRC	May 28, 2015
2	Pocket Efunfun Mobile Phone Software V1.0 (彈彈堂口袋版軟件V1.0) (彈彈堂)	30105-0000	2013SR121174	Zhang Ying Kong	PRC	November 7, 2013
3	Clash of Kings Software V1.0 (列王衝突軟件 V1.0) (列王衝突)	30000-0000	2016SR131490	Zhang Ying Kong	PRC	June 4, 2016

<u>No.</u>	<u>Name of Copyright</u>	<u>Class Number/Class</u>	<u>Copyright Registration Number</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Registration</u>
4	Efunfun World Pocket Software V1.4.116 (彈彈世界口袋版軟件V1.4.116) (彈彈世界)	30200-0000	2016SR160239	Zhang Ying Kong	PRC	June 29, 2016
5	Efunfun World Software V1.5 (彈彈世界軟件V1.5)	30200-0000	2016SR171699	Zhang Ying Kong	PRC	July 7, 2016
6	Tale of Devil's Spirit 3D Software V1.0.0 (魔靈傳說3D軟件V1.0.0) (魔靈傳說)	30200-0000	2017SR066558	Zhang Ying Kong	PRC	March 3, 2017
7	Little Yellow Chicken (小黃雞)	Art	國作登字-2017-F-00362159	Zhang Ying Kong	PRC	February 23, 2017
8	Tiger Game Service Software Engine V1.0 (Tiger遊戲服務引擎軟件V1.0)	30105-0000	2013SR106709	Guangzhou SYND	PRC	October 9, 2013

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of the Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations*

Immediately following the completion of the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Post-IPO Share Option Scheme are not exercised), the interests or short positions of our Directors or chief executives in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”), once the Shares are listed will be as follows:

Interest in Shares or Underlying Shares of our Company

Name of Director	Nature of Interest	Number of Shares or underlying Shares ⁽¹⁾	Approximate percentage of shareholding interest
Mr. LU Yuanfeng ⁽²⁾	Interest in controlled corporation, interest of spouse, interest held jointly with another person	989,226,387 (L)	49.46%
Mr. HUANG Guozhan ⁽³⁾	Interest in controlled corporation, interest held jointly with another person	989,226,387 (L)	49.46%
Mr. HUANG Deqiang ⁽⁴⁾	Interest in controlled corporation, interest held jointly with another person	989,226,387 (L)	49.46%

(1) The letter “L” denotes the person’s long position in the Shares.

(2) Under the SFO, Mr. LU Yuanfeng is deemed to be interested in all Shares held by LYF Digital Holdings Limited, a company which is wholly-owned by him. Mr. LU is also deemed to be interested in all Shares held by (1) Ms. LUO Simin as Ms. LUO is the spouse of Mr. LU; and (2) Mr. HUANG Guozhan and Mr. HUANG Deqiang as they are parties acting in concert.

(3) Under the SFO, Mr. HUANG Guozhan is deemed to be interested in all Shares held by (1) LXT Digital Holdings Limited, a company which is wholly-owned by him; and (2) Mr. LU Yuanfeng, Ms. LUO Simin and Mr. HUANG Deqiang as they are parties acting in concert.

(4) Under the SFO, Mr. HUANG Deqiang is deemed to be interested in all Shares held by (1) HDQ Digital Holdings Limited, a company which is wholly-owned by him; and (2) Mr. LU Yuanfeng, Ms. LUO Simin and Mr. HUANG Guozhan as they are parties acting in concert.

Interest in associated corporation

Name of Director	Associated Corporation	Capacity/ nature of interest	Number of Shares	Approximate percentage of shareholding interest
Mr. LU Yuanfeng	LYF Digital Holdings Limited ⁽¹⁾	Beneficial owner	100	100%
Mr. HUANG Guozhan	LXT Digital Holdings Limited ⁽¹⁾	Beneficial owner	100	100%
Mr. HUANG Deqiang	HDQ Digital Holdings Limited ⁽¹⁾	Beneficial owner	100	100%

- (1) Under the SFO, a holding company is regarded as an “associated corporation.” Immediately following the Completion of the Global Offering (without taking into account the Shares to be issued upon the exercise of the Over-allotment Option, the Shares to be issued upon the exercise of options granted under the Post-IPO Share Option Scheme), LYF Digital Holdings Limited, LXT Digital Holdings Limited and HDQ Digital Holdings Limited will hold 27.64%, 4.91% and 4.91% of our issued share capital and thus is our associated corporation.

(b) Interests and short positions of the Substantial Shareholders in the Shares and Underlying Shares of our Company

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are listed, would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

(c) Interests of the Substantial Shareholders of Any Member of Our Group (Other than Our Company)

So far as the Directors are aware, immediately following the completion of the Global Offering, no persons will, directly or indirectly, be interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than us).

2. Particulars of Service Contracts

(a) *Executive Directors*

Each of the executive Directors has entered into a service contract with us under which they agreed to act as executive Directors for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the executive Director or us.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

(b) *Non-executive Director and Independent Non-executive Directors*

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with us with effect from the Listing Date or their respective date of appointment until three years after the Listing Date. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while the non-executive directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

(c) *Others*

- (i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (ii) During the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately US\$7,000, US\$75,000, US\$125,000 and US\$61,000. Details of the Directors' remuneration are also set out in note 33 of the Accountant's Report set out in Appendix I to this prospectus. Save as disclosed in this prospectus, no other emoluments are paid or are payable during the Track Record Period by us to the Directors.
- (iii) The aggregate of the remuneration and benefits in kind payable to the Directors for the year ending December 31, 2017 is estimated to be approximately US\$1.3 million.

- (iv) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 (i) as an inducement to join or upon joining us or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.
- (vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by us, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

3. Fees or commissions received

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed under the paragraph headed “E. Other Information — 7. Qualification of Experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

4. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives has any interests and short positions in the Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us 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 SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange;

- (b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “E. Other Information — 7. Qualification of Experts” below is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;
- (d) save as disclosed in this prospectus or in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the paragraph headed “E. Other Information — 7. Qualification of Experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “E. Other Information — 7. Qualification of Experts” below:
 - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

D. SHARE INCENTIVE SCHEME**1. Post-IPO Share Option Scheme**

The following is a summary of the principal terms of the Post-IPO Share Option Scheme approved by the resolutions of our Shareholders passed on May 27, 2017:

(a) Purpose of the Post-IPO Share Option Scheme

The purpose of this Share Option Scheme is to attract, retain and motivate employees, Directors and such other Participant, and to provide a means of compensating them through the grant of options pursuant to the terms of the Post-IPO Share Option Scheme (“Options”) for their contribution to the growth and profits of our Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of our Group.

(b) Conditions and Present Status of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall take effect conditional upon (i) the Listing Committee of the Stock Exchange granting approval of the Post-IPO Share Option Scheme, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options; and (ii) the commencement of dealing in the Shares on the Stock Exchange. As at the date of this prospectus, no option has been granted or agreed to be granted under the Post-IPO Share Option Scheme. No option is expected to be granted under the Post-IPO Share Option Scheme prior to the Listing Date.

Our Board has appointed The Core Trust Company Limited as the trustee (“Trustee”) for the administration of the Post-IPO Share Option Scheme and to hold the Shares which may be granted under the Options through Epic City Limited (“Nominee”) a wholly-owned subsidiary of the Trustee. The Trustee shall act in accordance and cooperate with our Board for the purpose of the Post-IPO Share Option Scheme. Our Company will use Shares held by the Nominee and new Shares to be allotted by us to satisfy the Options upon exercise.

(c) Eligible Participants

On and subject to the terms of the Post-IPO Share Option Scheme, our Board shall be entitled at any time to offer to grant to any non-executive Director or independent non-executive Director of our Company appointed or proposed to be appointed prior to the Listing Date, or any director of any of the subsidiaries, or any employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director (“Participants”) as our Board may in its absolute discretion select, and subject to such conditions as our Board may think fit, an Option to subscribe for such number of Shares as our Board may determine at the transfer price. The basis of eligibility of any of the class of Participants to the grant of any Options shall be determined by our Board from time to time on the basis of their contribution to the development and growth of our Group.

(d) Offer and Grant of Options

No offer of grant of Option shall be made after inside information has come to the knowledge of our Company until such inside information has been published in accordance with the Listing Rules. In particular, no option may be granted during the period of one (1) month immediately preceding the earlier of (i) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of 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.

An offer of the grant of an Option ("Offer") shall be deemed to have been accepted and the Option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Participant ("Grantee") with the number of Shares in respect of which such offer is accepted clearly stated therein, together with a remittance in favor of our Company of RMB1.00 by way of consideration for the grant thereof is received by our Company. Such remittance shall in no circumstances be refundable. Once accepted, the Option is granted as from the Offer Date.

(e) Transfer price

The transfer price ("Transfer price") shall be such price as determined by our Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in the case that any Share would be allotted and issued to a Grantee upon the exercise of an Option in accordance with the terms of the Post-IPO Share Option Scheme, the Transfer Price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day ("Offer Date"), (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share. For the avoidance of doubt, in the case that the Share would be transferred from the Trustee to a Grantee upon the exercise of an Option in accordance with the terms of the Post-IPO Share Option Scheme, the Transfer Price shall be determined by the Board, as it may think fit taking into account the Grantee's contribution to the development and growth of the Group.

(f) Maximum number of Shares and entitlement of an eligible Participant

Our Board shall use (i) the Shares held by the Nominee for the purpose of the Post-IPO Share Option Scheme or (ii) new Shares to be allotted and issued by our Company to satisfy the Options upon exercise.

- (aa) The overall limit on the number of new Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 30% of the Shares in issue from time to time.
- (bb) The new Shares which may be issued by our Company upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 200,000,000 Shares, (i.e. 10% of the aggregate of the Shares in issue on the Listing Date (“Scheme Mandate Limit”)). Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.
- (cc) Our Company may seek approval of our Shareholders in general meeting for refreshing the Scheme Mandate Limit. However, the Scheme Mandate Limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of the approval of our Shareholders. Options previously granted under the Post-IPO Share Option Scheme or any other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including Options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Post-IPO Share Option Scheme or any other share option scheme of our Company) will not be counted for the purpose of calculating the limit as “refreshed.”

A circular containing the information required under the Listing Rules shall be sent to our Shareholders in connection with the meeting at which their approval will be sought.

- (dd) Our Company may seek separate approval by our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit (as refreshed) provided the Grantee(s) of such Option(s) must be specifically identified by our Company before such approval is sought. A circular containing a generic description of the specified Grantees who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting such Options to the Grantees with an explanation as to how the terms of Options serve such purpose and other information required under the Listing Rules shall be sent to our Shareholders.

- (ee) The Shares which may be transferred from the Nominee upon exercise of all Options to be granted under the Post-IPO Share Option Scheme shall not exceed 149,999,973 Shares (i.e. being the Shares held by the Nominee representing 7.5% of the enlarged issued share capital of our Company as of the Listing Date, without taking into account the exercise of the Over-allotment Option). Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme shall not be counted for the purpose of calculating this limit.
- (ff) The total number of Shares issued and to be issued upon exercise of the Options granted to each eligible Participant (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the Shares in issue (the “Individual Limit”). Any further grant of Options to an eligible Participant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to our Shareholders’ approval in general meeting with such eligible Participant and his or her close associates (as defined under the Listing Rules, or his or her associate if the Participant is a connected person) abstaining from voting. A circular containing the information required under the Listing Rules shall be sent to our Shareholders.

The number and terms (including the Transfer Price) of the Options to be granted to such Participant must be fixed before our Shareholders’ approval is sought and the date of the meeting of our Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the Transfer Price.

(g) *Grant of Options to Connected Persons*

- (aa) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or their respective associates shall be subject to approval by the independent non-executive Directors of our Company (excluding the independent non-executive Director who is the Grantee).
- (bb) Where our Board proposes to grant any Option to a Participant who is a substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or an independent non-executive Director of our Company, or any of their respective associates would result in our Shares issued and to be issued upon exercise of all options already granted and to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our

Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed Offer Date of such grant (the “Relevant Date”):

- (i) representing in aggregate more than 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the total number of Shares in issue on the Relevant Date; and
- (ii) having an aggregate value, based on the closing price of our Shares as stated in the Stock Exchange’s daily quotation sheet on the Relevant Date, in excess of HK\$5,000,000 (or such other higher amount as may from time to time be specified by the Stock Exchange), such proposed grant of Options must be approved by our Shareholders (voting by way of poll). In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all other connected persons of our Company must abstain from voting in favor of the resolution at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his/her intention to do so has been stated in the circular to be sent to our Shareholders in connection therewith.

(h) Exercise of Options

An Option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Post-IPO Share Option Scheme (“Option Period”).

(i) Vesting

Options may be vested over such period(s) as determined by our Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules to which the Post-IPO Share Option Scheme may be subject, including the Listing Rules or regulations of any stock exchange on which the Shares may be listed and quoted.

Furthermore, the Shares to be issued and allotted to a Grantee pursuant to the exercise of any Option under the Post-IPO Share Option Scheme may or may not, at the discretion of our Board, be subject to any retention period.

(j) Performance Target & Minimum Period before Exercise

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is no general requirement for any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

(k) Options are personal to the Grantee

Unless otherwise provided in the Post-IPO Share Option Scheme or otherwise approved by our Board, an Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any Option, except for the transmission of an Option on the death or incapacitation of the Grantee to his personal representative(s) according to the terms of the Post-IPO Share Option Scheme.

(l) Rights on death, or termination of employment, our Directorship, office or appointment

- (aa) in the event of the Grantee ceasing to be an employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director (“Eligible Employee”), by reason of non-renewal of his or her employment contract upon termination, or retirement, or internal reorganization, or if the Grantee is a Director, the cessation as a Director upon rotation, the Grantee shall be entitled within a period of three (3) months from the date of cessation of employment which shall be the last actual working day with our Company or the relevant subsidiary to exercise any Option in whole or in part (to the extent which has become exercisable but not yet exercised prior to such date of cessation). In the event of the Grantee ceasing to be an Eligible Employee for any reason other than those stated above or his or her death or the termination of his or her employment on one or more of the grounds specified in the Post-IPO Share Option Scheme, the Grantee may exercise the Option in accordance with the provisions of the Post-IPO Share Option Scheme up to his or her entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as our Board may determine; and
- (bb) in the event that the Grantee ceases to be a Participant (as the case may be) by reason of death or incapacitation (provided that none of the events which would be a ground for termination of his or her employment arises prior to his or her death or incapacitation), the legal personal representative(s) of this Grantee shall be entitled within a period of twelve (12) months from the date of death or incapacitation (or such longer period as our Board may determine) to exercise the Option in whole or in part (to the extent which has become exercisable and not already exercised prior to such date of death or incapacitation).

(m) Voluntary winding-up of our Company

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its Options (to the extent which has become exercisable and not already exercised) at any time not later than three (3) Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Transfer Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank pari passu with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

(n) Rights on take-over

In the event of a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares (or all such holders other than the offer or and/or any person controlled by the offer or and/or any person acting in association or concert with the offeror), our Company shall use all reasonable endeavors to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by exercise in full of the Options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a Grantee shall be entitled to exercise his Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in exercise of his Option at any time before the close of such offer (or any revised offer).

(o) Rights on a compromise or arrangement

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any Grantee (or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and

becoming effective. Our Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(p) Effects of alterations to capital structure

In the event of any alteration in the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganization of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding alterations (if any) shall be made in (aa) the number or nominal amount of Shares subject to the Option so far as unexercised, and/or (bb) the Transfer Price, and/or (cc) the method of exercise of the Option, as the auditors or the financial adviser of our Company retained for such purpose shall certify in writing to our Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate Transfer Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group as consideration in a transaction.

(q) Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the Option Period;
- (bb) the date of the expiry of the periods for exercising the Option;
- (cc) the date on which the offer (or as the case may be, revised offer) closes;
- (dd) the date of the commencement of the winding-up of our Company;
- (ee) the date when the proposed compromise or arrangement becomes effective;

- (ff) the date on which the Grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on any one or more of the grounds that he or she voluntarily resigns, or has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to our Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by our Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant subsidiary. A resolution of our Board or our Board of directors of the relevant subsidiary to the effect that employment of a Grantee has or has not been terminated shall be conclusive and binding on the Grantee;
- (gg) the date on which the Grantee commits a breach or the Options are cancelled in accordance with the Post-IPO Share Option Scheme; or
- (hh) if our Board at its absolute discretion determines that the Grantee (other than an Eligible Employee) has committed any breach of any contract entered into between the Grantee on the one part and any member of our Group on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her or its creditors generally, our Board shall determine that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse. In such event, his or her or its Options will lapse automatically and will not in any event be exercisable on or after the date on which our Board has so determined.

(r) Ranking of Share allotted upon exercise of Options

The Shares to be allotted or transferred from the Trustee upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles of Association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

(s) Duration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which the Post-IPO Share Option Scheme is conditionally adopted by resolution of our Shareholders.

(t) Cancellation of Options granted

Subject to the consent from the relevant Grantee, our Board may at its discretion cancel Options previously granted to and yet to be exercised by a Grantee with the relevant Grantees abstaining from voting. Our Company may terminate the operation of the Post-IPO Share Option Scheme at any time by resolution of our Board or resolution of our Shareholders in general meeting and in such event no further Option will be offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

(u) Alteration of the provisions of the Post-IPO Share Option Scheme

Subject to the provisions of the Post-IPO Share Option Scheme, our Board may amend any of the provisions of the Post-IPO Share Option Scheme (including without limitation to amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Post-IPO Share Option Scheme, which are not found in the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date).

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 under the laws of the Cayman Islands.

2. Indemnities

Each of our Controlling Shareholders has entered into a deed of indemnity with our Company in favor of us (being the contract referred to in item (B) of the paragraph headed “B. Further Information about Our Business — 1. Summary of Material Contracts” above) to provide the indemnities in respect of taxation resulting from income, profits or gains earned, accrued or received as well as any claims, penalties, fines, damages, losses, fees and expenses and liabilities relating to the non-compliance incidents in respect of social insurance plans and housing reserve fund and property title defects of any of our Group which may be subject and payable on or before the date when the Global Offering becomes unconditional.

3. Litigation

As of the Latest Practicable Date, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

4. 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 or sold as mentioned in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the Shares to be issued upon the exercise of options granted under the Post-IPO Share Option Scheme). The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The fees payable to the Sole Sponsor in respect of their services as sponsor for the Listing are approximately HK\$6.0 million and are payable by us.

5. Preliminary expenses

The preliminary expenses incurred by us in relation to our incorporation were approximately US\$3,000 and were paid by us.

6. Promoter

We have no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, 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.

7. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

China Securities (International) Corporate Finance Company Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
Shenzhen Qianhai PricewaterhouseCoopers Business Consulting Services Co. Limited	Transfer pricing tax advisers
Ms. Isabel Tam	Barrister-at-law
Conyers Dill & Pearman	Cayman Islands and BVI legal advisers
Matheson	EU tax legal advisers
Hogan Lovells	International Sanctions legal advisers
Beijing Dacheng Law Offices, LLP	PRC legal advisers
Wilson Law Group LLC	U.S. tax legal advisers
Frasers Law Company	Vietnamese legal consultant
Analysys	Industry consultant
Baker Tilly	Internal control consultant

8. Consents of Experts

Each of China Securities (International) Corporate Finance Company Limited, PricewaterhouseCoopers, Shenzhen Qianhai PricewaterhouseCoopers Business Consulting Services Co. Limited, Ms. Isabel Tam, Conyers Dill & Pearman, Matheson, Hogan Lovells, Beijing Dacheng Law Offices, LLP, Wilson Law Group LLC, Frasers Law Company, Analysys and Baker Tilly has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included in this prospectus in the form and context in which it is respectively included.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

F. MISCELLANEOUS

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders or management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued;
 - (iv) 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 its subsidiaries; and
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries.
- (b) Save as disclosed in this prospectus, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.

- (c) Our Directors confirm that:
- (i) there has been no material adverse change in the financial or trading position or prospects of our Group since June 30, 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared); and
 - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
 - (iii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (d) Our principal register of members will be maintained by our principal registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) The English 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).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to the section headed “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 8. Consents of Experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Wilson Sonsini Goodrich & Rosati at Suite 1509, 15/F, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountant’s Report for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 from PricewaterhouseCoopers, and the report on the unaudited pro forma financial information from PricewaterhouseCoopers, the texts of which are set out in Appendix I and Appendix II of this prospectus, respectively;
- (c) the audited consolidated financial statements of our Company for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017;
- (d) the transfer pricing tax analysis prepared by Shenzhen Qianhai PricewaterhouseCoopers Business Consulting Services Co. Limited, our transfer pricing tax advisers;
- (e) the legal opinions issued by Ms. Isabel Tam, our Hong Kong legal advisers, in respect of certain aspects of the Hong Kong law;
- (f) the letter of advice issued by Conyers Dill & Pearman, our Cayman legal advisers, in respect of certain aspects of the Cayman company law referred to in Appendix III to this prospectus;

- (g) the legal report issued by Matheson, our EU tax legal advisers, in respect of certain aspects of the EU tax law;
- (h) the memorandum of advice issued by Hogan Lovells, our International Sanctions legal advisers, in respect of certain aspects of the International Sanctions related legal requirements;
- (i) the legal opinions issued by Beijing Dacheng Law Offices, LLP, our PRC legal advisers, in respect of certain aspects of our Group and the property interests of our Group;
- (j) the legal opinions issued by Wilson Law Group LLC, our U.S. tax legal advisers, in respect of certain aspects of the U.S. tax law;
- (k) the legal opinions issued by Frasers Law Company, our Vietnamese legal advisers, in respect of certain aspects of Vietnamese law;
- (l) the industry report prepared by Analysys, our industry consultant;
- (m) the internal control report issued by Baker Tilly, our internal control consultant;
- (n) the Cayman Companies Law;
- (o) the material contracts referred to the section headed “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (p) the written consents referred to the section headed “Statutory and General Information — E. Other Information — 8. Consents of Experts” in Appendix IV to this prospectus; and
- (q) service contracts and letters of appointment entered into between the Company and each of the Directors.

