



第七大道  
7ROAD.COM

# 7Road Holdings Limited 第七大道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 797



## GLOBAL OFFERING

Joint Sponsors



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Joint Bookrunner and Joint Lead Manager



## IMPORTANT

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



### 7Road Holdings Limited 第七大道控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

#### Global Offering

|   |          |   |
|---|----------|---|
| <b>Total number of Offer Shares under the Global Offering</b> | <b>:</b> | <b>666,680,000 Shares (subject to the Over-allotment Option and adjustment)</b>   |
| <b>Number of Hong Kong Public Offer Shares</b>                | <b>:</b> | <b>66,668,000 Shares (subject to adjustment)</b>  |
| <b>Number of International Offer Shares</b>                   | <b>:</b> | <b>600,012,000 Shares (subject to the Over-allotment Option and adjustment)</b>   |
| <b>Offer Price</b>  | <b>:</b> | <b>Not more than HK\$2.22 per Share and expected to be not less than HK\$1.50 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund on final pricing)</b> |
| <b>Nominal value</b>  | <b>:</b> | <b>US\$0.000005 per Share</b>   |
| <b>Stock code</b>   | <b>:</b> | <b>797</b>  |

#### Joint Sponsors



*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*

*Joint Bookrunner and Joint Lead Manager*



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 Joint Global Coordinators, on behalf of the Underwriters, and our Company on or before Wednesday, July 11, 2018 or such later time as may be agreed between the parties, but in any event, no later than Monday, July 16, 2018. If, for any reason, the Joint Global Coordinators, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Monday, July 16, 2018, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$2.22 per Share and is expected to be not less than HK\$1.50 per Share although the Joint Global Coordinators, on behalf of the Underwriters, and our Company may agree to a lower price. The Joint Global Coordinators, 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\$1.50 per Share to HK\$2.22 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 Journal (in Chinese) and on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.7road.com](http://www.7road.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 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 Joint Global Coordinators, on behalf of the Hong Kong Underwriters, have the right in certain circumstances, in their 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 — Underwriting Arrangements and Expenses — Hong Kong Public Offering — 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.

June 29, 2018

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**EXPECTED TIMETABLE<sup>(1)</sup>**

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|   |   |
|---|---|
| Hong Kong Public Offering commences and <b>WHITE</b> and <b>YELLOW</b> Application Forms available from .....   | 9:00 a.m. on Friday,<br>June 29, 2018     |
| Latest time to complete electronic applications under the <b>White Form eIPO</b> service through the designated website at <b>www.eipo.com.hk<sup>(2)</sup></b> .....   | 11:30 a.m. on Wednesday,<br>July 11, 2018 |
| Application lists for the Hong Kong Public Offering open <sup>(3)</sup> .....   | 11:45 a.m. on Wednesday,<br>July 11, 2018 |
| Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms and giving <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....  | 12:00 noon on Wednesday,<br>July 11, 2018 |
| Latest time to complete payment of <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....   | 12:00 noon on Wednesday,<br>July 11, 2018 |
| Application lists close <sup>(3)</sup> .....  | 12:00 noon on Wednesday,<br>July 11, 2018 |
| Expected Price Determination Date <sup>(5)</sup> .....  | Wednesday, July 11, 2018                  |
| 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 Journal (in Chinese) and on the websites of the Stock Exchange at <b>www.hkexnews.hk</b> and our Company at <b>www.7road.com</b> on or before <sup>(6)</sup> ..... | Tuesday, July 17, 2018                    |
| 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 Hong Kong Public Offer Shares — 11. Publication of Results") from .....   | Tuesday, July 17, 2018                    |
| Results of allocations for the Hong Kong Public Offering will be available from at <b>www.iporeresults.com.hk</b> (alternatively: English <a href="https://www.eipo.com.hk/en/Allotment">https://www.eipo.com.hk/en/Allotment</a> ; Chinese <a href="https://www.eipo.com.hk/zh-hk/Allotment">https://www.eipo.com.hk/zh-hk/Allotment</a> ) with a "search by ID" function .....  | Tuesday, July 17, 2018                    |
| Share certificates (if applicable) in respect of wholly or partially successful applications to be despatched on or before .....  | Tuesday, July 17, 2018                    |
| White Form e-Refund payment instructions/Refund checks in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be despatched on or before <sup>(7)</sup> .....  | Tuesday, July 17, 2018                    |
| Dealings in Shares on the Stock Exchange to commence at 9:00 a.m. on .....  | Wednesday, July 18, 2018                  |

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## EXPECTED TIMETABLE<sup>(1)</sup>

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- (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.eipo.com.hk](http://www.eipo.com.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 Wednesday, July 11, 2018, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for 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 Hong Kong Public Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” for details.
- (5) The Offer Price is expected to be determined by Wednesday, July 11, 2018, but in any event, the expected time for determination of the Offer Price will not be later than Monday, July 16, 2018. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators, on behalf of the Underwriters, and our Company by Monday, July 16, 2018, the Global Offering will not proceed.
- (6) If the Offer Price is determined on Wednesday, July 11, 2018, 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 Tuesday, July 17, 2018.
- (7) 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 check(s) (if applicable) and/or Share certificate(s) (if applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Tuesday, July 17, 2018. Applicants being individuals who are applying for 1,000,000 Hong Kong Public Offer Shares or more and are eligible 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 are eligible 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, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, must be produced at the time of collection. Uncollected Share certificates and refund checks 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 your application monies” in the section headed “How to apply for Hong Kong Public Offer Shares”.

Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Tuesday, July 17, 2018, 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 — 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.

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 Joint Sponsors, the Joint Global Coordinators, 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.7road.com](http://www.7road.com), does not form part of this prospectus.*

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## SUMMARY

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*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 whole 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 online game developer and operator in China with a global reach. We are committed to bringing quality gameplay experience in various game formats to our users. Since our inception in 2008, we have engaged in the development, operation and licensing of a number of popular online games such as *DDTank* (彈彈堂) and *Wartune* (神曲). We are the top web game developer in terms of revenue generated from proprietary web games in 2017 among China-based web games developers, according to the iResearch Report, and derive a sizable portion of our revenue from the overseas markets. As of the Latest Practicable Date, our games had been published in more than 100 countries and regions. In recent years, we have strategically expanded our business focuses to develop mobile games and H5 games, which are increasingly popular among the users. Leveraging our strong game development capabilities and our hit game titles, we have assembled valuable IP assets with great monetization potential. As of the Latest Practicable Date, we had launched 15 proprietary games, including 12 web games, two mobile games and one H5 game, and had also built a robust pipeline of (1) 10 online games, including seven proprietary games and three licensed games, targeted for launch in 2018, and (2) four online games, including three proprietary games and one licensed game, targeted for launch in 2019.

### OUR GAMES

We have a large portfolio of online games, including both proprietary and licensed games in diverse genres that are fun and easy to play. We may also license the IP rights of our proprietary games to third-party game developers or publishers. Apart from the games in web or mobile formats, we are also dedicated to keeping ourselves abreast of the emerging and cutting-edge Internet technologies. We have launched one H5 game in April 2018 and are currently in the process of developing four more H5 games with famous IPs targeted for launch by the end of 2018, which allow users to play in browsers without installing the game applications on PCs and mobile devices. A significant amount of our revenue was generated from *DDTank* and *Wartune* during the Track Record Period.

## SUMMARY

The following table sets out certain information of our online games in terms of revenue during the Track Record Period.

|   | Year ended December 31, |                        |                |                        |                |                        | Source      | Initial Launch Date | Lifecycle stage as of the Latest Practicable Date | Self-Publishing/ Third-party Publishing                        |
|---|-------------------------|------------------------|----------------|------------------------|----------------|------------------------|-------------|---------------------|---|--|
|   | 2015                    |                        | 2016           |                        | 2017           |                        |             |                     |   |  |
|   | Revenue                 | % of our total revenue | Revenue        | % of our total revenue | Revenue        | % of our total revenue |             |                     |   |  |
| (RMB in thousands except for percentages) |                         |                        |                |                        |                |                        |             |                     |   |  |
| <b>Web games</b>                          |                         |                        |                |                        |                |                        |             |                     |   |  |
| <i>DDTank</i>                             | 52,757                  | 14.1%                  | 48,815         | 12.3%                  | 46,116         | 10.4%                  | Proprietary | March 2009          | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>Wartune</i>                            | 250,027                 | 66.6%                  | 161,283        | 40.0%                  | 105,546        | 23.7%                  | Proprietary | November 2011       | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>Others</i>                             | 30,984                  | 8.2%                   | 26,379         | 6.5%                   | 17,413         | 3.8%                   | –           | –                   | –   | –  |
| <b>Mobile games</b>                       |                         |                        |                |                        |                |                        |             |                     |   |  |
| <i>DDTank</i>                             | –                       | –                      | –              | –                      | 154,327        | 34.7%                  | Proprietary | April 2017          | Growth stage                                      | Third party publishing   |
| <i>Wartune Heroes</i>                     | –                       | –                      | 38,344         | 9.5%                   | 62,638         | 14.0%                  | Proprietary | July 2016           | Out of operation                                  | Self-publishing  |
| <i>World of Wartune</i>                   | 10,934                  | 2.9%                   | 70,726         | 17.5%                  | 2,181          | 0.5%                   | Licensed    | November 2015       | Out of operation                                  | Third party publishing   |
| <i>Others</i>                             | –                       | –                      | –              | –                      | 708            | 0.2%                   | –           | –                   | –   | –  |
| <b>Total</b>                              | <b>344,702</b>          | <b>91.8%</b>           | <b>345,547</b> | <b>85.8%</b>           | <b>388,929</b> | <b>87.3%</b>           |             |                     |   |  |



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## SUMMARY

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The following table sets forth certain key information relating to our games that are currently in operation in reverse chronological order.

|     | Title  | Form                     | Genre     | Initial Launch Date | Language Versions   | Source      | Lifecycle Stage as of the Latest Practicable Date |
|-----|--|--------------------------|-----------|---------------------|---|-------------|---|
| 1.  | <i>Desperate to Survive</i> (天天突突突)                    | Web game                 | Shooting  | May 2018            | Simplified Chinese  | Licensed    | Growth Stage                                      |
| 2.  | <i>Demi-Gods and Semi-Devils (mobile)</i> (天龍八部(手遊))   | Mobile game              | SRPG/ARPG | April 2018          | Traditional Chinese   | Licensed    | Growth Stage                                      |
| 3.  | <i>Wartune H5</i> (神曲H5)                               | H5 game                  | SRPG      | April 2018          | Simplified Chinese  | Proprietary | Growth Stage                                      |
| 4.  | <i>Island Story — Let's Boom!</i> (全民島主)               | Mobile game              | Casual    | January 2018        | Simplified Chinese  | Licensed    | Growth Stage                                      |
| 5.  | <i>Mythic Glory</i> (神耀)                               | Web game                 | SRPG      | January 2018        | English   | Proprietary | Growth Stage                                      |
| 6.  | <i>DDTank (mobile)</i> (彈彈堂(手遊))                       | Mobile game              | Casual    | April 2017          | Simplified Chinese, Traditional Chinese, English, Vietnamese  | Proprietary | Growth Stage                                      |
| 7.  | <i>Crouching Tiger</i> (臥龍吟)                           | Mobile game and web game | SRPG      | January 2017        | Traditional Chinese   | Licensed    | Stable Stage                                      |
| 8.  | <i>True Demi-Gods and Semi-Devils</i> (真天龍八部)          | Web game                 | SRPG      | April 2015          | Simplified Chinese  | Proprietary | Late Stage  |
| 9.  | <i>Demi-Gods and Semi-Devils</i> (天龍八部) <sup>(1)</sup> | Web game                 | SRPG/ARPG | January 2015        | Simplified Chinese, Traditional Chinese, Vietnamese   | Proprietary | Late Stage  |
| 10. | <i>Wartune</i> (神曲)                                    | Web game                 | SRPG      | November 2011       | Russian, Japanese, Korean, German, French, Italian, Indonesian, Thai, English, Arabic, Portuguese, Dutch, Swedish, Turkish, Spanish, Polish, Greek, Traditional Chinese, Simplified Chinese, Vietnamese | Proprietary | Stable Stage                                      |
| 11. | <i>DDTank</i> (彈彈堂)                                    | Web game                 | Casual    | March 2009          | Thai, Russian, Simplified Chinese, English, Vietnamese, Portuguese, Turkish, Traditional Chinese, Spanish   | Proprietary | Stable Stage                                      |

(1) This game was initially launched in China in January 2015 under the name *The Legend of Qiao* (喬峰傳), which was published to the overseas markets under the name *Demi-Gods and Semi-Devils* (天龍八部) since September 2015.

## SUMMARY

The following table sets out certain information of our games in pipeline expected to be launched in 2018 and 2019.

|                     | Title <sup>(1)</sup>                         | Genre      | Source      | Estimated Launch Time           | Language Version            | Features/Theme  |
|---------------------|--|------------|-------------|---------------------------------|-----------------------------|---|
| <b>Mobile games</b> |  |            |             |                                 |                             |   |
| 1.                  | <i>Wartune 3D (mobile)</i> (神曲3D(手遊))        | SRPG       | Proprietary | 2nd half of 2018                | English                     | Mobile remake of our web game <i>Wartune</i> published in overseas markets only |
| 2.                  | <i>Billionaires</i> (大富豪)                    | Simulation | Proprietary | 2nd half of 2018                | Simplified Chinese          | Simulation of commercial trading and company operation                          |
| 3.                  | <i>The Cat</i> (小賤貓)                         | Casual     | Proprietary | 2nd half of 2018                | Simplified Chinese          | Adapted from popular memes  |
| 4.                  | <i>Project S</i>                             | SRPG       | Proprietary | 2nd half of 2018                | Simplified Chinese          | Theme on a fantasy-based storyline set in Europe during the Middle Ages         |
| 5.                  | <i>Project N</i>                             | Casual     | Proprietary | 2nd half of 2018                | Simplified Chinese          | Fantasy-based game with a romantic storyline targeting female users             |
| 6.                  | <i>Project XX</i>                            | SRPG       | Proprietary | 1st half of 2019                | Simplified Chinese          | Fantasy theme with a storyline based on <i>Wartune</i>                          |
| 7.                  | <i>Luna (mobile)</i>                         | Casual     | Licensed    | 1st half of 2019                | English                     | Theme on the adventures in a fantasy land                                       |
| 8.                  | <i>Wartune (Mobile)</i> (神曲(手遊))             | SRPG       | Proprietary | 2nd half of 2019                | Simplified Chinese          | Mobile remake of our web game <i>Wartune</i> published in the PRC market only   |
| 9.                  | <i>DDTank II (mobile)</i> (彈彈堂II(手遊))        | Casual     | Proprietary | 2nd half of 2019                | Simplified Chinese          | Sequel of our mobile game <i>DDTank (mobile)</i>                                |
| <b>H5 games</b>     |  |            |             |                                 |                             |   |
| 10.                 | <i>McDull Adventures H5</i> (麥兜環球大冒險H5)      | Casual     | Licensed    | 1st half of 2018 <sup>(2)</sup> | Simplified Chinese          | Adapted from popular cartoon IPs  |
| 11.                 | <i>King of Fighters H5</i> (拳皇H5)            | Arcade     | Proprietary | 2nd half of 2018                | Simplified Chinese          | Based on popular IP from SNK  |
| 12.                 | <i>DDTank Adventures H5</i> (彈彈堂大冒險H5)       | Casual     | Proprietary | 2nd half of 2018 <sup>(2)</sup> | Simplified Chinese, English | H5 remake of our mobile game <i>DDTank (mobile)</i>                             |
| 13.                 | <i>Demi-Gods and Semi-Devils H5</i> (天龍H5)   | SRPG/ARPG  | Licensed    | 2nd half of 2018                | Simplified Chinese          | Adapted from a Chinese Wuxia story  |
| <b>Web game</b>     |  |            |             |                                 |                             |   |
| 14.                 | <i>Demi-Gods and Semi-Devils 3D</i> (天龍八部3D) | SRPG/ARPG  | Licensed    | 2nd half of 2018                | Simplified Chinese          | Adapted from a Chinese Wuxia story  |

(1) The titles of certain games in pipeline have not been determined yet and the titles listed in the above table are subject to change before launch.

(2) At external beta testing stage.

### COMPETITIVE STRENGTHS

We believe that the following strengths of our Company differentiates us from our competitors and help us compete effectively in the industry: (1) a leading online game developer and operator with a global reach; (2) sophisticated game development and data analytics capabilities; (3) expanding international footprint supported by robust localization; (4) strong capabilities of utilizing proprietary game IPs; (5) strong partnerships with premium game publishers worldwide; and (6) visionary and seasoned management team with proven success in the online game industry. For details, see “Business — Competitive Strengths” beginning on page 149 of this prospectus.

### BUSINESS STRATEGY

Our goal is to strengthen our leadership in the online game industry in China and globally by pursuing the following strategies: (1) continue to focus on casual shooting games and

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## SUMMARY

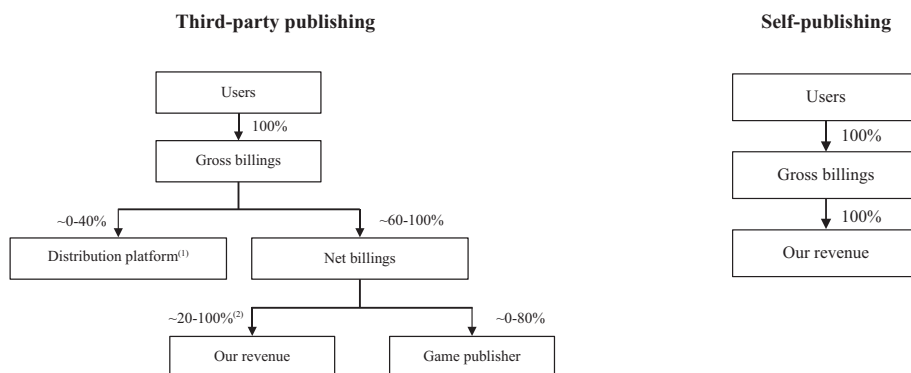
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SRPGs; (2) expand and diversify our product and service offerings; (3) deepen and expand our geographical coverage; (4) continue to build our human capital; and (5) pursue acquisition and strategic cooperation opportunities. For details, see “Business — Business Strategies” beginning on page 155 of this prospectus.

### REVENUE SHARING

The following diagrams illustrate our revenue generation process.

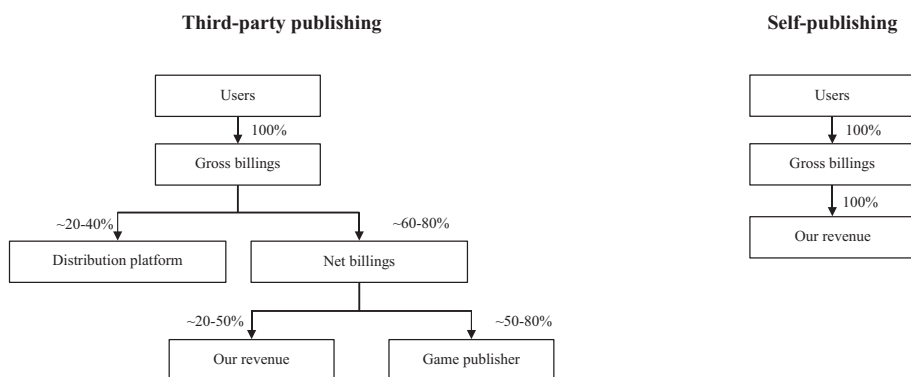
#### Revenue Sharing for Our Web Games



(1) No deduction from gross billings is required for game publishers that operate integrated distribution platforms, such as Facebook and Tencent.

(2) According to the agreement with a major game publisher, such major game publisher does not share our users' monthly billings until such monthly billings exceed RMB100,000. During the Track Record Period, there were no occasions where such major game publisher did not share our users' monthly billings.

#### Revenue Sharing for Our Mobile Games



### RISK FACTORS

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

- a significant majority of our revenue attributes to a limited number of games in recent fiscal periods;
- if we fail to continue to release successful new games that attract and retain a larger user base, our business and revenue growth may not be sustainable;
- the competition of mobile game market is intense and dominated by two game companies, including Tencent, and we rely on game publishers and third-party online payment channels;

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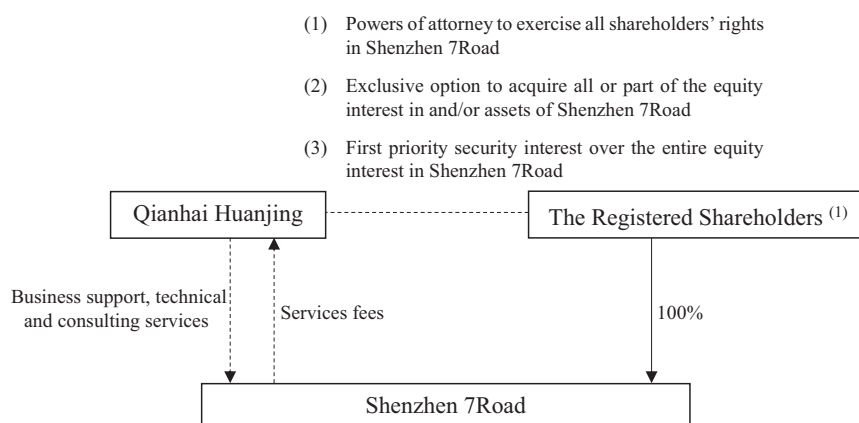
## SUMMARY

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- our business is subject to numerous laws and regulations in China and overseas; and
- it is difficult to evaluate our business and prospects as we operate in a rapidly evolving industry and may face increasingly intense competition as a result of the relatively low entry barrier.

### CONTRACTUAL ARRANGEMENTS

As of the Latest Practicable Date, we conduct online game business through one of our PRC Operating Entities, Shenzhen 7Road. Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting online game operations and are restricted to conduct value-added telecommunications services. For further details of the limitations under applicable PRC laws and regulations on foreign ownership in PRC companies conducting online game operations and value-added telecommunications services, see “Regulation Overview.” Due to these restrictions, we conduct most of our operations in the PRC through the Contractual Arrangements with Shenzhen 7Road and its shareholders, namely the Registered Shareholders. The Contractual Arrangements allow the financials and results of operations of the Consolidated Affiliated Entities including Shenzhen 7Road to be consolidated into our financials as if they are wholly-owned subsidiaries of our Group. The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



*Notes:*

- (1) As at the Latest Practicable Date, the Registered Shareholders are Mr. Meng, Mr. Hu, Mr. Liu, Ningbo Bao Pu and Shanghai Ting Can, holding 21.5%, 16.6%, 10.9%, 30.8% and 20.2% of the equity interest in Shenzhen 7Road, respectively.
- (2) “ $\longrightarrow$ ” denotes direct legal and beneficial ownership in the equity interest and “ $\text{---}\longrightarrow$ ” denotes contractual relationship.

See “Contractual Arrangements” beginning on page 206 of this prospectus for details.

In addition, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to the Contractual Arrangement. See “Connected Transactions” beginning on page 233 of this prospectus for details.

### OUR CUSTOMERS AND SUPPLIERS

#### Our Suppliers

Our suppliers primarily consist of (1) landlords of our office premises, (2) advertising agencies, (3) server providers, (4) third-party game companies, and (5) data backup service providers. As of December 31, 2017, we have maintained business relationship with our five largest suppliers for one to 10 years. For 2015, 2016 and 2017, our five largest suppliers

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## SUMMARY

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contributed a total of 88.0%, 47.0% and 57.6%, respectively, of the total cost of procurement from our suppliers for the same periods, respectively. For 2015, 2016 and 2017, our largest supplier contributed 70.2%, 12.9% and 26.8% of the total cost of procurement from our suppliers for the same periods, respectively.

As of the Latest Practicable Date, our executive Director Mr. Meng held a 18.1% interest in Chengdu Peng Wan, a company principally engaged in online game development and operation and one of our top five suppliers in 2015. Other than Chengdu Peng Wan, 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 Period.

For details, see “Business — Procurement and Suppliers” beginning on page 190 of this prospectus.

### Our Customers

Our major customers primarily include game publishers. As of December 31, 2017, we have maintained business relationship with our five largest customers for one to six years. For 2015, 2016 and 2017, the revenue generated through our five largest customers was RMB210.2 million, RMB235.1 million and RMB224.8 million, representing 55.9%, 58.3% and 50.4% of our revenue for the same periods, respectively. Our largest customer contributed 19.0%, 26.1% and 28.3% of our revenue for the same periods, respectively.

Digital Hollywood was one of our top five largest customers during the Track Record Period. As at the Latest Practicable Date, we held a 15.52% interest in Digital Hollywood. Digital Hollywood is a global online game publisher for China-based game developers. We licensed Digital Hollywood to publish our web games, such as *Wartune* and *DDTank* in certain overseas markets. Our Director Mr. Meng is a non-executive Director of Digital Hollywood. Save as disclosed above, 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 customers during the Track Record Period.

### OUR USERS

We continuously seek to target users with diverse cultural or demographic backgrounds with our rich game portfolio. Historically, our web games attracted the majority of our active users. In recent years, we have strategically expanded our business focuses to develop mobile games. As a result, the size of active user base of our mobile games experienced rapid development during 2017. Our average MPUs for online games were approximately 342,000, 294,000 and 613,000 in 2015, 2016 and 2017, respectively, representing 4.0%, 4.9% and 10.0% 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, |         |         |
|---|-------------------------|---------|---------|
|   | 2015 <sup>(1)</sup>     | 2016    | 2017    |
| <b>Average MAUs<sup>(2)</sup> (unit in thousands)</b> |                         |         |         |
| – Web games   | 7,733                   | 4,670   | 2,708   |
| – Mobile games  | 826                     | 1,341   | 3,400   |
| <b>Average MPUs<sup>(3)</sup> (unit in thousands)</b> |                         |         |         |
| – Web games   | 283                     | 185     | 122     |
| – Mobile games  | 59                      | 109     | 491     |
| <b>ARPPU (RMB)<sup>(4)</sup></b>                      |                         |         |         |
| – Web games   | 408                     | 416     | 403     |
| – Mobile games  | 490                     | 378     | 136     |
| <b>Revenue (RMB in thousands)</b>                     |                         |         |         |
| – Web games   | 333,768                 | 236,477 | 169,075 |
| – Mobile games <sup>(5)</sup>                         | 10,934                  | 109,070 | 219,854 |

## SUMMARY

- (1) the operating data for mobile games in 2015 refer to the data collected from our first mobile game launched in November 2015.
- (2) Average MAUs is the aggregate of the average MAUs of each game of the respective game type for the respective year. The average MAUs of a certain game of the respective game type for the respective year is computed as follows: the aggregate of MAUs of such game for the respective year divided by the total number of applicable months in that year.
- (3) Average MPUs is the aggregate of the average MPUs of each game of the respective game type for the respective year. The average MPUs of a certain game of the respective game type for the respective year is computed as follows: the aggregate of MPUs of such game for the respective year divided by the total number of applicable months in that year.
- (4) ARPPU is computed as follows: total revenue generated by the paying users for the respective game type for the respective year divided by total number of paying users for the respective game type for the respective year.
- (5) The revenue of mobile games in 2017 includes the revenue from *Crouching Tiger*.

During the Track Record Period, our operating data are generally in line with our strategy to shift our focus from web games to mobile games. Our ARPPU in 2017 for mobile games was affected by our launch of *DDTank (mobile)* in the same year as casual shooting games tend to appeal to a broader user base but with less inclination for in-game purchases. As advised by iResearch, our industry consultant, casual games (including casual shooting games) usually have lower ARPPU than SRPG and other hard-core games because of the designs of gameplay styles and payment systems, and such decrease in our ARPPU in 2017 for mobile games was in line with the industry.

### SUMMARY FINANCIAL INFORMATION

The following tables present summary financial information for the Track Record Period, and should be read in conjunction with our financial information included in the accountant's report set forth in Appendix I to this prospectus, including the notes thereto.

The following table sets forth selected line items of our summary combined statements of profit or loss for the periods indicated.

|                            | Year ended December 31,                   |              |          |              |          |              |
|----------------------------|---|--------------|----------|--------------|----------|--------------|
|                            | 2015                                      |              | 2016     |              | 2017     |              |
|                            | Amount                                    | % of Revenue | Amount   | % of Revenue | Amount   | % of Revenue |
|                            | (RMB in thousands except for percentages) |              |          |              |          |              |
| Revenue                    | 375,611                                   | 100%         | 403,151  | 100%         | 445,295  | 100%         |
| Cost of revenue            | (62,881)                                  | (16.7%)      | (43,601) | (10.8%)      | (37,881) | (8.5%)       |
| Gross profit               | 312,730                                   | 83.3%        | 359,550  | 89.2%        | 407,414  | 91.5%        |
| Operating profit/(loss)    | 171,777                                   | 45.8%        | (2,083)  | (0.6%)       | 293,558  | 66.0%        |
| Profit before income tax   | 181,861                                   | 48.5%        | 2,365    | 0.5%         | 279,245  | 62.8%        |
| Income tax expense         | (13,130)                                  | (3.5%)       | (19,205) | (4.8%)       | (22,064) | (5.0%)       |
| Profit/(loss) for the year | 168,731                                   | 45.0%        | (16,840) | (4.3%)       | 257,181  | 57.8%        |

The significant decrease in our operating profit in 2016 was primarily due to the share-based compensation costs arising from the Management Buyout of RMB228.8 million in 2016. See "History and Reorganization" for details.

### Non-IFRS Measures

To supplement our combined financial information which are presented in accordance with IFRS, we set forth below our adjusted net profit/(loss) as an additional financial measure which is not presented in accordance with IFRS. We believe this is meaningful because potential impacts of certain items which our management does not consider indicative of our operating performance have been eliminated, and this would be useful for investors to compare our financial results directly with those of our peer companies. 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, |                |                |
|-----------------------------------|-------------------------|----------------|----------------|
|                                   | 2015                    | 2016           | 2017           |
|                                   | (RMB in thousands)      |                |                |
| <b>Profit/(loss) for the year</b> | 168,731                 | (16,840)       | 257,181        |
| Add:                              |                         |                |                |
| Share-based compensation costs    | 13,461                  | 228,840        | —              |
| Listing-related expenses          | —                       | —              | 6,116          |
| <b>Adjusted net profit</b>        | <u>182,192</u>          | <u>212,000</u> | <u>263,297</u> |

## SUMMARY

Adjusted net profit eliminates the effect of certain non-cash or non-recurring items, namely share-based compensation expenses and listing-related 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.

### Revenue

The following table sets forth the breakdown of our revenue by for the periods indicated.

|   | Year ended December 31,                   |               |                |               |                |               |
|---|---|---------------|----------------|---------------|----------------|---------------|
|   | 2015                                      |               | 2016           |               | 2017           |               |
|   | Amount                                    | % of Revenue  | Amount         | % of Revenue  | Amount         | % of Revenue  |
|   | (RMB in thousands except for percentages) |               |                |               |                |               |
| Online game revenue   | 344,702                                   | 91.8%         | 345,547        | 85.8%         | 388,929        | 87.3%         |
| – Self-development games  |   |               |                |               |                |               |
| <i>published by us</i>  | 19,140                                    | 5.2%          | 15,237         | 3.8%          | 6,663          | 1.5%          |
| <i>published by other publishers</i>                              | 311,123                                   | 82.8%         | 258,426        | 64.1%         | 371,603        | 83.4%         |
| – Licensed games  |   |               |                |               |                |               |
| <i>published by us</i>  | 1,657                                     | 0.4%          | 378            | 0.1%          | 12             | 0.0%          |
| <i>published by other publishers</i>                              | 12,782                                    | 3.4%          | 71,506         | 17.8%         | 10,651         | 2.4%          |
| Sales of online game technology and publishing solutions services | 9,925                                     | 2.6%          | 43,724         | 10.8%         | 46,577         | 10.5%         |
| Intellectual property licensing                                   | 20,984                                    | 5.6%          | 13,880         | 3.4%          | 9,789          | 2.2%          |
| <b>Total</b>  | <b>375,611</b>                            | <b>100.0%</b> | <b>403,151</b> | <b>100.0%</b> | <b>445,295</b> | <b>100.0%</b> |

The significant increase in our revenue generated from licensed games from 2015 to 2016 was due to the launch of certain licensed games in 2016. The significant decrease in our revenue generated from licensed games from 2016 to 2017 was due to the withdrawal of these games from the market in 2017.

### Revenue by Geographical Markets

|              | Year ended December 31,                   |               |                |               |                |               |
|--------------|---|---------------|----------------|---------------|----------------|---------------|
|              | 2015                                      |               | 2016           |               | 2017           |               |
|              | Amount                                    | % of Revenue  | Amount         | % of Revenue  | Amount         | % of Revenue  |
|              | (RMB in thousands except for percentages) |               |                |               |                |               |
| China        | 165,020                                   | 43.9%         | 209,822        | 52.0%         | 295,958        | 66.5%         |
| Overseas     | 210,591                                   | 56.1%         | 193,329        | 48.0%         | 149,337        | 33.5%         |
| <b>Total</b> | <b>375,611</b>                            | <b>100.0%</b> | <b>403,151</b> | <b>100.0%</b> | <b>445,295</b> | <b>100.0%</b> |

### Online Game Revenue by Game Platforms

|              | Year ended December 31,                   |              |                |              |                |              |
|--------------|---|--------------|----------------|--------------|----------------|--------------|
|              | 2015                                      |              | 2016           |              | 2017           |              |
|              | Amount                                    | % of Revenue | Amount         | % of Revenue | Amount         | % of Revenue |
|              | (RMB in thousands except for percentages) |              |                |              |                |              |
| Web games    | 333,768                                   | 88.9%        | 236,477        | 58.8%        | 169,075        | 37.9%        |
| Mobile games | 10,934                                    | 2.9%         | 109,070        | 27.0%        | 219,854        | 49.4%        |
| <b>Total</b> | <b>344,702</b>                            | <b>91.8%</b> | <b>345,547</b> | <b>85.8%</b> | <b>388,929</b> | <b>87.3%</b> |

### Combined balance sheets

The following table sets forth selected line items of our summary combined balance sheets as of the dates indicated.

|                              | As of December 31, |                    |                |
|------------------------------|--------------------|--------------------|----------------|
|                              | 2015               | 2016               | 2017           |
|                              |                    | (RMB in thousands) |                |
| Non-current assets           | 442,706            | 529,294            | 438,007        |
| Current assets               | 264,819            | 375,657            | 479,455        |
| Non-current liabilities      | 150,001            | 184,603            | 55,950         |
| Current liabilities          | 279,378            | 224,748            | 305,667        |
| Total equity and liabilities | <b>707,525</b>     | <b>904,951</b>     | <b>917,462</b> |

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## SUMMARY

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We had net current liabilities of RMB14.6 million as of December 31, 2015, primarily due to dividend of RMB66.5 million payable to its then holding company by Shenzhen 7Road.

The substantial increase in our current liabilities and decrease in our non-current liabilities as of December 31, 2017 are due to bank borrowings progressing towards maturity.

### SHAREHOLDERS AND CORPORATE STRUCTURE

#### Pre-IPO Investments

In November 2016, Shenzhen 7Road introduced two financial investors namely Ningbo Bao Pu and Shanghai Ting Can. The then shareholders of Shenzhen 7Road transferred 30.76% and 20.24% of their equity interest in Shenzhen 7Road to Ningbo Bao Pu and Shanghai Ting Can, respectively. See “History and Reorganization — Our Corporate History — Shenzhen 7Road — Investments by financial investors” and “History and Reorganization — Pre-IPO Investments” beginning on page 131 and page 139, respectively of this prospectus for further details.

#### Controlling Shareholders

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), our Controlling Shareholders namely Shanghai Bao Pu, Shaoxing Shang Yu, Shanghai Bao Hu and Ms. Wei Hong and their respective offshore holding companies will hold less than 30% of our outstanding Shares. Therefore, none of them will be our controlling shareholder as defined under the Listing Rules upon the Listing despite the fact that each of them is referred to a “Controlling Shareholder” in the prospectus. See “Relationship with Controlling Shareholders” beginning on page 228 of this prospectus for further details.

### USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$1.86 per Share (being the mid-point of the indicative range of the Offer Price of HK\$1.50 to HK\$2.22 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\$1,148.4 million.

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

- approximately 30% of the net proceeds, or HK\$344.5 million, to fund our research and development efforts in respect of developing proprietary online games and other IPs;
- approximately 30% of the net proceeds, or HK\$344.5 million, to acquire popular IPs or other related assets from, or invest in or acquire, overseas or China-based popular IP providers;
- approximately 20% of the net proceeds, or HK\$229.8 million, to be used for potential investment in game developers and publishers; and
- approximately 10% of the net proceeds, or HK\$114.8 million, to fund our game publishing business, which includes payments for royalties and commissions in respect of licensed games; and
- any remaining balance to be used for additional working capital and other general corporate purposes.

For details, see “Future Plans and Use of Proceeds” beginning on page 300 of this prospectus.



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## SUMMARY

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### 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 RMB74.9 million comprising RMB30.4 million underwriting commission and RMB44.5 million other expenses assuming an Offer Price of HK\$1.86 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of approximately RMB7.3 million, of which approximately RMB6.1 million was charged to our combined statements of comprehensive income during the Track Record Period, while the remaining amount of approximately RMB1.2 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 RMB67.6 million (including the underwriting commission of approximately RMB30.4 million) upon the completion of the Global Offering, out of which approximately RMB28.2 million will be charged to the combined statements of comprehensive income, and approximately RMB39.4 million will be deducted from the share premium.

### DIVIDEND

Our Company does not have a fixed dividend policy. Our Board at its discretion may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. As of the Latest Practicable Date, we had dividend payable of RMB38.6 million which will be settled before the Listing.

### LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and as of the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which could have a material adverse effect on our operations or financial condition. 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.

### OFFERING STATISTICS

|  |   |  |  |
|--|---|--|--|
| Number of Offer Shares in the Global Offering  | : | Initially 25.0% of the enlarged issued share capital of our Company  |  |
| Over-allotment Option  | : | Up to 15.0% of the Offer Shares initially available under the Global Offering  |  |
| Offer Price per Share  | : | HK\$1.50 to HK\$2.22 per Offer Share   |  |
| Offering structure   | : | 90.0% International Offering and 10.0% Hong Kong Public Offering (subject to reallocation and the Over-allotment Option) |  |
| Market capitalization <sup>(1)</sup>   |   | <b>Based on an Offer Price of HK\$ 1.50 per Offer Share</b><br>HK\$4,000.0 million                                       | <b>Based on an Offer Price of HK\$ 2.22 per Offer Share</b><br>HK\$5,920.0 million |
| Unaudited pro forma adjusted combined net tangible assets value per Share <sup>(2)</sup> |   | HK\$0.59   | HK\$0.76   |

(1) The calculation of market capitalization is based on 2,666,680,000 Shares expected to be in issue immediately upon completion of the Global Offering.

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

(3) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

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## SUMMARY

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### **HISTORICAL BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS**

During the Track Record Period, we entered into agreements with game publisher partners, which were located in, among others, Cyprus and Russia to publish different language versions of our games to users in the Relevant Countries. For the years ended December 31, 2015, 2016 and 2017, based on accounting records, invoices from our game publishers and other data we collected, our estimated revenue derived from our games published in the Relevant Countries was RMB1.9 million, RMB0.9 million and RMB0.8 million, representing 0.49%, 0.23% and 0.17% of our revenue during the same periods, respectively. For further details of our business activities in Countries subject to International Sanctions, see “Business — Historical Business Activities in Countries subject to International Sanctions” beginning on page 192 of this prospectus.

### **RECENT DEVELOPMENTS**

Based on our unaudited management accounts for the four months ended April 30, 2018, our revenue for the four months ended April 30, 2018 increased when compared with the corresponding period in 2017. Our Directors confirm that since December 31, 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 December 31, 2017 that would materially affect the audited financial information as set out in Appendix I — “Accountant’s Report” to this prospectus.

On March 31, 2018, the Board approved to grant 5,040,000 RSUs from the Company’s RSU Scheme to eligible Directors, senior management and employees of the Company. Details of the grant of such RSUs are set out in Appendix I — “Accountant’s Report” and Appendix IV — “Statutory and General Information” to this prospectus.

We currently estimate that our net profit for the year ending December 31, 2018 may decrease as compared to our net profit for 2017, primarily due to a significant non-recurring amount of listing-related expenses and share based compensation expenses we incurred and expect to incur in connection with the Global Offering. Excluding the impact of the listing-related expenses and the share based compensation expenses, we currently expect that our net profit for the year ending December 31, 2018 would increase compared to our net profit for 2017. Furthermore, we estimate that our gross profit margin for the year ending December 31, 2018 may decrease as compared to our gross profit margin for 2017, primarily due to an increase in our cost of revenue in connection with our game publishing business as we intend to publish certain licensed games in 2018.

As of the Latest Practicable Date, we had a pipeline of (1) 10 online games, including seven proprietary games and three licensed games, targeted for launch by the end of 2018, and (2) four online games, including three proprietary games and one licensed game, targeted for launch by the end of 2019.

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## DEFINITIONS

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*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   |
| “Application Form(s)”                   | <b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s), individually or collectively, as the context may require   |
| “Articles of Association” or “Articles” | our articles of association, as conditionally adopted on June 23, 2018 with effect from the Global Offering becoming unconditional on the Listing Date, and as amended from time to time, a summary of which is contained in Appendix III to this prospectus |
| “associate”                             | has the meaning ascribed to it under the Listing Rules   |
| “Beijing Chang You”                     | Beijing Chang You Digital Technology Co. Ltd. (北京暢遊時代數碼技術有限公司), a company incorporated under the laws of the PRC with limited liability on August 23, 2007 and controlled by Chang You   |
| “Ben Holdings”                          | Ben 7Road Holdings Limited, a company incorporated under the laws of the BVI with limited liability on August 31, 2017 and wholly owned by Mr. Meng  |
| “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   |
| “Business License for Internet Culture” | the Business License for Internet Culture Operation (網絡文化經營許可證)  |
| “BVI”                                   | British Virgin Islands   |
| “CAGR”                                  | compound annual growth rate  |

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## DEFINITIONS

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|-------------------------------|---|
| “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   |
| “CCB International”           | CCB International Capital Limited (建銀國際金融有限公司), a licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO   |
| “Chang You”                   | Changyou.com Limited, a company incorporated under the laws of the Cayman Islands with limited liability on August 6, 2007 and listed on the NASDAQ and a former shareholder of Shenzhen 7Road  |
| “Chendifeng Holdings”         | Chendifeng Holdings Limited, a company incorporated under the laws of the BVI with limited liability on November 2, 2017 and wholly-owned by Mr. CHEN Difeng, one of our Shareholders   |
| “Chengdu Peng Wan”            | Chengdu Peng Wan Technology Co., Ltd (成都朋萬科技股份有限公司), a company incorporated under the laws of the PRC with limited liability on July 20, 2011, whose shares are listed on the National Equities Exchange and Quotations and owned by Shenzhen Qianqi and Mr. Meng as to 4.22% and 18.11% of its share capital as at the Latest Practicable Date, respectively |
| “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  |

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## DEFINITIONS

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|--|---|
| “Companies Law” or “Cayman Companies Law”                                | the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time  |
| “Companies Ordinance”  | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time  |
| “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,” “we,” “us” or “7Road”    | 7Road Holdings Limited (第七大道控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on September 6, 2017, and, except where the context otherwise requires, all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of the Contractual Arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be) |
| “connected person(s)”  | has the meaning ascribed thereto under the Listing Rules  |
| “Consolidated Affiliated Entities”                                       | the entities we control through the Contractual Arrangements, namely Shenzhen 7Road and its subsidiaries  |
| “Controlling Shareholder(s)”   | has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Shanghai Bao Pu, Shaoxing Shang Yu, Shanghai Bao Hu, Ms. Wei Hong and their respective holding companies, the controlling shareholders of our Company, as at the date of this prospectus  |
| “Countries subject to International Sanctions” or “Sanctioned Countries” | 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,   |

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## DEFINITIONS

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|                     | 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 (中國證券監督委員會), a regulatory body responsible for the supervision and regulation of the securities markets in PRC  |
| “Digital Hollywood” | Digital Hollywood Interactive Limited (遊萊互動集團有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on November 24, 2014 and the shares of which were listed on the Main Board of the Stock Exchange on December 15, 2017 and owned by our Company as to 15.52% of its shares as at the Latest Practicable Date |
| “Director(s)”       | the director(s) of the Company or any one of them  |
| “R&D”               | research and development   |
| “ESOP 1 Holdings”   | 7Road Elite Holdings Limited, a company incorporated under the laws of the BVI with limited liability on February 7, 2018, wholly-owned by Ben Holdings and holding 4,946,600 of the issued ordinary shares of our Company on trust and for the benefit of the participants of the RSU Scheme as at the Latest Practicable Date                    |
| “ESOP 2 Holdings”   | 7Road Talent Holdings Limited, a company incorporated under the laws of the BVI with limited liability on February 7, 2018, wholly-owned by World Holdings and holding 4,000,000 of the issued ordinary shares of our Company on trust and for the benefit of the participants of the RSU Scheme as at the Latest Practicable Date                 |
| “GAPP”              | General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署)   |
| “GF Capital”        | GF Capital (Hong Kong) Limited (廣發融資(香港)有限公司), a licensed corporation under the SFO for type 6 (advising on corporate finance) of the regulated activity under the SFO   |

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| “GF Securities”                     | GF Securities (Hong Kong) Brokerage Limited (廣發証券(香港)經紀有限公司), a corporation licensed to carry on type 1 (dealing in Securities) and type 4 (advising on Securities) regulated activities under the SFO   |
| “Global Offering”                   | the Hong Kong Public Offering and the International Offering   |
| “ <b>GREEN</b> application form(s)” | the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited  |
| “Guangzhou Ju Ze”                   | Guangzhou Ju Ze Trading Co., Ltd. (廣州聚澤貿易有限公司), a company incorporated under the laws of the PRC with limited liability on March 4, 2011, which is a limited partner of Shanghai Ting Can  |
| “Guangzhou Ju Ze Holdings”          | Juze Holdings Limited, a company incorporated under the laws of the BVI with limited liability on February 13, 2018 and wholly owned by Guangzhou Ju Ze  |
| “HK\$” or “Hong Kong dollars”       | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong  |
| “IFRSs”                             | International Financial Reporting Standards  |
| “HKSCC”                             | Hong Kong Securities Clearing Company Limited  |
| “HKSCC Nominees”                    | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC   |
| “Hong Kong”                         | the Hong Kong Special Administrative Region of the PRC   |
| “Hong Kong Public Offer Shares”     | the 66,668,000 Shares initially being offered by the Company for subscription at the Offer Price under the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering”)  |
| “Hong Kong Public Offering”         | the offer by the Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong as described in the section headed “Structure and Conditions of the Global Offering” at the Offer Price (plus a brokerage fee of 1%, SFC |

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## DEFINITIONS

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|                                    | transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto   |
| “Hong Kong Share Registrar”        | Computershare Hong Kong Investor Services Limited   |
| “Hong Kong Underwriters”           | the underwriters of the Hong Kong Public Offering named in the section headed “Underwriting — Hong Kong Underwriters”   |
| “Hong Kong Underwriting Agreement” | the conditional Hong Kong underwriting agreement dated June 28, 2018 relating to the Hong Kong Public Offering entered into by, among others, the Company, the Joint Global Coordinators and the Hong Kong Underwriters   |
| “Huoerguosi 7Road”                 | Huoerguosi 7th Road Network Technology Co., Ltd (霍爾果斯第七大道網絡科技有限公司), a company incorporated under the laws of the PRC with limited liability on November 27, 2015, and by virtue of the Contractual Arrangements, accounted for as our subsidiary  |
| “ICP License”                      | Value-added Telecommunications Business Operating License (增值電信業務經營許可證)   |
| “Independent Third Party(ies) ”    | any person or entity who is not considered a connected person of our Company or an associate of any such person within the meaning under the Listing Rules  |
| “International Offer Shares”       | the 600,012,000 Shares initially being offered by the 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   |



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## DEFINITIONS

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|  | retail investors in Hong Kong) in reliance on Regulation S for cash at the Offer Price plus a brokerage fee 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 Sanctions Legal Advisors” | Hogan Lovells, the legal advisors to our Company as to International Sanctions laws in connection with the Listing  |
| “International Underwriters”             | the group of underwriters led by the Joint Global Coordinators, who are expected to enter into the International Underwriting Agreement   |
| “International Underwriting Agreement”   | the conditional placing and purchase agreement relating to the International Offering and expected to be entered into by, among others, the Company and the Joint Global Coordinators on behalf of the International Underwriters on or about the Price Determination Date  |
| “iResearch”                              | Shanghai iResearch Co., Ltd, China, our industry consultant   |
| “iResearch Report”                       | an industry report we commissioned from iResearch in respect of online game markets   |
| “Joint Sponsors”                         | GF Capital and CCB International  |
| “Joint Global Coordinators”              | GF Securities, CCB International, Haitong International Securities Company Limited and AMTD Global Markets Limited  |
| “Joint Bookrunners”                      | GF Securities, CCB International, Haitong International Securities Company Limited, AMTD Global Markets Limited and CMB International Capital Limited   |
| “Joint Lead Managers”                    | GF Securities, CCB International, Haitong International Securities Company Limited, AMTD Global Markets Limited, CMB International Capital Limited, First Shanghai Securities Limited, Zhongtai International Securities Limited, Head & Shoulders  |

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## DEFINITIONS

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|   | Securities Limited, Futu Securities International (Hong Kong) Limited and Valuable Capital Limited   |
| “Latest Practicable Date”                   | June 20, 2018, 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 Wednesday, July 18, 2018 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)  |
| “Liuzhan Holdings”                          | Liuzhan Holdings Limited, a company incorporated under the laws of the BVI with limited liability on November 2, 2017 and wholly-owned by Mr. LIU Zhan, one of our Shareholders  |
| “Liweimin Holdings”                         | Liweimin Holdings Limited, a company incorporated under the laws of the BVI with limited liability on November 2, 2017 and wholly-owned by Ms. LI Weimin, one of our Shareholders  |
| “Management Buyout”                         | the acquisition of interest in Shenzhen 7Road by Mr. Meng, Mr. Hu and Mr. Liu, details of which is set forth in the section headed “History and Reorganization — Our Corporate History — Shenzhen 7Road — Management Buyout” for details.                  |
| “Memorandum” or “Memorandum of Association” | our memorandum of association, as conditionally adopted on June 23, 2018 with effect from the Global Offering becoming unconditional on the Listing Date, as amended from time to time, a summary of which is contained in Appendix III to this prospectus |
| “MIIT”                                      | the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)  |
| “MOC”                                       | the Ministry of Culture of the PRC (中華人民共和國文化部), which is reformed and known as the Ministry of Culture and Tourism (中華人民共和國文化和旅游部) since March 18, 2018   |
| “MOFCOM”                                    | the Ministry of Commerce of the PRC (中華人民共和國商務部), or its competent local branches  |

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## DEFINITIONS

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| “Mr. Hu”                      | Mr. HU Min (胡敏), our executive Director, chief production officer and one of our substantial shareholders   |
| “Mr. Liu”                     | Mr. LIU Jing (劉靖), who served as the vice president of Shenzhen 7Road from May 2013 to December 2013, and acted as the director of Shenzhen 7Road from August 2015 to March 2018  |
| “Mr. Meng”                    | Mr. MENG Shuqi (孟書奇), our Chairman, executive Director, chief executive officer, one of our substantial shareholders and an authorized representative   |
| “NDRC”                        | the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)  |
| “Ningbo Bao Pu”               | Ningbo Bao Pu Xing Sheng Investment Management Center (Limited liability partnership) (寧波鈞樸鑫盛投資管理中心(有限合夥)), a limited liability partnership incorporated under the laws of the PRC on June 13, 2016, and a shareholder of Shenzhen 7Road  |
| “Non-Restricted Business”     | all businesses which are not a Restricted Business  |
| “OFAC”                        | the Office of Foreign Assets Control of the U.S. Department of the Treasury   |
| “Offer Price”                 | the final Hong Kong dollar price per Offer Share (exclusive of a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which Shares are to be subscribed or purchased pursuant to the Global Offering, which will be not more than HK\$2.22 and is expected to be not less than HK\$1.50, to be determined as described in the section headed “Structure and Conditions of the Global Offering — Determining the Offer Price” |
| “Offer Share(s)”              | the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with any additional Shares that may be sold by the Over-allotment Option Grantor pursuant to the exercise of the Over-allotment Option   |
| “Offshore Voting Arrangement” | the arrangement made by our Controlling Shareholders in relation to their voting rights on our Company, details of which is set forth in the section headed “History and Reorganization — Reorganization — Offshore Reorganization — Offshore shareholding and voting arrangement”  |

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## DEFINITIONS

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| “Over-allotment Option”    | the option to be granted by the Company to the International Underwriters under the International Underwriting Agreement pursuant to which the Company may be required by the Joint Global Coordinators (on behalf of the International Underwriters), to allot and issue up to 100,002,000 additional new Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any |
| “Over-allotment Shares”    | up to 100,002,000 Shares which the Company may be required to issue at the Offer Price pursuant to the Over-allotment Option   |
| “Paypal”                   | a worldwide online payments system that supports online money transfers  |
| “PBOC”                     | the People’s Bank of China (中國人民銀行), the central bank of the PRC   |
| “PRC Operating Entities”   | companies which have been making material contributions to our operational and financial results during the Track Record Period, including Shenzhen 7Road, Shenzhen Qianqi and Huoerguosi 7Road. For further details of these entities, see “History and Reorganization — Our Operating Entities — PRC Operating Entities”   |
| “Pre-IPO Investments”      | the investments made by the Pre-IPO Investors, the principal terms of which are summarized in the section headed “History and Reorganization – Pre-IPO Investments”  |
| “Pre-IPO Investors”        | including Ningbo Bao Pu and Shanghai Ting Can  |
| “Price Determination Date” | the date, expected to be on or about Wednesday, July 11, 2018 (Hong Kong time), when the Offer Price is determined and, in any event, no later than Monday, July 16, 2018  |
| “Qianhai Huanjing”         | Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳市前海幻境網絡科技有限公司), a company incorporated under the laws of the PRC with limited liability on July 12, 2015, and a wholly-owned subsidiary of 7Road Hong Kong   |

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## DEFINITIONS

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| “Red Shanghai Holdings”   | Red Shanghai Holdings Limited, a company incorporated under the laws of the BVI with limited liability on November 2, 2017 and wholly-owned by Ms. WEI Hong, who is one of our Controlling Shareholders   |
| “Relevant Countries”      | Belarus, Crimea region, Congo, Egypt, Iran, Iraq, Lebanon, Tunisia, Ukraine, Sudan, Syria, Venezuela and Yemen, which are countries subject to International Sanctions, and Russia, where certain Sanctioned Persons are located  |
| “Registered Shareholders” | Mr. Meng, Mr. Hu, Mr. Liu, Ningbo Bao Pu and Shanghai Ting Can, as shareholders of Shenzhen 7Road   |
| “Regulation S”            | Regulation S under the U.S. Securities Act  |
| “related parties”         | has the meaning as set out in the paragraph headed “Related parties” under note 33 to the accountant’s report set out in Appendix I to this prospectus  |
| “Reorganization”          | the corporate reorganization of our Group of the restricting of our business and in preparation for the Listing, particulars of which are set out in the section headed “History and Reorganization — Reorganization” in this prospectus  |
| “Restricted Business”     | any business over which the Guidance Catalog of Industries for Foreign Investment (外商投資產業指導目錄), Provisions on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定), Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business (關於加強外商投資經營增值電信業務管理的通知) and the Circular on Implementation of the Newly Revised Interim Provisions on the Administration of Internet Culture (關於實施新修訂〈互聯網文化管理暫行規定〉的通知) impose restrictions in relation to foreign ownership |
| “RMB” or “Renminbi”       | Renminbi, the lawful currency of the PRC  |
| “RSU Scheme”              | the restricted share unit plan adopted by our Company on March 6, 2018  |

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| “RSU(s)”             | restricted share units granted pursuant to the RSU Scheme  |
| “SAFE”               | the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), and its branch(es)  |
| “SAIC”               | the State Administration of Industry and Commerce of PRC (中華人民共和國國家工商行政管理總局)   |
| “Sanctioned Persons” | 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), which is reformed and known as the State Administration of Radio and Television of the PRC (中華人民共和國國家廣播電視總局) since March 18, 2018 |
| “SAT”                | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)  |
| “SCGC”               | Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司), a company incorporated under the laws of the PRC with limited liability on August 25, 1999, and an Independent Third Party   |
| “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  |
| “Shanghai Bao Hu”    | Shanghai Bao Hu Investment Management Center (上海鈞虎投資管理中心 (有限合夥)), a limited liability partnership incorporated under the laws of the PRC on August 26, 2015, which is a limited partner of Ningbo Bao Pu and one of our Controlling Shareholders   |

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## DEFINITIONS

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| “Shanghai Bao Hu Holdings”  | Baohu Holdings Limited, a company incorporated under the laws of the BVI with limited liability on February 13, 2018 and wholly owned by Shanghai Bao Hu  |
| “Shanghai Bao Pu”           | Shanghai Bao Pu Investment Management Co., Ltd. (上海鈞樸投資管理有限公司), a company incorporated under the laws of the PRC with limited liability on October 27, 2015, which is the sole general partner of Ningbo Bao Pu and one of our Controlling Shareholders |
| “Shanghai Bao Pu Holdings”  | Baopu Hong Kong Limited (香港鈞樸有限公司), a company incorporated under the laws of Hong Kong with limited liability on January 8, 2018 and wholly owned by Shanghai Bao Pu  |
| “Shanghai Rong Xi”          | Shanghai Rong Xi Venture Investment Management Co., Ltd. (上海融璽創業投資管理有限公司), a company incorporated under the laws of the PRC with limited liability on July 6, 2009, which is the general partner of Shanghai Ting Can                                   |
| “Shanghai Rong Xi Holdings” | Rongxi Holdings Limited, a company incorporated under the laws of the BVI with limited liability on February 7, 2018 and wholly-owned by Shanghai Rong Xi   |
| “Shanghai Ting Can”         | Shanghai Ting Can Equity Investment Center (Limited liability partnership) (上海廷燦股權投資中心 (有限合夥)), a limited liability partnership incorporated under the laws of the PRC on November 11, 2015, which is a substantial shareholder of Shenzhen 7Road       |
| “Shanghai Yong Chong”       | Shanghai Yong Chong Investment Center (limited liability partnership) (上海永翀投資中心 (有限合夥)), a limited liability partnership investment fund incorporated under the laws of the PRC on March 26, 2015, and a former shareholder of Shenzhen 7Road           |
| “Shanghai You Zu”           | Shanghai You Zu Information Technology Corporation Limited (上海遊族資訊技術有限公司), a company incorporated under the laws of the PRC with limited liability on June 22, 2009, and an Independent Third Party   |

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| “Shaoxing Shang Yu”          | Shaoxing Shang Yu Long Cheng Capital Investment Fund (Limited Partnership) (紹興上虞龍誠股權投資合夥企業(有限合夥)), a limited liability partnership incorporated under the laws of the PRC on October 17, 2016, which is a limited partner of Ningbo Bao Pu and one of our Controlling Shareholders |
| “Shaoxing Shang Yu Holdings” | Shangyulongcheng Holdings Limited, a company incorporated under the laws of the BVI with limited liability on February 13, 2018 and wholly-owned by Shaoxing Shang Yu  |
| “Share(s)”                   | ordinary share(s) of US\$0.000005 each in the issued share capital of the Company  |
| “Shareholder(s)”             | holder(s) of Shares  |
| “Shenzhen 7Road”             | Shenzhen 7th Road Technology Co., Ltd (深圳第七大道科技有限公司), a company incorporated under the laws of the PRC with limited liability on January 22, 2008, and by virtue of the Contractual Arrangements, accounted for as our subsidiary  |
| “Shenzhen Qianqi”            | Shenzhen Qianqi Network Technology Co., Ltd (深圳市千奇網絡科技有限公司), a company incorporated under the laws of the PRC with limited liability on November 28, 2013, and by virtue of the Contractual Arrangements, accounted for as our subsidiary  |
| “SNK”                        | SNK Playmore Corporation, a company incorporated under the laws of Japan with limited liability on August 1, 2001, and an Independent Third Party  |
| “Songshuxing Holdings”       | Songshuxing Holdings Limited, a company incorporated under the laws of the BVI with limited liability on November 2, 2017 and wholly-owned by Mr. SONG Shuxing, one of our Shareholders  |
| “Stabilizing Manager”        | GF Securities  |
| “Stock Exchange”             | The Stock Exchange of Hong Kong Limited  |
| “subsidiary”                 | has the meaning ascribed to it in the Listing Rules  |
| “Track Record Period”        | the period consisting of the three years ended December 31, 2017   |



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| “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, and the rules and regulations promulgated thereunder  |
| “Underwriters”                     | the Hong Kong Underwriters and the International Underwriters   |
| “Underwriting Agreements”          | the Hong Kong Underwriting Agreement and the International Underwriting Agreement   |
| “United States” or “U.S.”          | the United States of America  |
| “US\$” or “US dollars”             | United States dollars, the lawful currency of the United States   |
| “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 name(s)  |
| “White Form eIPO”                  | applying for Hong Kong Public Offer Shares to be issued in your own name by submitting applications online through the designated website at <b>www.eipo.com.hk</b>   |
| “White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited   |
| “World Holdings”                   | World 7Road Holdings Limited, a company incorporated under the laws of the BVI with limited liability on August 31, 2017 and wholly owned by Mr. Hu   |
| “Wuxi Yi Yao”                      | Wuxi Yi Yao Investment Center (limited liability partnership) (無錫熠耀投資中心 (有限合夥)), a limited liability partnership incorporated under the laws of the PRC on October 14, 2015, and a former shareholder of Shenzhen 7Road |
| “Yanglei Holdings”                 | Yanglei Holdings Limited, a company incorporated under the laws of the BVI with limited liability on November 2, 2017 and wholly-owned by Mr. YANG Lei, one of our Shareholders   |
| “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 in CCASS  |

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| “Zhoufashun Holdings”           | Zhoufashun Holdings Limited, a company incorporated under the laws of the BVI with limited liability on November 2, 2017 and wholly-owned by Mr. ZHOU Fashun, one of our Shareholders           |
| “Zing Holdings”                 | Zing 7Road Holdings Limited, a company incorporated under the laws of the BVI with limited liability on August 31, 2017 and wholly owned by Mr. Liu   |
| “%”                             | per cent  |
| “7Road BVI”                     | 7Road Fun Limited, a company incorporated under the laws of the BVI with limited liability on September 15, 2017 and a wholly-owned subsidiary of our Company                                   |
| “7Road Hong Kong”               | 7Road HK Digital Limited (香港第七大道數位有限公司), a company incorporated under the laws of Hong Kong with limited liability on October 9, 2017 and a wholly-owned subsidiary of 7Road BVI                |
| “7Road International”           | 7Road International Group Limited, a company incorporated under the laws of the BVI with limited liability on May 12, 2015 and a wholly-owned subsidiary of our Company                         |
| “7Road International Hong Kong” | 7Road International HK Limited (第七大道國際(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on June 3, 2015 and a wholly-owned subsidiary of 7Road International |
| “7Road Singapore”               | 7Road International Pte. Ltd., a company incorporated under the laws of Singapore with limited liability on September 28, 2015 and a wholly-owned subsidiary of 7Road Hong Kong                 |
| “7Road UK”                      | 7Road (UK) Company Limited, a company incorporated under the laws of the United Kingdom on July 3, 2009 and a wholly-owned subsidiary of 7Road International                                    |

*Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-allotment Option.*

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

*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.*

*All times refer to Hong Kong time.*

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

*If there are any inconsistencies between the Chinese names of the PRC laws and regulations or PRC entities mentioned in this prospectus and their English translations, the Chinese names shall prevail. 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.*

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## GLOSSARY

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*This glossary contains certain technical terms used in this prospectus in connection with our Company. These terms and their definitions may not correspond to standard industry definitions or usage, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.*

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| “active users” | in any given period, (1) active users of a particular game refers to all registered users of such game that have entered the game at least once in such period; and (2) active users of a particular type or all of our games refers to the simple sum of the active users of each game of such type or all of our games, as applicable, in such period and a registered user that entered two or more games in such period is counted as two or more active users in such period |
| “Alipay”       | a third-party mobile and online payment platform  |
| “Android”      | an operating system developed and maintained by Google Inc. used in touchscreen technology including smartphones and tablets  |
| “ARPGs”        | action role-playing games, which incorporate elements of action or action-adventure games and normally have combat systems  |
| “ARPPU”        | average revenue per paying user, which represents the total revenue generated by the paying users for a particular game, a particular type of games or all of our games, as applicable, during a certain period divided by the number of paying users of the game, the type of games or all of our games, as applicable, during such period   |
| “beta testing” | a form of external user acceptance testing  |
| “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  |
| “DAUs”         | daily active user(s), which measures the stickiness of an online product by measuring how many unique product users visit the product daily   |

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## GLOSSARY

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|----------------|---|
| “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  |
| “H5”           | a markup language used for structuring and presenting content on the World Wide Web, which is the fifth and current major version of the HTML standard  |
| “iOS”          | a mobile operating system developed and maintained by Apple Inc. 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                                   |
| “mobile games” | games that are 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  |
| “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 |

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## GLOSSARY

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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

“server”

a computer system that provides services to other computing systems over a computer network

“SRPG”

strategy role-playing games, which incorporate elements from strategy video games as an alternative to traditional role-playing game systems, emphasizing tactics

“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

“web games”

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

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## FORWARD-LOOKING STATEMENTS

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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 publishers, 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,” “Regulation 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.

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## **FORWARD-LOOKING STATEMENTS**

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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.”



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## RISK FACTORS

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*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 China and overseas markets, (3) risks relating to our corporate structure, and (4) risks relating to the Global Offering.

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**A significant majority of our revenue attributes to a limited number of games in recent fiscal periods. Our revenue would decline if these games do not continue to succeed.**

Our product development strategy is to focus on a limited number of high-quality games, and accordingly we derive a significant majority of our revenue from a small number of games. Our top five games in 2015, 2016 and 2017 accounted for 89.6%, 81.9% and 84.5% of our revenue, respectively. Our top web games, *DDTank* (彈彈堂) and *Wartune* (神曲), accounted for 80.7%, 52.3% and 34.1% of our revenue in 2015, 2016 and 2017, respectively. *DDTank (mobile)* (彈彈堂(手遊)), the mobile remake of our flagship web title, has since its launch in April 2017 accounted for 34.7% of our revenue in 2017. We expect these games to continue to contribute a substantial portion of our revenue in the foreseeable future. We will continue to improve, expand and upgrade them to launch new features that appeal to existing users and attract new users. However, we cannot assure you that our efforts in enhancing the existing games will sustain their current level of popularity.

According to the iResearch Report, the lifecycle of most web games developed by Chinese companies ranges from two to 12 months. Our top games have achieved much longer lifecycles than other comparable games. For example, our flagship titles, *DDTank* and *Wartune*, launched in 2009 and 2011, respectively, continued to generate significant revenue as of December 31, 2017. To cater to user interests, we must strive to extend the lifecycle of these games through regular upgrades and expansions. However, if we fail to extend the lives of our top games, our results of operation would suffer.

**If we fail to continue to release successful new games that attract and retain a larger user base, our business and revenue growth may not be sustainable.**

To further grow our business, we must continuously make strong efforts to launch new games and implement different strategies to broaden our user base. In launching new games, we must predict and accommodate changes in user interests and preferences, and the evolving competitive landscape of the online game industry. We must also seek to effectively market new games and game upgrades to strengthen geographic penetration. Lastly, we must continue to upgrade our technology and infrastructure to minimize downtime and maintain our system stability of our games.

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## RISK FACTORS

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Releasing new games will help retain and expand our user base. We generate the majority of our revenues from sales of in-game virtual items. The success of user monetization largely depends on our ability to continue to attract and retain user base and convert more registered users into paying users. Our average MPUs increased from approximately 342,000 in 2015 to 613,000 in 2017.

We cannot guarantee, however, that the new games we launch will gain popularity. We also cannot guarantee that our games and main proprietary IPs will not lose interests from the users and become outdated, especially in respect of our top games such as *DDTank* and *Wartune*. In addition, users might lose interest in us because of unexpected delays in releasing new games. Developing new games may go through many reiterations and setbacks. As a result, we may not be able to make an accurate schedule of game development.

If a new game does not gain commercial success and we fail to introduce additional games or updates timely to maintain our user base, our existing games could eventually lose popularity, resulting in a decline in our total active and paying users. As a result, our business, financial condition, and results of operations may be materially and adversely affected.

**The competition of mobile game market is intense and the market is dominated by the top two game companies, including Tencent. In the coming years, we expect to continuously rely on major game publishers such as Tencent to publish our mobile games and H5 games in China. We also rely on third-party online payment channels such as WeChat payment channel in Tencent for payment collection.**

As of the Latest Practicable Date, we collaborated with a number of premium third-party game publishers worldwide, including Tencent, Garena Online and Digital Hollywood to publish our games across the regional markets. Our revenue derived from the partnership with third-party game publishers contributed 86.2%, 81.8% and 85.8% of our total revenue in 2015, 2016 and 2017, respectively. Leveraging their user traffic and publishing experience, these third-party game publishers help us scale up our operations rapidly in our target markets. See “Business — Game Publishing.”

According to the iResearch Report, the competition of mobile game market is intense and is dominated by the top two game companies, including Tencent, which assumed a commanding market share of 57% in China in terms of revenue in 2016. In the coming years, we expect to continuously rely on Tencent to publish our mobile games and H5 games in China. Some of the game publishers have strong bargaining power in dealing with online game companies 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 could be materially and adversely affected if these game publishers cease to cooperate with us, or fail to effectively promote our games or otherwise fulfill their contractual obligations. Also, if they establish more favorable relationships with one or more of our competitors, or do not obtain or maintain relevant government licenses to distribute our games, our business will be harmed.

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## RISK FACTORS

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Under our arrangement with game publisher partners, we typically require them to share gameplay data with us so that we can analyze and improve the performance of our games on a regular basis. Certain game publishers, however, might refuse to share some or all of such data with us, citing data protection and confidentiality concerns. Among them, one game publisher refuses to share all of such data with respect to a certain game with us, and our revenue derived from this game publisher in respect of this game was RMB121.2 million, which was incurred in 2017, during the Track Record Period. As a result, we may not effectively analyze the performance of the games affected and make targeted improvement efforts, which may adversely affect the continued performance of such games.

We utilize third-party payment channels such as WeChat payment channel in Tencent 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. 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 fail 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.

**Our business is subject to numerous laws and regulation in China, the United States, the European Union, and other relevant jurisdictions applicable to operations of online games, many of which are unsettled and still developing. New laws and regulations may be adopted or amended from time to time and these regulatory restraints could subject us to claims or otherwise harm our business.**

We are subject to a variety of laws in China, the United States, the European Union, 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. It is difficult to predict how existing laws will be applied to our business and the new laws to which we may become subject. For example, China's government has been escalating restrictive regulations on the content of online games, particularly restricting online games from containing factors such as pornography and violence. However, many of such regulations, such as the depiction of pornography and violence, are ambiguous, still evolving and could be interpreted in ways that could harm our business or expose us to liability.

In China, commercial operators and publishers of online games are required to obtain necessary qualifications and the contents of online games are required to comply with certain laws and regulations, which are summarized as followings:

| Regulations   | Main Contents  |
|---|--|
| Telecommunication Regulation of the People's Republic of China (《中華人民共和國電信條例》), issued on September 25, 2000 and last amended on February 6, 2016 | <ul style="list-style-type: none"><li>• categorizes telecommunications services into basic telecommunications services and value-added telecommunications services; and</li><li>• requires telecommunications services providers to obtain an operating license prior to the commencement of their operations.</li></ul> |

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## RISK FACTORS

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| Regulations   | Main Contents  |
|---|--|
| Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》), issued on September 25, 2000 and amended on January 8, 2011          | <ul style="list-style-type: none"><li>requires commercial Internet information services operators to obtain a value-added telecommunications services license with the business scope of Internet information service, namely ICP license (增值電信業務經營許可證).</li></ul>   |
| Notice Regarding the Strengthening of Online Game Content Censorship (《文化部關於加強網絡遊戲產品內容審查工作的通知》), issued on May 14, 2004                         | <ul style="list-style-type: none"><li>mandates the establishment of a committee under the MOC to screen the content of imported online games and requires that the content of all imported online games be approved by the MOC.</li></ul>  |
| Notice Regarding Improving and Strengthening the Administration of Online Game Content (《文化部關於改進和加強網絡遊戲內容管理工作的通知》), issued on November 13, 2009 | <ul style="list-style-type: none"><li>requests online game operators to improve and adapt their game models by (1) mitigating the predominance of the “upgrade by monster fighting” model, (2) limiting the use of the “player killing” model (where one player’s character attempts to kill another player’s character), (3) limiting in-game marriages among game players, and (4) improving their compliance with legal requirements for the registration of minors and game time limits.</li></ul>   |
| Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》), issued on June 3, 2010 and amended on December 15, 2017                 | <ul style="list-style-type: none"><li>any entity who is an operational Internet cultural provider, including online game operator, must obtain an Internet Culture Operation License (網絡文化經營許可證) ;</li><li>operator of an imported online game shall not operate such online game unless it obtains the approval from the MOC, and the operator of a home-made online game shall go through filing procedures with the MOC within 30 days of the date of its online operation as required;</li><li>online games are not allowed to contain illegal factors, such as promoting obscenity, pornography, gambling, violence, or instigating crimes; and</li><li>requests online game operators to protect the interests of online game players and specifies certain terms that must be included in the service agreements between online game operators and the players of their online game, such as they shall require online game users to use valid identity documents for real-name registration.</li></ul> |
| Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), issued on May 10, 2003 and last amended on December 15, 2017             | <ul style="list-style-type: none"><li>any entity that is engaged in online game operations must obtain an Business License for Internet Culture;</li><li>all imported Internet cultural products are subject to censoring of contents by the MOC; and</li><li>home-made Internet cultural products shall be filed with the culture authorities at the provincial level or above within 30 days of their formal business operation.</li></ul>   |
| Administrative Provisions on Online Publishing Services (《網絡出版服務管理規定》), issued on February 4, 2016  | <ul style="list-style-type: none"><li>any entity that is engaged in editing, producing or processing digital works that are provided to the public through information network, including online</li></ul>   |

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## RISK FACTORS

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| Regulations  | Main Contents   |
|--|---|
| Ministry of Culture on Regulating the Operation of Online Games and Strengthening the Interim and Ex Post Supervision (《文化部關於規範網絡遊戲運營加強事中事後監管工作的通知》), issued on December 1, 2016 | <p>game publications, must obtain an Online Publishing Service License (網絡出版服務許可證); and</p> <ul style="list-style-type: none"><li>• online games must be approved by provincial publication administrative departments prior to internet publishing.</li><li>• sets requirements in relation to the following aspects of online games: (1) clarifying the scope of online game operation; (2) regulating services for issuance of virtual props of online games; (3) strengthening the protection of the rights and interests of online game users; (4) strengthening the interim and ex post supervision of online game operation; and (5) seriously investigating and punishing illegal operating activities.</li></ul> |

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.

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.

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. 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

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## RISK FACTORS

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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 substantial amount of our revenue come from sales of our in-game virtual items. If our marketing and pricing of virtual items fail to gain anticipated acceptance, or if this item-based business model ceases to be commercially viable, we may not be able to monetize our users effectively and our results of operations, financial condition and business prospects could be materially and adversely affected.**

All of our games are initially free-to-play. During the Track Record Period, we generated a substantial amount of our revenue from the sale of in-game virtual items. We are only able to convert a relatively small fraction of users who play our games within a certain period to paying users, which is consistent with the industry norms. In 2015, 2016 and 2017, our average MPUs for online games were approximately 342,000, 294,000 and 613,000, respectively, representing 4.0%, 4.9% and 10.0% of the average MAUs for the same periods, respectively. Our sustainable revenue growth, therefore, in part depends on our ability to effectively encourage more registered users to make or increase their in-game purchases.

We put much effort into marketing and pricing our in-game virtual items to optimize user monetization. We invest in user data analytics to better understand our users' in-game behavioral patterns, which not only allows us to create localized and culturally-adapted versions of games catering to regional markets, but also to design tailor-made virtual items and properly price them in light of the local conditions. In order to encourage our users to purchase our in-game virtual items, we frequently launch various promotional sales. However, it is possible that we may not be able to effectively market or price our virtual items. We might also fail to identify and introduce new and popular virtual items and appropriately price them.

In addition, this item-based revenue model may cease to be commercially viable. We are not able to guarantee that a sufficiently broad base of users will continue to accept this model. It is also possible that a new revenue model will emerge given the rapidly evolving industry and competitive landscape, which may force us to transition into such new model. However, we may have difficulties in effectively adjusting to a new revenue model, since we have adopted the item-based model from inception and we have limited experience of the adjustment. As a result, our results of operations, financial condition and business prospects could be materially and adversely affected.

**Our performance during the Track Record Period may not be indicative of our future prospects. If we fail to develop and publish mobile games, our growth prospect will suffer.**

To capitalize on the market opportunity from the tremendous smartphone user base, we have strategically expanded our business focuses to develop mobile games in recent years. Although we have gained proven success in developing and launching a number of popular web games since our inception, we have a limited history of developing and

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## RISK FACTORS

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publishing mobile games. We launched our proprietary mobile games, *Wartune Heroes* (神曲之符文英雄) and *DDTank (mobile)* in July 2016 and April 2017, respectively. Revenue generated from *DDTank (mobile)* increased significantly since its release, and it remained on the top 300 best-selling games in Apple Inc.'s App Store in China as of the Latest Practicable Date. However, revenue contribution from our mobile games may not be sustainable, and our short operating history in developing and publishing mobile games makes it difficult to effectively assess our business prospects and predict our future financial performance.

Going forward, we expect that most of the new games we develop and publish will be mobile games and H5 games. However, we are faced with various risks and uncertainties as a result of our strategic transition into a mobile-centric game company. For example, we may not be able to continuously identify, develop, license and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effectively manner, given the fast pace of the evolution of mobile game technologies. The skills, knowledge and experiences required for development of mobile games are different from those required for developing web games, and we may not succeed in improving in these areas such as recruiting suitable R&D staff.

In addition, each mobile device manufacturer or mobile platform provider may establish unique technological requirements or restrictive terms and conditions on their devices or platforms for game developers. Our multi-device or multi-platform game development technologies might fail to keep pace with the evolving mobile devices and platforms, especially immediately after such devices and platforms are launched or upgraded. We may also need to allocate significant resources for the creation, support and maintenance of our games for them to function as intended on new mobile devices and platforms. Furthermore, we may not be able to upgrade and increase the option of payment methods and systems based on the mobile platforms, geographies and other factors. As a result, monetization of our games might be negatively affected.

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

**Our data analytics may be inaccurate which would materially and adversely affect our ability to adopt appropriate business strategies.**

We rely on our data analytics capabilities to continue developing and publishing games, improving user experience, and eventually optimizing user monetization. Our game development center routinely collects and stores in-game user behavioral data utilizing our data analysis engine. We also collect certain gameplay data from our third-party game publishers to the extent allowed by them, although we only have limited ability to verify such data. In addition, it is possible that our data may be inaccurate due to technical errors, security breaches, hacking incidents, or refusal by the game publishers to share any such data with us. Therefore, we might fail to gather or retain data timely, or ensure the quality

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## RISK FACTORS

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of data, which would yield inaccurate or misleading analytical results. Furthermore, statistical inferences work on the faulty premises that past behavior predicts that in the future, which have inherent limitations.

We assess our business performance utilizing a set of key performance indicators, such as MAUs, MPUs and ARPPU. While data analytics has proven beneficial to businesses, we might make poor operational and strategic decisions, even with high-quality data and superb data analytics methodology. If any of the foregoing occurs, our business, financial condition and results of operation may be materially and adversely affected.

**Our business is subject to domestic and international laws, rules, policies and other obligations regarding data protection. If the PRC government or its counterparts in other jurisdictions prohibit the use of personal data for data analytics, our business could be materially and adversely affected.**

Our business requires us to use and store in-game user behavioral data and gameplay data to analyze and improve the performance of existing games and develop new games. We may be subject to domestic and international laws relating to the collection, use, retention, security and transfer of personal data. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. For example, Amendment (IX) to the Criminal Law of PRC (中華人民共和國刑法修正案(九)), effective in November 2015, has added the Crime of Infringing on Citizens' Personal Information to the Criminal Law of PRC (中華人民共和國刑法), which signifies the PRC governmental authorities' resolution to further protect personal information. These laws continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing domestic and international legal requirements may cause us to incur substantial costs. In addition, if the PRC government or its counterparts in other jurisdictions pass laws in the future to prohibit the use of personal data for data analytics, they may impede our capabilities to analyze and optimize our games. If we or third parties we work with are unable to use personal data for data analytics, we may lose a significant part of data resources, which would lead to a diminishing value in our analytical results and could in turn have a material adverse effect on our business.

**We may not be able to successfully implement our business strategies and sustain our gross profit margin.**

We have historically focused on web games. However, as smart phones and tablets have become major online game operating platforms, we have expanded in the mobile game market and devoted a significant portion of our R&D resources to develop mobile games. We plan to launch 10 new games by the end of 2018 to expand our game portfolio. In 2015, 2016 and 2017, our gross profit margin was 83.3%, 89.2% and 91.5%, respectively. Our cost of revenue may increase from our strategic business expansion to develop and launch new games, as a result of which our gross profit margin may decrease.

**Our new games may attract users away from our existing games, which may have a material adverse effect on our business, financial condition and results of operations.**

Our new games may attract users away from our existing games and shrink the user base of our existing games, which could in turn make those existing games less attractive to



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## RISK FACTORS

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other users, resulting in decline in revenue from our existing games. Users of our existing games may also spend less purchasing virtual items in our new games than they would have spent if they had continued playing the existing games. Our business, financial condition and results of operations may be harmed if any of the foregoing occurs.

**As we operate in a rapidly evolving industry and may face increasingly intense competition as a result of the relatively low entry barrier, it is difficult to evaluate our business and prospects.**

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

- changes in user demographics and preferences;
- the availability and popularity of other forms of interactive entertainment;
- continued worldwide adoption and use of Facebook, Google Play and Apple Inc.'s App Store, and widely used major distribution channels in the PRC, such as Tencent's Myapp, 360 Mobile Assistant and Xiaomi's Mi Store; and
- general economic conditions, particularly economic conditions adversely affecting discretionary user spending.

Our ability to plan for game development and distribution will be significantly affected by our ability to anticipate and adapt to rapidly changing user preferences. A decline in the popularity of online games in general, or our games in particular, would harm our business and prospects.

The online game industry consists of a large number of game developers and publishers. It is increasingly competitive, characterized by the frequent introduction of new products and services, limited product lifecycles, evolving industry standards, rapid adoption of technological and product advancements, as well as price sensitivity on the part of users. In recent years, numerous competitors in China have entered or transitioned into the mobile game industry. We expect this trend to continue and believe that the mobile game offering will continue to proliferate. Competition from other game developers and publishers from overseas is also likely to increase in the future. We compete with other online game developers on the basis of a number of factors, including user base, game portfolio, user experience, brand awareness and reputation, and relationship with game publishers. We primarily compete with online game developers of various sizes in China as well as leading Internet and technology companies, such as Tencent and Netease. We also compete with overseas game developers, such as Miniclip.com, King.com, and Rovio Entertainment Corporation in our target overseas markets.

The online game industry in China is constantly evolving, and unforeseen changes in this industry may turn out to be advantageous to certain competitors than to us. Some of

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these current and potential competitors may have significant resources for developing or acquiring games, may be able to incorporate their own strong brands and IP 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, which may weaken our competitive position. In January 2017, Tencent launched the WeChat mini programs which allow developers to make use of its platform to develop mini programs on H5 format. Leveraging its large user base and the social networks of WeChat, the mini programs have been widely accepted by users. Due to the low entry barriers for developing mini programs, we will face increasing competition arising from more H5 game developers. Furthermore, considering the user traffic on WeChat, we may rely on Tencent on the distribution of our H5 games in the future and we may be subject to its stringent data privacy policies applicable to its social networking features or any policies which may affect our revenue generation. As of the Latest Practicable Date, H5 games operated on WeChat are not allowed to collect payment from users on iOS. In addition, in the event that we are not able to distribute our H5 games on popular distribution platform such as Tencent, the performance of our games may be adversely affected.

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 upgrades. It may be more difficult for us to maintain and expand user base in light of the increased competition in the online game industry. We may have to offer more incentives to our partners, such as game publishers and distribution platforms, which could adversely affect our profitability. If we fail to compete cost-effectively, our market position could be weakened and our results of operations could be materially and adversely affected.

**We are faced with competition from a broader entertainment industry. Our existing and prospective users may be attracted to competing forms of entertainment such as television, movies and sports, social network services, as well as other recreational options on the Internet.**

Beyond online games, our users face a wide array of recreational choices. Other forms of entertainment, such as television, movies, music, electronic books, sports, social network services, and other recreational options on the Internet, all represent significantly larger and more well-established markets. They offer greater variety, affordability, interactivity and enjoyment. These other forms of entertainment compete for the discretionary time and income from our users.

We cannot assure you that our future entertainment products will be compatible with our current game offerings, fit into our business models, or gain popularity among our users. If we are unable to sustain sufficient entertainment value in our entertainment products in comparison to other forms of entertainment, our business model may no longer be viable.

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**We are challenged with risks and uncertainties, as we expand to new geographical markets. If we fail to manage our international expansion effectively, our growth prospects could be materially adversely affected.**

One of our key business strategies is to continue expanding our business to attract users globally. We have focused on and achieved steady growth in targeted overseas markets during the Track Record Period. We have strategically focused on the English-speaking markets including North America, and have gradually expanded to more markets with significant growth potential, such as Southeast Asia, Europe and South America. As of December 31, 2017, we offered our games in 21 different language versions.

An important component of our strategies in expanding overseas markets is localizing our games for the users in those markets. We expect to continue to collaborate with game publishers and increase our game offerings in more language versions. Our ability to expand our business and attract users in an increasing number of overseas 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. Our global strategy may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- identifying appropriate overseas markets;
- challenges caused by distance, language and cultural differences;
- customizing games and other offerings that appeal to the tastes and preferences of users in overseas markets;
- competition from local game developers with significant market share 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;
- currency exchange rate fluctuations;
- adapting to local business practices;

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

**Our business 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 that complement our existing business. Going forward, we intend to continue to selectively acquire, invest in or enter into strategic partnerships with qualified game developers and publishers in and outside China to enhance our capabilities to develop new games and other entertainment products in a cost-effective manner. See “Business — Business Strategies — Pursue acquisition and strategic cooperation opportunities.” The uncertainties and risks we face in relation to the acquisitions and investments include:

- 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;

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- significant accounting charges resulting from the completion and integration of a sizeable acquisition and increased capital expenditures; and
- diversion of resources and management attention.

Our financial condition and results of operations will be harmed if we fail to address these risks and uncertainties. In addition, such acquisition or investment usually involve significant amount of capital investment, which may divert a significant amount of cash from the 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.

**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 “7Road” brand is growing among users globally as a game developer that consistently releases fun games. Promoting the “7Road” brand and enhancing its recognition is an integral part of our growth strategies. However, we may not be able to effectively promote or develop our brand and, if we fail to do so, our growth may be adversely affected.

In addition, 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, which may in turn decrease the number of our users.

**Our technology infrastructure, including servers and network, may experience unexpected system failure, significant interruptions or security breaches, which could adversely impact our operations and harm our business.**

Our technology infrastructure may in the future encounter disruptions or other outages caused by a variety of factors, including infrastructure changes, human errors or malfunction in software, and capacity constraints. Our growing operations will place increasing pressure on our servers and network capacity as we launch more games and further expand our user base. Furthermore, our infrastructure is also vulnerable to damages from fires, floods, earthquakes, power loss and telecommunication failures. Any network interruption or inadequacy that causes interruptions to our games or failure to maintain the network and server or solve such problems in a timely manner, could reduce our users’ satisfaction, which in turn will adversely affect our reputation, user base and future growth.

In addition, we rely on third-party service providers for certain key aspects of our network infrastructure, including the storage and maintenance of our leased physical servers hosted in areas known for natural disasters, such as earthquakes and hurricanes, and therefore, our network infrastructure may be vulnerable to damage. Furthermore, as we

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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 rectify. If our arrangements with our data server providers or any other third party are terminated, invalidated, or modified against our interest, we may not be able to find alternative services or solutions on a timely basis or on terms favorable to us, or at all. In addition, we do not maintain insurance policies covering losses relating to our systems and we do not have business interruption insurance.

Furthermore, our business will be materially and adversely affected by any potential security breach caused by hackings, which involve efforts to gain unauthorized access to our information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, the intentional or inadvertent transmission of computer viruses and similar events. It may be difficult for us to respond to security breaches in a timely manner or at all. If an actual or perceived breach of our security occurs, users' confidence in the effectiveness of our security measures could be harmed. 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 game publishing 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. Therefore we could lose users and suffer significant financial losses because of such events, or in connection with the remediation efforts, investigation costs and system protection measures.

**Our users may violate our game policies which may harm 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 which reserve our right to suspend, terminate or cancel a user account if we find abnormal transactions or activities in the account.

Notwithstanding our measures and efforts, we do not have effective control over these unauthorized transactions. Any such unauthorized purchase and sale could impede our revenue and profit growth by decreasing revenue from authorized transactions, creating

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downward pressure on the prices we charge users for our virtual items, increasing costs we incur to develop technological measures to curtail unauthorized transactions, and 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.

**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 repeatedly occur, it could disrupt our operations, adversely affect the gameplay experience of our users, harm our reputation, cause our users to stop playing our games, divert our resources and delay market acceptance of our games, the occurrence of any of which could result in legal liability to us or harm our operating results.

**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 prospective users in the future.**

With our principal 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

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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.

**Companies and governmental agencies may restrict access to major distribution platforms, such as Google Play and Facebook, 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, major game distribution platforms such as Google Play and Facebook, to play our games. Overseas governmental agencies may restrict the access to major game distribution platforms. The PRC government has already blocked access to Google Play and Facebook in China. Companies and governmental agencies could block access to major game distribution platforms, 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 Google Play, Facebook, our websites or other social platforms. If companies or governmental entities block or limit access to Google Play, 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.

**Our actual or perceived failure to comply with governmental regulation and other legal obligations concerning data privacy could harm our business, as we routinely process, store and use personal information and other data. 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 deal with users' personal information and other user data daily, 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. It is possible that these obligations may be interpreted and applied inconsistently from one jurisdiction to another. For example, 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 evolving and likely will continue to do so for the foreseeable future. In addition, we are primarily dependent upon third-party game publishers to solicit, collect and provide us with information regarding our users that is



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necessary for compliance with these various types of regulations. If third parties we work with violate applicable laws or our policies, such violations may also put our users' information at risk and could in turn adversely affect our business.

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.

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.

**We cannot be certain that our business operations do not or will not infringe on any patents, valid copyrights or other IPs held by third parties. We may incur significant legal expenses in case of third parties' claims.**

We may be subject to legal proceedings and claims from time to time relating to the IP rights of third parties in the ordinary course of our business. If we fail to successfully defend against such claim or do not prevail in such litigation, we may be prohibited from using such IP rights, subject to fines and penalties, and may incur licensing fees or be forced to develop alternatives. 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. And we may incur substantial legal expenses in defending against these third-party infringement claims, regardless of their merits. Also, if we acquire technology to include in our products from third parties, our exposure to infringement actions may increase because we must rely upon these third parties to verify the origin and ownership of such technology. This exposure to liability could result in disruptions in our business that could materially and adversely affect our results of operations.

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

**Our business and reputation may be adversely affected by unauthorized use of our IP rights.**

We regard our proprietary domain names, copyrights, trademarks, patents, trade secrets and other IP rights, as well as those of our game development partners, critical to our business operations. We have historically relied on trademark and copyright laws, trade secret protection, restrictions on disclosure, and other agreements that restrict the use of our IP rights to protect our IP rights. For our proprietary games, we register software in China for copyright protection and take various measures to protect our source codes, including confidentiality agreements. However, we may fail to protect the IP rights related to our games. Any failure to register trademarks or patents in any country or region may limit our ability to protect our rights in such country or region under relevant trademark or patent laws, and we may even need to change the name or the relevant trademark in certain cases, which may adversely affect our branding and marketing efforts. Any failure to protect the IP rights owned by our game developer partners will also subject us to severe consequences, including loss of game distributorships IP 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 advisors. 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 China, Southeast Asia, and certain other countries and regions where our games are accessible to local users do not protect IP rights 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 IP rights, other game developers may copy our ideas and designs, and other third parties may infringe on our IP rights. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

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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 in-game purchases. 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.

**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. Although we screen certain words according to the lists provided by the relevant government authorities, we cannot assure you that all the sensitive information contained in our user' conversations can be identified. In serious cases, certain such information or content may be deemed unlawful under the laws and regulations in the locations where the games are played, and government authorities may require us to discontinue or restrict certain features or services that would have led, or may lead, to such events. We may incur significant costs in investigating and defending ourselves if we find ourselves subject to penalties or claims based on the nature or content of the information improperly displayed, which may materially and adversely affect our reputation, operations and business.

**The PRC law regulating the playing time and the age of online game users may materially and adversely affect our business, results of operations and financial condition.**

In April 2007, several governmental authorities, including the SAPPRFT and the MOE, jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (關於保護未成人身心健康實施網路遊戲防沉迷系統的通知) (the "Anti-addiction Notice"), to which is annexed the

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Standards Regarding the Development of Anti-addiction System on Online Games (網路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 (網路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. All of our mobile games offered in China are and will be embedded with the anti-fatigue system prior to their release. The Anti-addiction Notice is followed by the Notice Regarding Launching Anti-addiction Real Name Authentication on Online Games (關於啟動網路遊戲防沉迷實名驗證工作的通知), issued by the SAPPRFT, the MOE and other government authorities, became effective in July 2011 (the “Launching Notice”). According to the Launching Notice, all the companies that operate online games must institute anti-addiction real-name authentication, including identifying registration information of their users and timely reporting the identification information of the users pursuant to the proceeding prescribed by government regulations, and strictly inputting the users who are proved to provide false identification information into the anti-addiction system on online games. The Notice Regarding In-depth Development of Anti-addiction Real Names Authentication on Online Games (關於深入開展網路遊戲防沉迷實名驗證工作的通知), issued by the SAPPRFT in July 2014, became effective in October 2014 (the “Development Notice”). According to the Development Notice, the application for publication of an online game must be rejected unless the applicant company completes the procedure of anti-addiction real-name authentication. Additionally, the SAPPRFT issued the Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game Publishing Services (關於移動遊戲出版服務管理的通知(國家新聞出版廣電總局辦公廳關於移動遊戲出版服務管理的通知) in May 2016, which became effective in July 2016 (the “Mobile Game Notice”). According to the Mobile Game Notice, mobile games are subject to the Launching Notice unless the mobile game to be published does not concern, among others, themes such as politics, military, nations and religions, belongs to the class of casual puzzle domestic mobile games without plots or with simple plots and is not authorized by overseas copyright owners. However, we cannot assure you that our anti-fatigue system will be regarded as sufficient by relevant government authorities in China. Failure to comply with the requirements under the foregoing Notices may subject us to penalties, including without limitation suspension or restriction of our games to be operated by our publishers, rejection to or suspension of the application for approval or filing of our games in China.

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

Users from all over the world generally can access to our games due to the boundless nature of Internet-based business, and we do not restrict access from any specific jurisdiction unless the local regulators so require. In general, we would require our game publisher partners to comply with local laws when they enter into any local markets. For our games published on our own websites, as required by the relevant laws in China, we require prospective users to provide their PRC identification numbers. 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

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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 risk, including monetary penalty or injunctions, which may adversely affect our business operations.

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

The online game industry in China is highly regulated. We currently derive a significant portion of our revenue and cash flow from Shenzhen 7Road, our consolidated affiliated entity, and its subsidiaries. Shenzhen 7Road and its subsidiaries are required to obtain and maintain applicable licenses and approvals from different regulatory authorities in order to provide their current services. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the SAPPRFT, the MOC, and the MIIT, jointly regulate major aspects of the Internet industry, including the online game business. Game operators and publishers must obtain various government approvals and licenses for web and mobile businesses.

We have obtained the ICP Licenses for provision of value-added telecommunications services, Online Culture Operating Licenses for the operation of online games, and Internet Publishing Service Licenses for publishing online games, which are essential to the operation of our business in China and are generally subject to regular government review or renewal. Shenzhen 7Road is required to hold an ICP License, an Online Culture Operating License, and Internet Publishing Service License for operating and publishing online games. During the Track Record Period, we did not have incidents of material non-compliance with respect to the aforementioned licenses of Shenzhen 7Road. However, we cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient to conduct all of our present or future business.

In overseas jurisdictions where the local regulators require operating licenses, we have obligated our game publisher partners to obtain, renew or retain necessary licenses, permits or approvals, in order to publish and operate our games. Under such arrangements, we are primarily responsible for offering game contents and related technical support and our game publishers are primarily responsible for marketing and distributing the games within their authorized distribution territories. We pre-screen our regional game publishers to ensure that they have the required licenses to publish online games in the relevant jurisdictions. However, we cannot assure you that our game publisher partners will be able to renew or maintain the requisite license and approvals required in the overseas markets.

The regulatory environment applicable to our business in China and overseas is complex, and considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we or our game publisher partners will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. If we or our game publisher partners fail to obtain, renew or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to

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various penalties, such as imposition of fines, discontinuation or restriction of our operations, and confiscation of the revenue illegally obtained. In addition, we cannot assure you that we will be able to comply with applicable laws when we set up local branch offices. In 2017, we were late in filing with the Hong Kong Companies Registry in respect of our change of registered address in Hong Kong. Our Directors, after consulting with our Hong Kong barrister, are of the view that even if convicted the penalty will have immaterial financial or operational impact on us. Any penalties arising from our violation of local applicable laws may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

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

We have been, and will continue to be, heavily dependent on the continued efforts of our senior management team and other key employees for our success. In particular, we rely on the expertise and experience of Mr. Meng, our executive Director 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 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 online game companies is intense. We may not be able to successfully attract, assimilate or retain the personnel that we may require. In addition, we may need to offer superior compensation and other benefits in order to attract and retain key personnel in the future, and we therefore cannot assure you that we will have the resources to fully achieve our staffing needs. In connection with any acquisition we may pursue in the future, our ability to retain the existing personnel we select will have a significant effect on our success in these expansion efforts. Our failure to attract and retain qualified personnel could have a negative impact on our ability to maintain our competitive position and to grow our business.

**We are exposed to cash flow mismatch, which may adversely affect our business, financial condition, results of operations and prospects.**

For 2015, 2016 and 2017, our average trade receivables turnover days were 121, 124 and 103, respectively, and our average trade payables turnover days were 31, 19 and 51, respectively. With our business continuously expanding, the mismatch between trade receivables turnover days and trade payable turnover days may put us at liquidity risk. As of December 31, 2015, we recorded net current liabilities of RMB14.6 million. There is no assurance that we will be able to collect all trade receivables. Any default or delay in payment by our customers or our failure to collect trade receivables from them may cause allowance for impairment of trade receivables to be made in the future, which may result in

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significant cash flow shortcomings in the future and adversely affect our cash position and results of operations and prospects.

As a result of the mismatch in time between receipt of payments from our customers and payments to our suppliers, we may rely on our internal resources and bank borrowings to bridge this mismatch. Despite the short term loans which could bridge this mismatch by way of cash inflow generated from our financing activities, it also further enlarges our cash flow used in operating activities at the same time. Besides, our cost of borrowings is subject to the fluctuation in interest rate which may also affect our business, financial condition, results of operations and prospects. Moreover, we cannot assure you that we will be able to obtain the required bank financing in the future or that we would be able to arrange for re-financing when our bank borrowings become due, repay our bank borrowings or raise the necessary funding to finance our business growth and our commitments and that we will be able to comply with all the requirements or covenants under our bank borrowings agreements or other material contracts entered into as part of our ordinary course of business or that we will be able to obtain any waiver if we fail to comply with them. If we violate any of the undertakings or covenants, it could result in any increase in the interest rates, accelerated repayment of loans and interest, termination or delay in the relevant arrangements or legal proceedings against us.

**We may be exposed to payment delays or defaults from game publishers, distribution platforms and payment channels, which would adversely affect our cash flow or financial results.**

We receive sales proceeds collected from our users through third-party game publishers, third-party distribution platforms and payment channels. We generally grant credit terms to third-party platforms and payment channels for up to 120 days, but may grant longer settlement terms to a handful of game distribution partners. As of December 31, 2015, 2016 and 2017, our trade receivables amounted to RMB123.1 million, RMB149.8 million and RMB101.4 million, respectively. As of December 31, 2015, 2016 and 2017, our trade receivable aged more than three months amounted to RMB46.4 million, RMB57.7 million and RMB44.8 million, respectively, representing 37.5%, 38.2% and 43.7% of our trade receivables, respectively. We made provisions for impairment of RMB0.4 million, RMB1.3 million and RMB1.3 million as of December 31, 2015, 2016 and 2017. For more details, see “Financial Information — Discussion on Certain Items from the Combined Balance Sheet — Trade Receivables.”

As such, our business operations are subject to risk of payment deferral or default from our business partners. We cannot assure that we will be able to fully recover the outstanding amounts due from them, if at all, or that they will settle the amounts in a timely manner. If such settlements are not made in full or in a timely manner, our business, financial conditions and results of operations will be adversely affected.

**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 online game companies. We do not have any business liability or disruption insurance to cover our

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operations in China or overseas, which, based on public information available to us relating to China-based online game companies, 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 have granted RSUs under our RSU Scheme, and may grant additions RSUs under the RSU Scheme, which may result in increased share-based compensation expenses.**

On March 31, 2018, the Board approved to grant 5,040,000 RSUs from the RSU Scheme to eligible Directors, senior management and employees of the Company. As our Group will receive employment services of the grantees in exchange for the grant of RSUs, share-based compensation expenses in respect of the employment services received will be recognized as an expense over the vesting period. The total amount to be expensed will be determined by the fair value of the RSUs granted at the grant date and the number of RSUs that are expected to be vested. Considering the amount of RSUs granted on March 31, 2018, the share-based compensation expenses to be recognized over the vesting period are considered to be significant and may materially and adversely affect our results of operations.

**We may recognize impairment charges on our intangible assets.**

We have intangible assets of RMB30.9 million as of December 31, 2017. In accordance with applicable accounting standards, intangible assets such as goodwill that are not amortized are subject to assessment for impairment by applying a fair-value or value in use based test annually, and when certain circumstances warrant. Intangible assets are subject to assessment for impairment if there are indicators of impairment such as losses of key customers, unfavorable changes in technology or unfavorable changes in user base or user preference. The impairment may be further affected by the assumptions used in cash flow generated from relevant intangible assets and the estimated useful life of intangible assets, which in turn may have a material adverse impact on our results of operations.

**Our Player Relationship Period on which our revenue recognition is based may change.**

Our revenue is recognized ratably over the estimated player period of paying users (“Player Relationship Period”), given there is an implicit obligation of our Group to maintain and allow access of the users of the games operated by us. We estimate the Player Relationship Period and re-assess such periods semi-annually. Accordingly, the Player Relationship Period may change in the future and our Company may take a longer period of time to fully recognize online game revenue from in-game payments we receive for virtual items.



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**We may recognize fair value loss on our available-for-sale financial assets and financial assets at fair value through profit or loss.**

We have investments in available-for-sale financial assets and financial assets at fair value through profit or loss of RMB42.0 million and RMB123.0 million, respectively, as at December 31, 2017. Our available-for-sale financial assets and financial assets at fair value through profit or loss are not traded in an active market and their fair values are determined by using valuation techniques that requires significant judgements to select unobservable inputs, including identifying recent transaction price, estimating the future cash flows, determining appropriate discount rates and other assumptions. Any unfavorable changes in these assumptions and unobservable inputs could materially affect the respective fair value of our investments, which in turn may have a material adverse impact on our financial condition by recognizing fair value loss on available-for-sale financial assets in the statement of comprehensive income and financial assets at fair value through profit or loss in the statement of profit or loss.

**We are subject to risks relating to our investments in associates.**

We have in the past and may in the future invest in other businesses. During the Track Record Period, we made minority investments in three companies engaged in game publishing, game development and animation design, respectively, which are recorded as our investments in associates in our financial statements. As of December 31, 2015, 2016 and 2017, our investments in associates were RMB186.6 million, RMB201.1 million and RMB175.3 million, respectively. Our carrying value of our investments in associates may be affected by a number of factors such as share of results, impairment, dilution issuance of equity securities and currency translation differences. As of December 31, 2015, 2016 and 2017, our share of results from associates were RMB36,000, RMB7.3 million and RMB313,000, respectively. We recorded a dilution loss of RMB13.6 million as of December 31, 2017 and an impairment loss of RMB4.5 million as of December 31, 2016 in respect of our associates.

In addition, such investments could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing potential new strategic alliances, any of which may materially and adversely affect our results of operations. We may have little ability to control or monitor the actions of such investee companies and to the extent such investees suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with them.

Other than Digital Hollywood, the shares of which are listed on the Main Board of the Stock Exchange, our associates are private companies and there has been no public market for their equity securities. As such, our equity interests in such investee companies may not be as liquid as other investment products. In particular, we cannot assure you that we will receive cash flow from such investments until dividends from such investee companies are declared and paid.

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**We could be adversely affected as a result of our 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 comprehensive or broad economic sanctions targeting Sanctioned Countries, or against industry sectors, groups of companies or persons, and/or organizations 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.

During the Track Record Period, we entered into agreements with game publisher partners, which were located in, among others, Cyprus and Russia to publish different language versions of our games to users in the Relevant Countries. For the years ended December 31, 2015, 2016 and 2017, based on accounting records, invoices from our game publishers and other data we collected, our estimated revenue derived from our games published in the Relevant Countries was RMB1.9 million, RMB0.9 million and RMB0.8 million, representing 0.49%, 0.23% and 0.17% of our revenue during the same periods, respectively. For further details of our business activities in Countries subject to International Sanctions, please see “Business — Historical Business Activities in Countries subject to International Sanctions”.

Except as disclosed in the section headed “Business — Historical Business Activities in Countries subject to International Sanctions,” 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 through game publishers 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 in the Relevant Countries 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 Countries subject to International Sanctions 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

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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. We have undertaken to the Stock Exchange that, after the Listing, (1) we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any activities or businesses with, or for the benefit of, the Countries subject to International Sanctions or Sanctioned Persons where this would be in breach of International Sanctions, (2) we will not enter into any sanctionable transactions that would expose our Group, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to any risk of being sanctioned, and (3) we will make timely disclosure on the Stock Exchange's website and our own website if we should believe that any of our business would put our Group or our Shareholders at risk of being sanctioned and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risks and our business intention relating to the Countries subject to International Sanctions. If we breach any of these undertakings to the Stock Exchange after the Listing, it is possible that the Stock Exchange may delist our Shares.

However, 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.

### RISKS RELATING TO CHINA AND OVERSEAS MARKETS

#### **Preferential tax treatment that we have enjoyed may be changed or terminated.**

Under the Enterprise Income Tax Law of People's Republic of China (the "EIT Law"), enterprises in China are generally subject to a uniform 25.0% enterprise income tax rate on their worldwide income. Our PRC subsidiaries were subject to enterprise income tax of 25.0% during the Track Record Period, with the exception of Shenzhen 7Road, Huoerguosi 7Road and Qianhai Huanjing. Shenzhen 7Road was qualified as "Key Software Enterprise (重點軟件企業)" and subject to an annual assessment, entitled to a preferential income tax rate of 10.0% on its estimated assessable profits during the Track Record Period. Qianhai Huanjing is subject to enterprise income tax of 15.0% as it was incorporated at the "Qianhai Free Trading Zone (前海自貿區)" in Shenzhen. Huoerguosi 7Road was exempt from enterprise income tax from March 1, 2016 to December 31, 2020 under the local preferential tax regime. In 2015, 2016 and 2017, the tax effect of preferential income tax rates contributed to a deduction of RMB28.6 million, an addition of RMB148,000 and a deduction of RMB40.8 million to our income tax, respectively. For further information in relation to business tax and value-added tax, see the section headed "Regulation Overview—Laws and Regulations on Tax." There is no assurance that we could continue to enjoy the income tax incentive described above at the historical level, or at all. Any change, suspension or termination of these preferential tax treatment and financial subsidies to us could adversely affect our financial condition, results of operations and cash flows.

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**Our business, financial condition and results of operations could be affected by the economic, political and social conditions of China.**

We are now targeting China's mobile game market by devoting a large amount of resources, as part of our business strategy. 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 EIT Law and its implementation rules, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10.0% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Under an arrangement between China and Hong Kong, effective in January 2007, such dividend withholding tax rate is reduced to 5.0% for dividends paid by a PRC company to a Hong Kong-resident enterprise if such Hong Kong entity is a "beneficial owner" and such entity directly owns at least 25.0% of the equity interest of the PRC company. According to the fourth protocol of the aforementioned treaty, effective from December 2015, the reduction will not apply if the main purpose of the production or distribution of the proceeds involved is to obtain the aforementioned (reduction) interest. The Announcement on Issues Concerning "Beneficial Owners" in Tax Treaties (國家稅務總局關於稅收協定中"受益所有人"有關問題的公告), which became effective in April 2018, stipulates certain conditions under which a company may not be defined as a "beneficial owner" under the relevant tax treaty, and further requires non-resident taxpayers who wish to enjoy the treatment of

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“beneficial owners” under such tax treaties to submit certain report forms and materials when filing tax returns. If our Hong Kong subsidiary fails to submit required documents for enjoying such treatment, and if our corporate and shareholding structure is viewed as deliberately arranged for acquiring the reduction interest, we may not be able to enjoy a preferential withholding tax rate of 5% and as a result dividend payable by our PRC subsidiaries to our Hong Kong subsidiary will be subject to withholding tax at the rate of 10.0%.

The EIT Law and EIT implementation rules also provide that if an enterprise incorporated outside China has its “de facto management bodies” within China, such enterprise may be deemed a “PRC resident enterprise” for tax purposes and be subject to an enterprise income tax rate of 25.0% on its global incomes. “De facto management body” is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, 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.

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.

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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 online games, users may acquire and accumulate virtual assets, such as special equipment, user experience grades and other features of their avatars. 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. Under the General Provisions of Civil Law, effective in October 2017, data and virtual assets are listed as civil rights protected by laws and must be protected according to specific rules governing such matters. However, currently, there is no PRC law or regulation specifically governing virtual assets property rights, so certain general laws and regulations regarding civil rights may be applicable. Although PRC courts have issued a series of civil judgments of tort claims for virtual assets, there still is uncertainty as to who is the legal owner of virtual assets, how the ownership of virtual assets is protected by law, and whether a developer of mobile games such as us would have any liability to 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 security systems to protect such virtual assets owned by users and have required some game operators to return the virtual items or be liable for the loss and damage incurred therefrom if the online game operators have been determined to be in default or held liable for infringement of users' rights.

**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 overseas markets. Our businesses 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

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(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 online game industry in China, various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the SAIC, the MOC, the SAPPFT, and the Ministry of Public Security, are empowered to promulgate and implement regulations governing various aspects of the Internet and online game industries. There exist potential inconsistencies and ambiguities in the regulations promulgated by different government authorities. Our game publisher partners are required to obtain applicable permits or approvals from different regulatory authorities in order to provide online game services. As a result, it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations, and we must screen our game publisher partners' qualifications before entering into cooperative arrangements.

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

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

As we expand our operations in China and overseas market, we expect to incur more expenditures and revenue denominated in Renminbi and U.S. dollar, 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.

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 significant 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 which may affect our results of operation.



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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 filed with or 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.

**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.

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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 made by an offshore holding company to its wholly-owned subsidiary, being a foreign-invested enterprise in China, require approvals from or make record filings with MOFCOM or its local counterpart and register with the SAIC or its local counterpart. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with 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.

**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投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”), which was promulgated by 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. 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

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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 for a domestic institution, it shall undergo the registration procedure for foreign investment in accordance with the Administrative Measures on Overseas Investments (境外投資管理辦法) and other relevant provisions (the “ODI Rules”) which require such domestic institution to register with the relevant authorities prior to its overseas direct investment and obtain the relevant recordation, approval, certificate or permit as required under the ODI Rules.

As confirmed by our PRC legal advisors, each of the ultimate individual shareholders of our Company, namely Mr. Meng, Mr. Hu, Mr. Liu, Ms. Wei Hong, Mr. Song Shuxing, Ms. Li Weimin, Mr. Liu Zhan, Mr. Zhou Fashun, Mr. Yang Lei and Mr. Chen Difeng, has completed the foreign exchange registrations in March 2018 respectively pursuant to Circular No. 37 and Circular No. 13 in relation to their offshore investments as PRC residents, and each of the ultimate PRC corporate shareholders of our Company, namely Shaoxing Shang Yu, Shanghai Bao Hu, Shanghai Rong Xi and Guangzhou Ju Ze have completed the necessary filings to the relevant authorities as required under the ODI Rules and become legal shareholders of our Company, and the Reorganization has been completed in compliance with PRC laws and regulations. As Circular 37, ODI rules and Circular 13 are general regulations without specific requirements and interpretations of the aforementioned registrations, 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, ODI rules 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, complete or update their registration as required under Circular 37, ODI rules 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, ODI rules 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.

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

On August 8, 2006, six PRC regulatory authorities, 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 (關於外國投資者並購境內企業的規定) (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 foreign investors merger with PRC business entities and or

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acquire PRC assets and/or equity interests in PRC business entities, require the PRC parties to make a series of applications and supplemental applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Accordingly, due to the M&A Rules, our ability to engage in cross-border business combination transactions has become significantly more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

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

Moreover, the Anti-Monopoly Law of the People's Republic of China (中華人民共和國反壟斷法), effective from August 1, 2008, and relevant implementation rules require that the MOC be notified in advance of any of concentrations of undertaking if certain turnover thresholds are triggered. Besides, Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者並購境內企業安全審查制度的通知), issued on February 3, 2011 and became effective on March 3, 2011, establishes a security review system for merger and acquisition of domestic companies by foreign investors. These security review rules specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOC, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement.

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

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

By virtue of 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 was issued by SAT and became effective on February 3, 2015 if a non-resident enterprise indirectly transfer its property like shares in a resident enterprise without a reasonable commercial purpose in order to avoid its income tax obligations, this indirect transfer shall be redefined and be regarded as direct transfer of the aforementioned property. “Indirect transfer of Chinese taxable assets” means the transaction which produces a result identical or substantially similar to the direct transfer of Chinese taxable assets by a non-resident enterprise through transfer of equities and other similar rights and interests of an overseas enterprise that directly or indirectly holds Chinese taxable assets (excluding Chinese resident enterprises registered outside China), including the circumstances under which the overseas enterprise’s shareholders change due to the restructuring of the non-resident enterprise (hereafter refers as “indirect transaction”). Accordingly, the transferee of indirect transaction shall be deemed as a withholding agent with the obligation to withhold and remit the enterprise income tax to the competent PRC tax authorities. When determining whether there is a “reasonable commercial purpose”, factors that may be taken into consideration include, among other factors, the economic essence of the transferred shares, the economic essence of the assets held by the overseas holding company, the taxability of the transaction in offshore jurisdictions, and economic essence and duration of the offshore structure, the relevant tax treaties or arrangements and so on. SAT Notice 7 also sets out safe harbors for the “reasonable commercial purpose” test. Furthermore, Notice of SAT on Issuing the Working Rules on the Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises (for Trial Implementation) (非居民企業間接轉讓財產企業所得稅工作規程(試行)) (the “Circular 68”), which became effective on May 15, 2015, built up a special tax adjustment case management system on indirect transaction. In accordance with Circular 68, both parties to the indirect transaction shall report the transfer to the competent tax authority and submit relevant materials. In the case where an indirect transfer is considered as an indirect transfer with unreasonable commercial purposes, the transfer in question shall be reviewed and examined by the provincial tax authorities level by level.

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.

**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 may be granted options, may be subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of

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Overseas Publicly Listed Company (關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知), issued by SAFE in February 2012. According to the foregoing Notice, employees, directors, supervisors and other management members who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year participating in any stock incentive plan of an overseas publicly listed company, subject to limited exceptions, are required to register with 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. This notice issued by SAFE only covers two categories of equity incentive plans, i.e. employee stock ownership plans and stock option plans. As a result, we also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our Directors and employees under PRC laws and regulations.

In addition, SAT and MOFCOM 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 20.0% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20.0% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

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

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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 currently is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in China of judgments of a court in any of these jurisdictions may be difficult or impossible.

**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.

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### RISKS RELATING TO OUR CORPORATE STRUCTURE

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

Current PRC laws and regulations place certain restrictions or prohibitions on foreign investment in and ownership of entities that engage in a number of business activities, including value-added telecommunications services, Internet cultural services and other related businesses. In particular, under the Guidance Catalog of Industries for Foreign Investment (2017 Revision) (外商投資產業指導目錄 (2017年修訂)), our game operation business falls into the value-added telecommunications services business and is considered “restricted,” and our game publishing business falls into the Internet cultural services business and is considered “prohibited.” We are a company incorporated in the Cayman Islands. To comply with PRC laws and regulations, we conduct our Internet-related business in China through Shenzhen 7Road, our consolidated affiliated entity, and its subsidiaries, based on a series of contractual arrangements by and among Qianhai Huanjing, our wholly-owned PRC subsidiary, Shenzhen 7Road and its shareholders. For a description of the Contractual Arrangements, see “History and Reorganization — Contractual Arrangements.” As a result of these contractual arrangements, we exert control over Shenzhen 7Road and its subsidiaries and consolidate or combine their operating results into our financial statements. Shenzhen 7Road and its subsidiaries hold the licenses, approvals and key assets that are essential for the operations of our Internet-related businesses.

Our PRC legal advisors are of the opinion that (1) the ownership structures of our Company, Qianhai Huanjing and Shenzhen 7Road are in compliance with existing PRC laws and regulations, (2) except for certain terms of the Contractual Agreements regarding dispute resolution and the liquidation committee (see “— Certain terms of the Contractual Arrangements may not be enforceable under PRC laws” below), the Contractual Arrangements are valid and legally binding and do not result in any violation of existing PRC laws and regulations, and (3) the business operations of Qianhai Huanjing and Shenzhen 7Road, as described in this prospectus, are in compliance with existing PRC laws and regulations in all material aspects.

There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC legal advisors. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among Qianhai Huanjing, Shenzhen 7Road and its shareholders are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- nullifying the Contractual Arrangements;



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- levying fines and/or confiscating the proceeds that they deem to have been obtained through non-compliant operations;
- revoking our business and operating licenses;
- requiring us to discontinue or restrict operations;
- restricting our right to collect revenue;
- shutting down all or part of our websites or services;
- requiring us to undergo a costly and disruptive restructuring in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; and
- taking other regulatory or enforcement actions that could be harmful to or even shut down our business.

The imposition of any of the above-mentioned consequences could result in a material and adverse effect on our ability to conduct our business through contractual arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and contractual arrangement. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these consequences causes us to lose the rights to direct the activities of Shenzhen 7Road and its subsidiaries or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of Shenzhen 7Road and its subsidiary, thus adversely affect our results of operation.

**We rely on the Contractual Arrangements to control and obtain the economic benefits from Shenzhen 7Road, our operating entity in China, which may not be as effective in providing operational control as direct ownership.**

Due to China's legal restrictions on foreign investment in online game operators, we control, through the Contractual Arrangements rather than equity ownership, Shenzhen 7Road, our operating entity in China and the holder of the key licenses required to operate our online game business in China. For a description of the Contractual Arrangements, see "Contractual Arrangements."

However, the Contractual Arrangements still may not be as effective in exercising control over Shenzhen 7Road as equity ownership. For example, Shenzhen 7Road and its shareholders could breach or fail to perform their obligations under the Contractual Arrangements. If we had direct ownership of Shenzhen 7Road, we would be able to

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exercise our rights as a shareholder to effect changes in its board of directors, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management and operational level. Under the Contractual Arrangements, we would need to rely on rights of Qianhai Huanjing under the Exclusive Business Operation Agreement and Powers of Attorney to effect such changes, or designate new shareholders for Shenzhen 7Road under the Exclusive Option Agreement.

If Shenzhen 7Road or its shareholders breached their obligations under the Contractual Arrangements or if we lose the effective control over Shenzhen 7Road for any reason, we would need to bring a claim against them under the terms of the Contractual Arrangements. The Contractual Arrangements are governed by the PRC law and provide that any dispute arising from these arrangements will be submitted to the Shenzhen Court of International Arbitration, for arbitration, the ruling of which will be final and binding. Furthermore, personal liabilities of the shareholders of Shenzhen 7Road may also subject the equity interest they hold in Shenzhen 7Road to court preservation actions or enforcement. The legal framework and system in China, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as Hong Kong or the United States. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in China, which could limit our ability to enforce the Contractual Arrangements and exert effective control over Shenzhen 7Road. If Shenzhen 7Road or any of its shareholders fails to perform its respective obligations under the Contractual Arrangements, and we are unable to enforce the Contractual Arrangements, or suffer significant delay or other obstacles in the process of enforcing the Contractual Arrangements, our business and operations could be severely disrupted, which could materially adversely affect our results of operations.

**The shareholders of Shenzhen 7Road may have conflicts of interest with us, which may materially and adversely affect our business.**

Mr. Meng, who is a beneficial owner, executive directors and chief executive officer of our Company, and our chief production officer, Mr. Hu, who is a beneficial owner and director of our Company, are also the shareholders of Shenzhen 7Road. In particular, Mr. Meng holds a 21.5% equity interest in Shenzhen 7Road and is the sole executive director and legal representative of each of Qianhai Huanjing and Shenzhen 7Road. Conflicts of interest between their dual roles in our Company and in Shenzhen 7Road may arise.

We have some existing protections over potential conflicts of interest between these individuals and our Company. Pursuant to the Exclusive Option Agreement entered into on April 13, 2018, we have the option to (1) purchase or to designate a third party to purchase the equity interests of the existing shareholders of Shenzhen 7Road when and to the extent permitted by PRC laws and regulations and (2) acquire, to the extent permitted by PRC laws and regulations, all or part of the assets of Shenzhen 7Road at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations. Each of Shenzhen 7Road's shareholders has executed a power of attorney on the same day of the execution of the Exclusive Option Agreement, to authorize Qianhai Huanjing and/or any individual(s) appointed by to exercise all of their rights and powers as shareholders of Shenzhen 7Road. Each of the individuals appointed by Qianhai Huanjing must be one of

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the directors of our Company, and cannot be those who are non-independent or may give rise to conflict of interests, including Mr. Meng, Mr. Hu or any of their associates. In addition, each of our Company's directors owes a duty of loyalty and a duty of care to our company and shareholders as a whole under Cayman Islands law.

We cannot assure you, however, that when conflicts of interest arise, these individuals will act in the best interests of our Company or that conflicts of interest will be resolved in our favor. In the event of any such conflicts of interest, these individuals may breach or cause Shenzhen 7Road to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive economic benefits from Shenzhen 7Road. If we cannot resolve any conflict of interest or dispute between us and such shareholders of Shenzhen 7Road should it arise, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements with Shenzhen 7Road and its shareholders. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

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

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the Shenzhen Court of International Arbitration in China. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Shenzhen 7Road, injunctive relief and/or winding up of Shenzhen 7Road. In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

However, we have been advised by our PRC legal advisors that the abovementioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in Shenzhen 7Road in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in Shenzhen 7Road in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against Shenzhen 7Road as interim remedies to preserve the assets or shares in favor of any aggrieved party. Our PRC legal advisors is also of the view that, even though the Contractual Arrangements provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may not be recognized or enforced by PRC

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courts. As a result, in the event that Shenzhen 7Road or any of its shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Shenzhen 7Road and conduct our business could be materially and adversely affected.

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

Shenzhen 7Road holds certain assets that are important to our business operations. Our Contractual Arrangements with Shenzhen 7Road and its shareholders contain terms that specifically obligate its shareholders to ensure the valid existence of Shenzhen 7Road and that Shenzhen 7Road may not be voluntarily liquidated. However, in the event the shareholders breach this obligation and voluntarily liquidate Shenzhen 7Road, or Shenzhen 7Road declares bankruptcy, and all or part of its assets become subject to the receiver's control, or is otherwise dissolved, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if Shenzhen 7Road undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

**The Contractual Arrangements between Qianhai Huanjing and Shenzhen 7Road may subject our Group to increased income tax due to the different income tax rates applicable to Qianhai Huanjing and Shenzhen 7Road, which may adversely affect our results of operations**

Under the Contractual Arrangements, Shenzhen 7Road is required to pay to Qianhai Huanjing service fees that equal to the profit before taxation of Shenzhen 7Road, after offsetting the prior-year loss (if any), deducting working capital requirements, expenses and tax of Shenzhen 7Road in any given year, and Qianhai Huanjing has the right to adjust the level of the service fees based on the actual service scope and with reference to the operating conditions and expansion needs of Shenzhen 7Road. Such service fee payments to Qianhai Huanjing reduce Shenzhen 7Road's taxable income and correspondingly increase the taxable income of Qianhai Huanjing, which, due to the different income tax rates applicable to Shenzhen 7Road and Qianhai Huanjing, have affected and may continue to affect our results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

Shenzhen 7Road was subject to a preferential income tax rate of 10% during the Track Record Period as it was accredited as a "Key Software Enterprise" (重點軟件企業). Qianhai Huanjing was subject to a preferential income tax rate of 15.0% as it was incorporated at "Qianhai Free Trading Zone (前海自貿區)" in Shenzhen.

As a result of the higher income tax rate applicable to Qianhai Huanjing than Shenzhen 7Road in 2018 and future periods, if Shenzhen 7Road transfers a larger portion of its before-tax profits to Qianhai Huanjing in 2018 or any future period than in the Track

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Record Period, such transfer may result in increased income tax expenses for our Group on a consolidated basis, which may materially and adversely affect our results of operations, particularly, our net profit and net profit margin.

**The Contractual Arrangements between Qianhai Huanjing and Shenzhen 7Road may be subject to scrutiny by the PRC tax authorities and any finding that we or Shenzhen 7Road owe additional taxes could substantially reduce our combined net income and the value of your investment.**

Under the Contractual Arrangements among Qianhai Huanjing and Shenzhen 7Road and its equity holders, Shenzhen 7Road will transfer substantially all of its before-tax profits to Qianhai Huanjing (less any accumulated loss, working capital requirements, expenses and tax of Shenzhen 7Road in a given year), which will substantially reduce Shenzhen 7Road's taxable income. These arrangements and transactions are related party transactions which must be conducted on an arm's length basis under applicable PRC tax rules, if these arrangements and transactions fail to conform to the arm's-length principle, the tax authority may make special tax adjustments on the basis of the full amount that has been deducted before tax payment. As a result, the determination of service fees and other payments to Qianhai Huanjing by Shenzhen 7Road under the Contractual Arrangements may be challenged and deemed not in compliance with such tax rules. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements were not entered into on an arm's-length basis and therefore adjust the taxable income of Shenzhen 7Road in the form of a transfer pricing adjustment which refers to the prices that one member of a group of affiliated corporation's charges to another member of the group for goods, assets, services, financing or the use of intellectual property. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by Shenzhen 7Road, which could in turn increase Shenzhen 7Road's tax liabilities. Any such adjustment could result in a higher overall tax liability of the Group. In addition, the PRC tax authorities may impose late payment fees and other penalties on Shenzhen 7Road for any unpaid taxes. Our combined net income may be materially adversely affected if Shenzhen 7Road's tax liabilities increase or if it is subject to late payment fees or other penalties.

**If we exercise the option to acquire equity ownership or assets of Shenzhen 7Road, the ownership transfer may subject us to substantial costs.**

By virtue of our Contractual Arrangement, Qianhai Huanjing has the exclusive right to purchase all or any part of the equity interests in Shenzhen 7Road from its respective shareholders for a consideration of paid-in capital, unless the relevant governmental authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Qianhai Huanjing also has the exclusive right to purchase all or any part of the assets in Shenzhen 7Road at the net book value of the corresponding assets or such minimum purchase price permitted under PRC laws and regulations, unless the relevant governmental authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Where the purchase price is required by the relevant governmental authorities to be an amount other than an agreed price, the respective shareholders shall return the amount of purchase price they have received to Qianhai Huanjing. If such a transfer takes place, the

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competent tax authority may require Qianhai Huanjing to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated under our Contractual Arrangement, in which case Qianhai Huanjing may be subject to a substantial amount of tax.

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

The MOFCOM published a discussion draft of the proposed Foreign Investment Law (“Draft Foreign Investment Law”) in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. While MOFCOM solicited comments on the Draft Foreign Investment Law in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects. Please see “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” for further details.

Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise (“FIE”). Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a “negative list”, to be separately issued by the State Council later, if the FIE is engaged in the industry listed in the negative list, which calls for market entry clearance by the MOFCOM.

Under the Draft Foreign Investment Law, variable interest entities, or consolidated affiliated entities, that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors.

Although the Draft Foreign Investment Law was released for consultation purposes, there is substantial uncertainty regarding the Draft Foreign Investment Law, including with respect to its final content (especially the provisions dealing with VIE structure), adoption timeline or effective date. Our PRC legal advisors advised that it is still unclear as of the Latest Practicable Date as to (1) what level of “actual control” is required to qualify as a domestic enterprise; (2) how domestic enterprises operated by foreign investors under a contractual arrangement are to be regulated; and (3) what businesses are to be classified as “restricted business” or “prohibited business” in the negative list under the Draft Foreign Investment Law.

If, upon its enactment, the current Draft Foreign Investment Law (1) does not recognize our structure under our Contractual Arrangements as domestic investment; (2) does not provide any preferential treatment to investors from Hong Kong, Macau and

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## RISK FACTORS

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Taiwan; (3) requires Qianhai Huanjing to apply for access permission (准入許可), a government permit that allows foreign investors to invest in “restricted” and/or “prohibited” businesses on the negative list, our Contractual Arrangements may be regarded as invalid and illegal if we have not obtained such access permission. As a result, our Group would not be able to continue our business in China through the Contractual Arrangements. For details of the Draft Foreign Investment Law and the negative list and its potential impact on our Company, and our potential measures to maintain control over and receive economic benefits from our consolidated affiliated entities, see “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment.”

Given that the relevant government authorities have broad discretion in interpreting the foreign investment laws and there are uncertainties as to the three possible approaches proposed in the Explanatory Notes on the treatment of existing contractual arrangements before the Draft FIL becomes effective as further described in “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment,” in the worst case scenario, the Contractual Arrangements may be regarded by the relevant government authorities as invalid and illegal and the our businesses may be ordered by the relevant government authorities to be discontinued under the existing structure and may not be sustainable in the event that: (1) the operation of the Relevant Businesses were to be recognized on the “negative list”, (2) our Contractual Arrangement were to not be deemed as a domestic investment by the relevant government authorities, and (3) there were to be no special treatment for the investors from Hong Kong, Macau and Taiwan who control a domestic enterprise. As a result, we will not be able to operate our businesses through the Contractual Arrangements and will lose our rights to receive the economic benefits of Shenzhen 7Road and its subsidiaries under the Contractual Arrangements and the financial results of Shenzhen 7Road and its subsidiaries will no longer be consolidated into that of our Group and we will have to derecognize their assets and liabilities according to the relevant accounting standards.

In addition, on September 3, 2016, the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws including the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (全國人民代表大會常委會關於修改中華人民共和國外資企業法等四部法律的決定) was promulgated and became effective on October 1, 2016. Please refer to “Regulation Overview” for further details.

Furthermore, the undertakings given by Mr. Meng, Mr. Hu, Shanghai Bao Pu, Shaoxing Shang Yu, Shanghai Bao Hu, ESOP 1 Holdings and ESOP 2 Holdings (as set out in “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment”) may impact our ability to finance our future expansion plans or use Shares as consideration for acquisitions or as a form of equity incentive for our management and employees. In addition, if such measures in the undertakings are impractical to be carried out, this may bring an adverse effect on our Contractual Arrangements. We also cannot assure you that these undertakings will not serve as a disincentive to parties proposing to acquire a material interest in our Shares or control of our Company, which may have a negative impact on the price and liquidity of our Shares.

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## RISK FACTORS

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### 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 Sponsors, 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.

**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 they are delivered, which is expected to be 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 December 31, 2017. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value, and our existing Shareholders will receive an increase in the pro forma adjusted combined net tangible assets value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interests if they 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.



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**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 — Undertakings by Our Controlling Shareholders” 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 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 online game development and 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 iResearch 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 Joint Sponsors, the Underwriters or any of

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## RISK FACTORS

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their respective affiliates or advisors 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.

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.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

### MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that 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 ordinary 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 ordinary reside in Hong Kong. We consider that it would be more efficient and effective for our executive Directors and our management being based outside Hong Kong to supervise and management our daily business operations.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, 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. Meng and Mr. CHEUNG Kai Cheong, who will 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 advisor, Red Solar Capital Limited, in compliance with Rule 3A.19 of the Listing Rules. Red Solar Capital Limited, in addition to our Company's authorized representatives, acts 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 address) 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.

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## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

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### **JOINT COMPANY SECRETARY**

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

We have appointed Ms. WANG Xiaorui as one of our joint company secretaries. Ms. Wang does not possess a qualification as stipulated in Rule 3.28 of the Listing Rules, and therefore she does not meet all requirements under Rules 3.28 and 8.17 of the Listing Rules. We have appointed Mr. CHEUNG Kai Cheong, who possess the qualifications required under Rule 3.28, to act as another company secretary to provide assistance to Ms. Wang 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.

Mr. Cheung will work closely with Ms. Wang to jointly discharge duties and responsibilities as joint company secretaries and assist Ms. Wang to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, we will ensure Ms. Wang has access to relevant training and support to familiarize herself 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 agreed to grant, 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 Ms. Wang to consider whether she will then have acquired the relevant experience within the meaning of Rule 3.28 and 8.17 of the Listing Rules and decide whether a further waiver will be necessary.

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We have entered into the Contractual Arrangements which would constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules following the completion of the Global Offering. We have applied for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to the non-exempt continuing connected transactions. Details of such non-exempt continuing connected transactions and the waiver are set out in the sections headed “Contractual Arrangements” and “Connected Transactions.”

### **PERMISSION TO LIST PURSUANT TO RULE 8.05(3) AND WAIVER UNDER 8.05A OF THE LISTING RULES**

Rule 8.05 of the Listing Rules provides that an issuer must satisfy either the profit test in Rule 8.05(1) or the market capitalization/revenue/cash flow test in Rule 8.05(2) or the market capitalization/revenue test in Rule 8.05(3).

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Rule 8.05A of the Listing Rules provides that in case of the market capitalization/revenue test, the Stock Exchange will accept a shorter trading record period under substantially the same management as required under Rule 8.05(3)(a) and 8.05(3)(b) if the new applicant is able to demonstrate to the satisfaction of the Stock Exchange of the following:

- (a) the directors and management of the new applicant have sufficient and satisfactory experience of at least three years in the line of business and industry of the new applicant. Details of such experience must be disclosed in the listing document of the new applicant; and
- (b) management continuity for the most recent audited financial year.

Our Company is applying for listing using the market capitalization/revenue test in Rule 8.05(3) of the Listing Rules. All of our executive Directors were appointed after January 1, 2015 and our Group is not able to satisfy the management continuity requirement under Rule 8.05(3)(b) of the Listing Rules. Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with Rule 8.05(3)(b) pursuant to Rule 8.05A of the Listing Rules, for the following reasons:

- (a) the executive Directors and senior management of our Company have sufficient and satisfactory experience of at least three years in the line of business and industry of our Company;
- (b) our Company has fulfilled the management continuity requirement for the most recent preceding financial years; and
- (c) our Company meets other requirements set out in Rule 8.05(3) of the Listing Rules, namely, the ownership continuity and control requirement, market capitalization requirement and revenue requirement.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

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 Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Underwriters, any of our or their respective directors, officers, agents, employees or advisors 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 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 Joint Sponsors. 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 Joint Global Coordinators (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 Joint Global Coordinators (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.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **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 Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

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 Wednesday, July 18, 2018. The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares will be 797.

### **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 advisor 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.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisors 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 Joint Global Coordinators, 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, Sertus Incorporations (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong 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\$1.22 (set by the PBOC for foreign exchange transactions prevailing on May 31, 2018);

US\$1.00 : RMB6.41 (set by the PBOC for foreign exchange transactions prevailing on May 31, 2018); and

US\$1.00 : HK\$7.84 (the exchange rate set forth in the weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on May 31, 2018).

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.

### **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.



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**INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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**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.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

| Name   | Address   | Nationality         |
|--|---|---------------------|
| <b>Executive Directors</b>                     |   |                     |
| MENG Shuqi<br>(孟書奇)                            | 231, Unit 230 - 231<br>Xicheng Merchants<br>Overseas Chinese Town<br>Xin'an Street<br>Bao'an District<br>Shenzhen, PRC        | Chinese             |
| HU Min<br>(胡敏)                                 | Flat 19C, Unit B, Block 11<br>The Happy Coast<br>N15, Bao'an District<br>Shenzhen, PRC  | Chinese             |
| WANG Chendong<br>(王臣棟)                         | Flat 1403, Block A<br>Jiajia Hao Yuan<br>223-1, Hai De First Road<br>Nanshan District<br>Shenzhen, PRC                        | Chinese             |
| <b>Non-executive Directors</b>                 |   |                     |
| LI Shimeng<br>(李詩夢)                            | Block 4, Ziyue Shan<br>Bantian Sub-District<br>Longgang District<br>Shenzhen, PRC   | Chinese             |
| YAN Kaidan<br>(嚴凱聃)                            | Flat 1702, Block 5<br>Lujiazui Central Financial Square,<br>258 Jin Kang Road<br>Pudong District<br>Shanghai, PRC             | Chinese             |
| <b>Independent non-executive<br/>Directors</b> |   |                     |
| HO Chit<br>(何捷)                                | Flat G, 20/F<br>Block 7, Park Avenue<br>18 Hoi Ting Road, Mongkok<br>Hong Kong  | Chinese (Hong Kong) |
| LIU Yunli<br>(劉運利)                             | Flat 4515, Building 45<br>Estate 18, Hong Jun Ying East Road,<br>Chaoyang District<br>Beijing, PRC                            | Chinese             |
| WU Xiaoguang<br>(吳宵光)                          | Duplex, 49/F, Tower 6<br>68 Bel-Air Peak Avenue,<br>Bel-Air On the Peak<br>Island South (Phase IV)<br>Pok Fu Lam<br>Hong Kong | Chinese             |

Further information is disclosed in the section headed "Directors and Senior Management" in this prospectus.

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Joint Sponsors****GF Capital (Hong Kong) Limited**

29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**CCB International Capital Limited**

12/F, CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

**Joint Global Coordinators, Joint Bookrunners  
and Joint Lead Managers****GF Securities (Hong Kong) Brokerage  
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29-30/F, Li Po Chun Chambers  
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**CCB International Capital Limited**

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**Haitong International Securities  
Company Limited**

22/F, Li Po Chun Chambers  
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**AMTD Global Markets Limited**

23/F-25/F, Nexxus Building  
41 Connaught Road Central  
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**Joint Bookrunner and Joint Lead Manager****CMB International Capital Limited**

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3 Garden Road  
Central  
Hong Kong

**Joint Lead Managers****First Shanghai Securities Limited**

19/F, Wing On House  
71 Des Voeux Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Head & Shoulders Securities Limited**

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**Futu Securities International (Hong Kong) Limited**

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**Legal Advisors to our Company**

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Central  
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*as to PRC law:*

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Xicheng District  
Beijing, PRC

*as to Cayman Islands law:*

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15/F, Alexandra House  
18 Charter Road  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Chaoyang District  
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**Auditor and Reporting Accountant**

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

**Industry Consultant**

**Shanghai iResearch Co., Ltd, China**  
7/F, Tower B, CCIG International Plaza  
333 North Cao Xi Road, Xuhui District  
Shanghai, PRC

**Receiving Bank**

**Bank of China (Hong Kong) Limited**  
1 Garden Road, Central  
Hong Kong

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## CORPORATE INFORMATION

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|  |   |
|--|---|
| <b>Registered Office</b>                                     | Sertus Chambers, Governors Square<br>Suite #5-204, 23 Lime Tree Bay Avenue,<br>P.O. Box 2547<br>Grand Cayman, KY1-1104<br>Cayman Islands  |
| <b>Headquarters and Principal Place of Business in China</b> | 17-18/F, Unit A1-A2<br>Ke Xing Science Park<br>15 Ke Yuan Road, the Science and<br>Technology Park Nanshan District<br>Shenzhen, PRC  |
| <b>Principal Place of Business in Hong Kong</b>              | 18/F, Tesbury Center<br>28 Queen's Road East<br>Wanchai<br>Hong Kong  |
| <b>Company's Website</b>                                     | <a href="http://www.7road.com">www.7road.com</a><br><i>(The information on the website does not form part of this document)</i>   |
| <b>Joint Company Secretaries</b>                             | Ms. WANG Xiaorui<br>18/F, Building A1<br>Kexing Science Park<br>No. 15 Keyuan Road<br>Nanshan District<br>Shenzhen, PRC<br><br>Mr. CHEUNG Kai Cheong (CPA, FCCA)<br>Flat C, 4/F<br>Block 3, Provident CTR<br>25 Wharf Road<br>North Point<br>Hong Kong                    |
| <b>Authorized Representatives</b>                            | Mr. MENG Shuqi<br>231, Unit 230-231<br>Xicheng Merchants<br>Overseas Chinese Town<br>Xin'an Street<br>Bao'an District<br>Shenzhen, the PRC<br><br>Mr. CHEUNG Kai Cheong (CPA, FCCA)<br>Flat C, 4/F<br>Block 3, Provident CTR<br>25 Wharf Road<br>North Point<br>Hong Kong |

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## CORPORATE INFORMATION

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|  |   |
|--|---|
| <b>Audit Committee</b>                               | HO Chit (何捷) ( <i>Chairman</i> )<br>LIU Yunli (劉運利)<br>WU Xiaoguang (吳宵光)   |
| <b>Remuneration Committee</b>                        | LIU Yunli (劉運利) ( <i>Chairman</i> )<br>HO Chit (何捷)<br>WU Xiaoguang (吳宵光)<br>MENG Shuqi (孟書奇)   |
| <b>Nomination Committee</b>                          | MENG Shuqi (孟書奇) ( <i>Chairman</i> )<br>HO Chit (何捷)<br>WU Xiaoguang (吳宵光)<br>LIU Yunli (劉運利)   |
| <b>Compliance Advisor</b>                            | Red Solar Capital Limited<br>11/F, Kwong Fat Hong Building<br>1 Rumsey Street<br>Sheung Wan<br>Hong Kong  |
| <b>Principal Share Registrar and Transfer Office</b> | Sertus Incorporations (Cayman) Limited<br>Sertus Chambers, Governors Square,<br>Suite #5-204, 23 Lime Tree Bay Avenue,<br>P.O. Box 2547, Grand Cayman,<br>KY1-1104, Cayman Islands  |
| <b>Hong Kong Share Registrar</b>                     | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17 <sup>th</sup> Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong  |
| <b>Principal Banks</b>                               | China Merchants Bank<br>Shenzhen Branch, Ke Yuan sub-branch<br>1 <sup>st</sup> Floor, Yan Xiang Science Tower<br>No. 31, Gao Xing Zhong 4 <sup>th</sup> Road<br>Nanshan District<br>Shenzhen, PRC<br><br>Bank of China<br>Shenzhen Branch, Yi Yuan Road sub-branch<br>1 <sup>st</sup> Floor, Block 10, Ming Jia Fu Ju<br>No. 16, Zheng Feng Road<br>Nanshan District<br>Shenzhen, PRC |

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## INDUSTRY OVERVIEW

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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 “iResearch Report<sup>(1)</sup>”), prepared by iResearch, 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 iResearch 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 Joint Sponsors, the Underwriters or any other party involved in the Global Offering other than iResearch. Except as otherwise noted, all the data and forecast in this section are derived from the iResearch 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 PC-client games, web games and mobile games: (1) PC-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, (2) web games are games that

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<sup>(1)</sup> This “Industry Overview” section contains information extracted from the iResearch Report prepared by iResearch for purposes of this prospectus. We expect to pay a total of RMB0.5 million to iResearch for the preparation and use of the iResearch Report.

#### Method and Research Scope

iResearch obtained industry data and market forecasts mainly through desk research, industry interviews, market survey, and other research methods in accordance with iResearch’s statistical forecast model. iResearch’s research covered overview of global and China’s internet industry, overview of global and China’s online game markets; and analyzes of China’s game industry chain and environment, China’s mobile game, PC game and other game markets.

#### Bases and Assumptions

iResearch has prepared the iResearch 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 data quoted from authoritative agencies remain unchanged; and
- the revenue-sharing arrangements among the market participants are on normal commercial terms.

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

#### About iResearch

iResearch is a provider of insights into China’s internet space and global fastest-growing sectors as well as value-added corporate services. It offers a wide range of services including big data insights and forecasts, industry research and corporate consulting, investment and post-investment services.



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## INDUSTRY OVERVIEW

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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.

### OVERVIEW OF GLOBAL ONLINE GAME MARKET

The global online game market grew fast in the past. The estimated total market size of global online games was US\$108.9 billion in 2017, representing an estimated growth rate of 9.3% from 2016 to 2017 and is expected to further grow at a CAGR of 5.2% from 2017 to 2022. Revenues of PC-client games and web games, expected to account for US\$29.9 billion or 27.4% of the global online game market in 2017 and are expected to decline from US\$29.9 billion in 2017 to US\$28.3 billion in 2022. The mobile game market is expected to generate US\$46.4 billion or 42.6% of the global market in 2017, and is expected to grow at a CAGR of 9.4% toward 2022 to reach US\$72.9 billion.

#### Asia-Pacific Region

Asia-Pacific region had the largest online game market in the world in 2017. The estimated market size of online games in Asia-Pacific region was US\$51.2 billion in 2017, representing an estimated growth rate of 10.1% from 2016 to 2017 and is expected to grow at a CAGR of 5.5% from 2017 to 2022. In 2017, China generated US\$36.2 billion or 70.8% of all revenues in the Asia-Pacific region.

#### North America

North America is the second largest region, with an estimated market size of US\$27.0 billion in 2017, increasing by 4.4% from 2016. It is expected to continue to grow at a CAGR of 2.7% from 2017 to 2022. A combination of a higher share of paying users as well as relatively higher average spend per paying user contributes to such growth.

#### South America

The online game market in South America had the second highest growth rate of 15.3% in the world from 2016 to 2017. The estimated market size of online games in South America was US\$4.4 billion in 2017, and is expected to grow at a CAGR of 10.1% from 2017 to 2022. The growth is primarily driven by the growing popularity of broadband networks and rising volume of smartphones users.

#### Europe

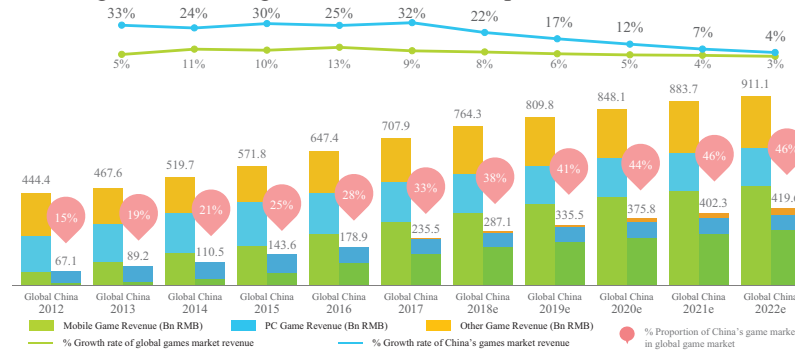
The European market had an estimated market size of US\$22.2 billion in 2017, with a year-on-year increase of 9.7%, and is expected to continue to grow at a CAGR of 2.2% from 2017 to 2022. The growth will be primarily driven by the strong purchasing power of European users and a high level of mobile devices penetration in the region.

### OVERVIEW OF ONLINE GAME MARKET IN CHINA

China is currently the largest online game market in the world. China's game market revenue accounted for 31% of the global online game market revenue in 2017. The

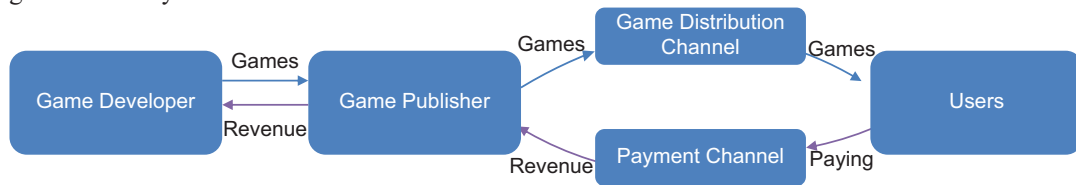
## INDUSTRY OVERVIEW

following chart shows the historical and forecasted revenue of online game market in China as compared to the global online game market for the periods indicated.



Regulations on online games in China are generally supportive. The relevant governmental authorities in China have issued several encouraging policies on the development of online games in China from time to time. Meanwhile, the online game market became more regulated as China's government has been escalating restrictive regulations on the content of online games, particularly restricting online games containing factors such as pornography and violence, to promote a healthy and steady development of the market.

The following table sets forth the major participants of the industry chain of the online game industry.



|                           | Introduction   | Revenue Model  | Concentration           |
|---------------------------|--|--|-------------------------|
| Game Developer            | Content producer in charge of developing and updating games.   | Selling games to publishers or authorizing game IP to other developers; and Dividends of users' consumption and advertisement income in the games. | Relatively scattered    |
| Game Publisher            | Responsible for game manufacturing promotion and marketing, including market research and advertising. | Dividends of users' consumption and advertisement income in the games  | Relatively concentrated |
| Game Distribution Channel | Allows user access through public platforms and websites for game distribution and promotion.          | Dividends of users' consumption and advertisement income in the games; Advertisement income of the platform.                                       | Relatively scattered    |

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## INDUSTRY OVERVIEW

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|                 | Introduction                                     | Revenue Model    | Concentration           |
|-----------------|--|------------------|-------------------------|
| Payment Channel | Gateway through which users can pay for the game | Transaction fees | Relatively concentrated |

### Market Drivers of the Online Game Market in China

China's online game market is primarily driven by the following factors.

- 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.
- Complete industry chain.* In the early stage of development, the focus of China's online game ecosystem was on product development. The recent decade saw the rapid development of other business segments such as game publishing, distribution platforms, payment channels and other supplementary services and support. With the ecosystem being enhanced and the value chain becoming complete, local small-to-medium enterprises are able to have their unique niche and to concentrate on their areas of specialty. For example, integrated distribution channels, such as Apple Inc.'s App Store, 360 Mobile Assistant, Tencent's Myapp and Xiaomi's Mi Store, lower the barrier of distribution of online games on a global scale. Small independent developers are able to publish games at a low cost as a result.
- Development of online payment habits.* The prevalence of China's mobile applications, such as WeChat and Alipay, in recent past has led to the expanding user base through digital payment. The Chinese consumers have been steadily gaining confidence to adopt digital payments for recreational services. Most online games are now equipped with various mobile payment options, allowing users to make payments conveniently. The popularity of digital payment solutions continues to improve the monetization levels of online games.
- Continuous growth in mobile-based Internet access.* According to the iResearch Report, the Internet user base in China has been increasing with a CAGR of 6.4% since 2012 and reached 772 million in 2017. The revenue of China's Internet economy achieved RMB1.8 trillion in 2017, and is expected to continue to grow. With the continuous enhancement in the Internet infrastructure, high-speed Internet has been introduced to 91.2% of the Chinese Internet users, playing an essential role for the online game business. Much of the growth in Internet users has been driven by the development in mobile-centric businesses. The revenue of China's mobile Internet economy reached RMB1.0 trillion in 2017 and is expected to continue to grow, according to the iResearch Report. The mobile Internet user base in China was 753 million in 2017, accounting for 97.5% of China's Internet user base. According to the iResearch Report, the data speed on mobile devices have improved significantly in recent years, and

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## INDUSTRY OVERVIEW

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telecommunication service providers in China generally have reduced mobile data charges. In addition, hardware updates of mobile devices are regularly rolled out, and there is an increasing number of product options for affordable smartphones and tablets. Against such background, the mobile Internet-related businesses in China are considered to have significant growth potential.

- *Development of third-party application stores in China.* The growth of Android-based third-party application stores in recent years has also been a driver of the mobile game market in China. These third-party application stores, such as Tencent's Myapp, 360 Mobile Assistant, Baidu Mobile Assistant and Snappea, are mainly operated by major Internet companies. These third-party application stores can provide not only basic game distribution services, but also game cooperation services by utilizing their ranking lists and advertising platforms. The growth and development of third-party application stores continue to expand the user base for various mobile games and enable small-to-medium game developers to publish games at a low cost.
- *Government support and favorable policy.* The Chinese government generally supports the development of the game and entertainment industry. In particular, in October 2016, the MOC issued a notice to encourage the introduction and upgrade of 3D, augmented reality and virtual reality technologies, the capital injection in the culture and entertainment industry, the consumption of culture products and the development of the game industry.

### **Key Success Factors of the Online Game Market in China**

The key success factors driving China's online game market include the following.

- *Research and development capability.* China's online game market has been moving towards value driving consumption, and has become a more mature economy. Market participants mainly compete based on their capability to develop and launch high-quality games. Game developers accumulate highly skilled manpower and valuable technological expertise through game development cycles over time, which improves their development capabilities, coding efficiency and content quality.
- *Game development capability.* A popular game tends to have its own unique combination of attractive attributes. Game developers seeking to deliver excellent user experience generally focus on creating games with good technical functionality, engaging audio-visual esthetics and storylines, potential to create emotional connection, and uniqueness.
- *IP acquisition and utilization capability.* Game IPs have become increasingly important for both web games and mobile games to attract and retain users. A successful participant in China's online game market must have strong in-house development capabilities to develop and launch games that properly utilize and monetize popular IPs.

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## INDUSTRY OVERVIEW

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- *User acquisition capability.* Once a game is ready for commercialization, the ability to acquire users is essential. This requests the game developers to find suitable partners in the local markets, and a stable and good working relationship with leading regional game publishers in the local markets can be instrumental to its success. Localization capabilities are also essential for the success of online games published in different geographical markets. Successful market players typically have a profound insight into the differentiated user behavioral patterns as well as gameplay needs and preferences of demographically and culturally diverse user communities. Localization goes beyond translating game scripts into local language to structural modification of in-game features and implementation of thoughtful pricing strategies. Moreover, game guilds, which are organizations that game players spontaneously make up for the purpose of exchanging game experiences and playing games together, have become an important channel for online game marketing. In order to attract members in the guild, game publishers work with guild organizations to provide certain in-game virtual items as incentives for members in the guilds to play certain online games.
- *Game longevity capability.* The lifecycle of an online game largely determines its profitability. The lifecycle of an online game is determined by several factors including the pace of the game, the setting of its payment mode, the complexity of its gameplay, the updates among different versions and operational activities and data analysis capabilities of game developers to analyze user behavior. Games with a longer lifecycle are more likely to lead to higher value of their related IPs. Developers of such gaming titles generally gain extensive technical and operational experience throughout their lifecycle, and benefit from such experience to reduce R&D and marketing costs, thereby achieving better profitability.

According to the iResearch Report, the games developed by 7Road have lifecycles significantly longer than the industrial average of games in the same genre. For example, *DDTank* has over nine years of lifecycles, much longer than the lifecycles of the other casual shooting games developed by Chinese game developers which average four to twelve months. *Wartune* has a lifecycle of more than seven years, significantly longer than the lifecycles of the SRPGs developed by other Chinese game developers which average two to eight months. *DDTank (mobile)*, launched in April 2017, is also expected to exceed the average lifecycle of the other casual shooting games in mobile format in China, on the basis that (1) *DDTank*, a famous brand among casual shooting games, has accumulated a lot of fans in China, and the new mobile edition under this brand can attract the existing users of *DDTank*, (2) Tencent, as the exclusive operator of *DDTank (mobile)*, can continuously bring new users, and (3) the Company has abundant experiences in launching casual shooting games.

### MOBILE GAME MARKET IN CHINA

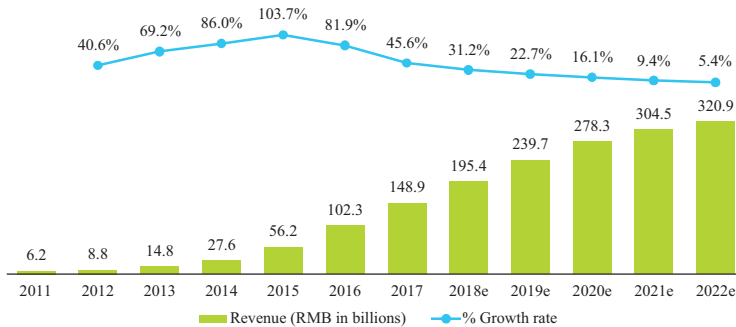
The revenue generated by China's mobile game companies grew steadily and reached RMB148.9 billion in 2017, representing an increase of 45.6% from 2016. iResearch believes that with the increase in the number of paying users and expenditure per user,

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## INDUSTRY OVERVIEW

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China's mobile game market will keep growing steadily in the next three to five years. The following chart shows the historical and forecasted revenue of China's mobile game market for the periods indicated.



The mobile game market in China comprises revenue generated by China's mobile game companies in the China market and the overseas market. Revenue generated by China's mobile game companies in the overseas market increased steadily and accounted for 26.5% of the total revenue of China's mobile game companies in 2017. iResearch believes that the revenue generated by China's mobile games in the overseas market will continue to increase in the next few years to reach US\$12.5 billion by 2022. The expected growth is primarily attributed to an increasing number of Chinese game developers that seek to venture into the international arena, an enhanced value chain and ecosystem for global distribution of online games, and Chinese game developers' growing understanding of local user preferences across diverse geographical markets.

### China's Mobile Games

Despite the growth of user scale since 2012, the number of downloadable mobile games in China has been decreasing since 2015. Mobile game users now attach greater importance to the quality of games such as interesting core gameplay, excellent functionality, enjoyable audiovisual experience and attractive storyline. Game developers are faced with an intensified competition in delivering quality game content. These trends indicate that the online game market has been moving towards value driving consumption, and has become a more mature economy.

### Casual Shooting Mobile Games

Casual shooting game is a popular type of mobile games in China. In terms of mobile games, the gross billing of casual shooting games accounted for 9.7% of the total gross billing of China's casual games in 2017. 7Road's flagship mobile game *DDTank* was the top one casual shooting game in China with a market share of 64.1% of casual shooting games in terms of gross billings in 2017.

### Industry Chain and Competitive Landscape

The industry chain of China's mobile game market mainly includes developers, publishers, distribution platforms and payment channels. Game publishers and distribution

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## INDUSTRY OVERVIEW

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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. Game developers in China publish mobile games either (1) through third-party publishers or (2) directly through online app marketplaces. China's mobile game market is highly fragmented and competitive with a large number of game developers.

### Challenges and Opportunities

Large foreign game companies and domestic PC games companies began to enter into the mobile game market which may result in a reshuffling of the market position of each major participant in the industry. In addition, the cost of engaging mobile game publishers is increasing, resulting in a drop in the profit margin.

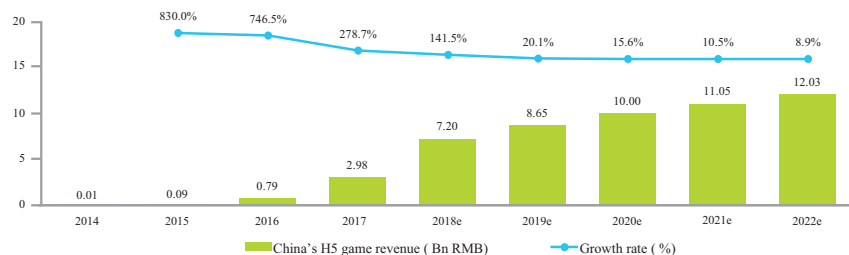
The industry, however, has developed a complete industry chain with the increasing prevalence of mobile phones and mobile Internet. Users are increasingly accustomed to online payment methods, which will help companies monetize their user base.

### H5 Game

H5 games are browser-based games developed with the H5 technology, a markup scripting language. The H5 technology is an alternative to, or by some a more advanced technology over, the traditional Flash technology. The H5 technology makes it possible to create more powerful games that can be run in any standards-compliant web browsers with one code base. Games built with H5 are able to work on various platforms such as smartphones, tablets, PCs and smart TVs. Users can play the game anywhere and anytime, without installing the game applications on PCs and mobile devices. H5 games are nowadays typically played on mobile devices.

### *Development of H5 Games in China*

H5 games have started to gain broad attention from web game users in China since 2014. Due to its outstanding performance on cross-platform operations, an increasing number of web game companies started to develop H5 games. iResearch expects the revenue of H5 games to reach RMB7.20 billion in 2018 and further to RMB12.03 billion in 2022. The following chart shows the historical and forecast revenue of China's H5 games for the periods indicated.



Developers with experience in web game development have the advantage of developing H5 games over others. The success of an H5 game relies heavily on user traffic.

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## INDUSTRY OVERVIEW

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Web game developers usually have experience in collaborating with different distribution channels to acquire users. Hence, they tend to have a better understanding of how to select appropriate game publishing partners to achieve the desired volume of user traffic. Web game developers tend to have stronger performance in retaining game players in H5 games than mobile game developers, leveraging their technical and operational expertise.

In January 2017, Tencent launched WeChat mini programs on H5 format on WeChat platform, and opened the platform of WeChat mini programs to game developers in December 2017. Game developers can now make use of the WeChat mini program platform to develop WeChat mini programs on H5 format. Due to the large amount of users and broad social networks of Tencent's WeChat, WeChat mini programs are widely and rapidly accepted by their users.

Compared with other H5 game platforms, Tencent's WeChat has numerous competitive advantages in terms of its user base, user stickiness and social networking features. It is expected that Tencent will be a strong driving force for the H5 game industry in China. With the prevalence of the WeChat mini programs, causal games, such as 7Road's *DDTank*, in particular, will be able to gain access to a large user base and tap into its monetization potentials. However, as it is difficult to find other competitive channels, H5 game developers may rely heavily on Tencent's WeChat as its distribution channel in China. In addition, Tencent has relatively strict policies on data protection with which H5 game developers may be required to comply. As of the Latest Practicable Date, H5 games operated on WeChat are not allowed to collect payment from users on iOS.

### *Challenges and Opportunities*

The development of H5 games provides both challenges and opportunities for web game companies in China. Since games built with H5 operate on various platforms, the reach of the web is enormous and efficient. Web game companies are able to advertise and promote its games all over the web as well as other media, without being limited within app marketplaces. As the product design of H5 games matures, creative H5 games in various formats are emerging in China. iResearch believes that web game companies have an advantage over other game companies because of the similarity in the operation of H5 games and web games in a number of ways.

However, as people increasingly use mobile devices to access the web, H5 games are facing strong competition from mobile games. The competition further intensifies with more traditional web game companies entering into China's H5 game market and the costs for attracting and retaining users are therefore increasing.

### **WEB GAME MARKET IN CHINA**

The web game market in China has experienced significant growth in the past, which comprises revenue generated by China's web game companies in the China market and the overseas markets. As a result of an increasing popularity of mobile games and certain technical limitations arising from the Flash framework, on which most web games were created, revenue generated by China's web game companies declined slightly from 2016 to

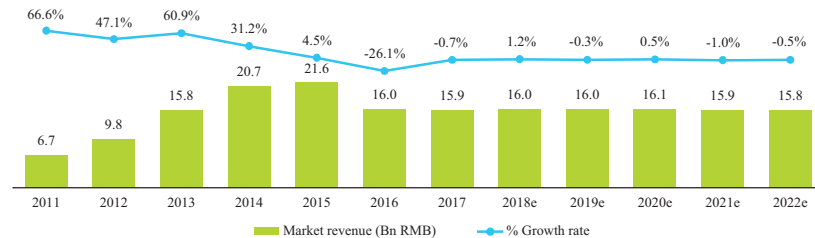


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## INDUSTRY OVERVIEW

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2017. Web game developers in China are seeking to develop web games by utilizing new Internet technologies such as Unity3d and H5. As the web game market in China matures, iResearch expects that the revenue of web game market in China will remain steady in the future. The following chart shows the historical and forecast revenue of web game market in China for the periods indicated.



In 2017, revenue generated by China's web game companies in the overseas markets reached 1.36 billion US dollars, surpassing its domestic revenue, and accounting for 56% of the total revenue of the China's web game market. Compared to the decreasing web game market in China, the overseas markets offer dynamic business and relaxed regulatory environment for competition, which provides China's web games opportunities to grow. As web game developers in China continue to expand their overseas presence, iResearch believes that the overseas revenue of China's web games will continue to increase in the next three to five years.

### China's Web Games

The number of users of web game in China reached its peak of 299.8 million in 2015. Although the total number of users of web games in China has declined since 2016, the average time per user spent on web games is increasing steadily. In addition, the total number of newly opened servers for web games in China reached a new high of over 300,000 in 2017, and certain existing popular web games continue to open thousands of new servers each year. Therefore, iResearch believes that high-quality web games still have great potentials in China.

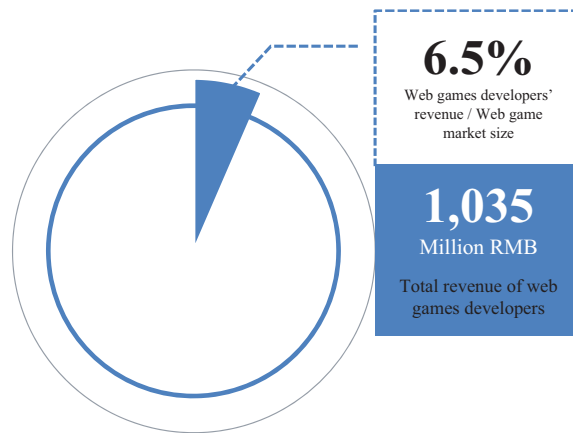
Many industry players in China's web game market set foot in more than one segment of the industry chain to enjoy synergies in terms of cost control between the segments. For example, Tencent, China's Internet entertainment powerhouse, has integrated capabilities of game development and publishing, with integrated game distribution platforms and payment channels. In contrast, a subset of industry players focuses primarily on game development and derive the vast majority of their revenues from the game development business. The web game developers (with over 80% of their revenue generated from web game development) accounted for 6.5% of China's overall web game market in 2017. In general, web game developers strategically focus on game content development in a cost-efficient manner with the ability to produce its own IPs. They enjoy great flexibility in selecting third-party game publishing partners. However, web game developers tend to develop high dependence on their business partners, and must share a significant portion of gross billings with their partners. In addition, they must face the challenges from other competitors, specifically, from those integrated web game companies that have stronger financial resources to be invested in their marketing efforts.

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## INDUSTRY OVERVIEW

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Market share of web games developers  
in China's overall web game industry,  
2017



### RPG Web Games

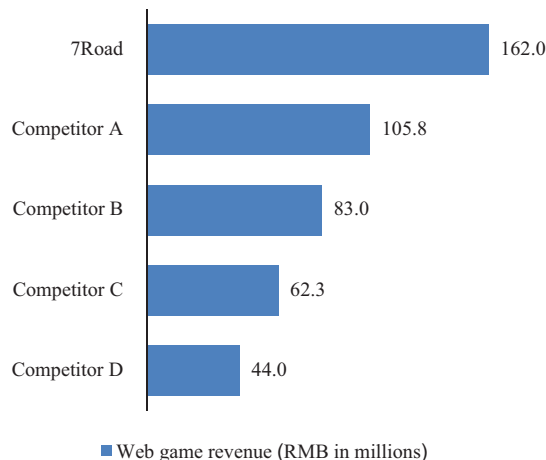
RPG games are the most popular type of web games in China, which generated revenue accounting for 88.9% of the total web game market in China in 2017. 7Road flagship web game *Wartune* is an RPG game that ranks first among all the web games developed by Chinese companies in terms of gross billings.

### Industry Chain and Competitive Landscape

The industry chain of China's web game market mainly includes developers, publishers, and distribution channels.

In 2017, 7Road was the largest web game developer (generating over 80% of its revenue from web game development) in China in terms of revenue generated from proprietary web games.

China's Top Five Web Game Developers  
in 2017



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## INDUSTRY OVERVIEW

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### **Challenges and Opportunities**

Web game companies face increasing competition from mobile and H5 game companies. However, the industry has developed a mature industry chain. Users are also accustomed to online payment methods which helps companies monetize their user base.

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## REGULATION OVERVIEW

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### REGULATIONS ON VALUE-ADDED TELECOMMUNICATIONS SERVICES AND FOREIGN OWNERSHIP RESTRICTIONS

#### Regulations on Telecommunications Services

The Telecommunications Regulations of the PRC (中華人民共和國電信條例) (the “Telecommunications Regulations”), promulgated by the State Council on September 25, 2000 and last amended on February 2, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (電信業務分類目錄), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry of the PRC (the “MII,” which is the predecessor of the MIIT) on February 21, 2003 and amended by the MIIT on December 28, 2015. Information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

The Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the “Internet Measures”), which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of Internet information services. The Internet Measures classified Internet information services into commercial Internet information services and non-commercial Internet information services and a commercial operator of Internet content provision services must obtain a value-added telecommunications business operating license (the “ICP license”) for the provision of Internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing (電信業務經營許可管理辦法), which was promulgated by the MIIT and became effective on September 1, 2017, further regulate the telecommunications business licensing.

#### Regulations on Foreign Investments in Value-added Telecommunications Industry

Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (revised in 2017) (外商投資產業指導目錄 (2017年修訂)) (the “Catalog”), which was promulgated jointly by the MOFCOM and the NDRC on June 28, 2017 and became effective on July 28, 2017. The Catalog divides industries into four categories in terms of foreign investment, which are “encouraged,” “restricted,” “prohibited” and all industries not listed under one of these categories are deemed to be “permitted.” According to the Catalog, the Internet information services that the Company currently operates falls under value-added telecommunications services (except for e-commerce) and Internet cultural businesses (except for music), which are under “restricted” categories and “prohibited” categories, respectively.

Foreign direct investment in telecommunications companies in China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (revised in 2016) (外商投資電信企業管理規定 (2016修訂)), which was

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promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business, provided such investor is a major one among the foreign investors investing in a value-added telecommunications enterprise in China. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for its commencement of value-added telecommunication business in China.

In July 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (信息產業部關於加強外商投資經營增值電信業務管理的通知) (the “MII Notice”), pursuant to which, if any foreign investor intends to invest in telecommunications business in China, a foreign-invested telecommunications enterprise must be established and such enterprise must apply for the relevant telecommunications business operation licenses. Furthermore, under the MII Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Notice, the Internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

### REGULATIONS ON ONLINE GAMES AND CULTURAL PRODUCTS AND FOREIGN OWNERSHIP RESTRICTIONS

#### Regulations on Online Games

Pursuant to the aforesaid the Guidance Catalog of Industries for Foreign Investment (revised in 2017) (外商投資產業指導目錄 (2017修訂)), the internet culture business is classified as the category of industries prohibiting foreign investment. Since online games fall within the definition of “Internet culture products” under the Interim Administrative Provisions on Internet Culture (互聯網文化管理暫行規定) (the “Internet Culture Provisions”), which were issued by the MOC on May 10, 2003 and last amended on December 15, 2017, a commercial operator of online games must obtain an Internet culture operation license from the appropriate culture administrative authorities for its operation of online games.

The Interim Measures for the Administration of Online Games (網絡遊戲管理暫行辦法) (the “Online Game Measures”), which was issued by the MOC and last amended on December 15, 2017, regulate a broad range of activities related to the online games business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services.

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## REGULATION OVERVIEW

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The Online Game Measures provide that any entity that is engaged in online game operations must obtain an Internet culture operation license, and require the content of an imported online game to be examined and approved by the MOC prior to the launch of the game and the content of a domestic online game must be filed within 30 days of its launch with the MOC. The Online Game Measures also request online game operators to protect the interests of online game players and specify certain terms that must be included in the service agreements between online game operators and the players of their online games. The Notice of the Ministry of Culture on the Implementation of the Interim Measures for the Administration of Online Games (文化部關於貫徹實施〈網絡遊戲管理暫行辦法〉的通知), which took effect in July 2010 specify entities regulated by the Online Game Measures and procedures related to the MOC's review of the content of online games, and emphasizes the protection of minors playing online games and requests online game operators to promote real-name registration by their game players.

The Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the MOC, the State Administration of Radio Film and Television, or the SARFT, and the GAPP (關於印發中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部份條文的解釋的通知), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) which became effective on September 7, 2009, provides that the GAPP will have responsibility for the examination and approval of online games to be uploaded on the Internet and that, after such upload, online games will be administered by the MOC.

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

On December 1, 2016, the Ministry of Culture promulgated the Circular of the Ministry of Culture on Regulating the Operation of Online Games and Strengthening the Interim and Ex Post Supervision (文化部關於規範網絡遊戲運營加強事中事後監管工作的通知), which became effective on May 1, 2017. The Circular sets requirements in relation to the following aspects of online games: (1) clarifying the scope of online game operation; (2) regulating services for issuance of virtual props of online games; (3) strengthening the protection of the rights and interests of online game users; (4) strengthening the interim and ex post supervision of online game operation; and (5) seriously investigating and punishing illegal operating activities.

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## REGULATION OVERVIEW

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### Regulations on Internet Publication

On February 4, 2016, the SAPPRFT and the 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. 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, the SAPPRFT promulgated the Notice on the Administration over Mobile Game Publishing Services (關於移動遊戲出版服務管理的通知), which became effective as of July 1, 2016. The Notice provides that game publishing service entities shall be responsible for examining the contents of their games and applying for game publication numbers. To apply for publication of domestically developed mobile games in the leisure and puzzle category that are not related to political, military, national or religious topics or contents and have no or simple story lines, entities shall submit the required documents to provincial publication administrative departments at least 20 business days prior to the expected date of online publication (public beta). Entities applying for publication of domestically-developed mobile games that are not included in abovementioned category shall go through stricter procedures, including submitting manager accounts for content review and testing accounts for game anti-indulgence system. Game publishing service entities must set up a specific page to display the information approved by the SARFT, including the copyright owner of the game, publishing service entity, approval number, publication number and others, and shall take charge of examining and recording daily updates of the game. Concerning those mobile games (including pre-installed mobile games) that have been published and operated online before the implementation of this Notice, other requirements apply to maintain the publication and operation of such games online, relevant approval procedures would have to be implemented by the game publishing service entities and enterprises in coordination with the provincial publication administrative departments before October 31, 2016 as required by this Notice. Otherwise, these mobile games shall cease to be published or operated online.

### Examination of Online Game Content

The Notice Regarding Improving and Strengthening the Administration of Online Game Content (文化部關於改進和加強網絡遊戲內容管理工作的通知) (the “Online Game Content Notice”), issued by the MOC in November 2009, requests online game operators to improve and adapt their game models by (1) mitigating the predominance of the “upgrade by monster fighting” model, (2) limiting the use of the “player killing” model (where one player’s avatar attempts to kill another player’s avatar), (3) limiting in-game marriages among game players, and (4) improving their compliance with legal requirements for the registration of minors and game time limits.

The Notice Regarding the Strengthening of Online Game Content Censorship (文化部關於加強網絡遊戲產品內容審查工作的通知), issued by the MOC in 2004, mandates the

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establishment of a committee under the MOC to screen the content of imported online games and requires that the content of all imported online games be approved by the MOC.

### **Virtual Currency and Virtual Items**

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

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

## **LAWS AND REGULATIONS ON INTELLECTUAL PROPERTY**

### **The Copyright Law**

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.



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### **The Trademark Law**

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 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 for the Administration of Internet Domain Name (《互聯網域名管理辦法》) promulgated by MIIT on August 24, 2017 and became effective on November 1, 2017 which replaced the Measures on Administration of Domain Names for the Chinese Internet issued on November 5, 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.

### **The Patent Law**

According to the Patent Law of the PRC (Revised in 2008) (中華人民共和國專利法 (2008修訂)) promulgated by the Standing Committee of National People’s Congress

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(the “SCNPC”), and its Implementation Rules (Revised in 2010) (中華人民共和國專利法實施細則 (2010修訂)) promulgated by the State Council, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, “invention,” “utility model” and “design.” Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

### LAWS AND REGULATIONS ON WHOLLY FOREIGN-OWNED ENTERPRISE

#### Company Law of the PRC

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

#### Wholly Foreign-Owned Enterprise Law of the PRC and its implementation measures

Under the Wholly Foreign-Owned Enterprise Law of the PRC (中華人民共和國外資企業法) promulgated in 1986 and last amended in 2016, and the Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People’s Republic China (中華人民共和國外資企業法實施細則), which was promulgated in 1990 and was last amended on February 19, 2014, an application for establishing a wholly foreign-owned enterprise shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC (“MOFTEC”, currently known as the MOFCOM) before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a wholly foreign-owned enterprise is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to, and collect the business license from the administrative authority for industry and commerce.

On September 3, 2016, the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws including the Law of the People’s Republic of

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## REGULATION OVERVIEW

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China on Wholly Foreign-owned Enterprises (全國人民代表大會常務委員會關於修改<中華人民共和國外資企業法>等四部法律的決定) (the “Decision on Revision of Four Laws”) was promulgated and became effective on October 1, 2016. On October 8, 2016, the MOFCOM published the Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) (the “Filings Measures”) and became effective on the same date. The Decision on Revision of Four Laws and the Filings Measures revised relevant administrative approval provisions of the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法), the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法), the Law of the People’s Republic of China on Sino-Foreign Cooperative Joint Ventures (中華人民共和國中外合作經營企業法) and the Law of the People’s Republic of China on the Protection of the Investments of Taiwan Compatriots (中華人民共和國台灣同胞投資保護法) and the relevant formality regime for the incorporation and change of foreign-invested enterprises, whereby if the incorporation or change of foreign-invested enterprises and enterprises funded by Taiwan compatriots does not involve special access administrative measures prescribed by the PRC government (the “Negative List”), the examination and approval process is now being replaced by the record-filing administration process. According to the Filings Measures, where the incorporation of foreign-invested enterprises do not fall within the Negative List, such enterprises shall go through the record-filing procedures after obtaining the prior approval of the enterprise name and prior to the issuance of a business license, or within 30 days after the issuance of a business license. Within the record-filing scope of the Filings Measures, in the case of a change of basic information of the foreign-invested enterprises or their investors, a change of equity (shares) or cooperation interest of the foreign-invested enterprises, merger, division or dissolution, mortgage or transfer of foreign-invested enterprises’ property or rights and interests to others and other matters, the foreign-invested enterprises shall file the relevant documents online within 30 days upon occurrence of such changes via the comprehensive administrative system. On October 8, 2016, the announcement of the NDRC and the MOFCOM [2016] No. 22 (中華人民共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號) was published and specified that the Negative List shall be in line with the Catalog. On July 30, 2017, the MOFCOM amended the Filings Measures, which took effective on the same date. According to the amended Filings Measures, a record-filing administration process shall apply in the event that foreign investors (1) merge and acquire non-foreign-invested enterprises within PRC, and (2) undertake strategic investment into domestic listed companies, provided that it does not involve special access administrative measures or merge and acquisition with related party.

### REGULATIONS ON FOREIGN EXCHANGE

#### General Administration of Foreign Exchange

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

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## REGULATION OVERVIEW

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such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles (Huifa [2014] No. 37) (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (匯發[2014]37號) (the “Circular No. 37”), which is promulgated and came into effect on July 4, 2014, the SAFE carry out registration management for domestic resident’s establishment of special purpose vehicles (each a “SPV”). A SPV is defined as “offshore enterprise directly established or indirectly controlled by the domestic resident (including domestic institution and individual resident) with their legally owned assets and equity of the domestic enterprise, or legally owned offshore assets or equity, for the purposes of investment and financing.” “Round Trip Investments” refer to “the direct investment activities carried out by a domestic resident directly or indirectly via a SPV, such as establishing a foreign-invested enterprise or project within the PRC through a new entity, merger or acquisition and other ways, while obtaining ownership, control, operation and management and other rights and interests.” Before a domestic resident contributes its legally owned onshore or offshore assets and equity to a SPV, the domestic resident shall conduct foreign exchange registration for offshore investment with the local branch of the SAFE, and in the event of any change of basic information such as the individual shareholder, name, operation term, or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete foreign exchange alteration of the registration formality for offshore investment. In addition, according to the procedural guidelines as attached to the Circular 37, the principle of review has been changed to “the domestic individual resident is only required to register the SPV directly established or controlled by him (first level)”.

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the “SAFE Notice No. 13”), which was promulgated on February 13, 2015, implemented and became effective on June 1, 2015, the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau.

The Notice of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (國家外匯管理局關於改革外商投資企業外匯資本結匯管理方式的通知) (the “SAFE Notice No. 19”) was promulgated on

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## REGULATION OVERVIEW

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March 30, 2015 and became effective on June 1, 2015. According to the SAFE Notice No. 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. The Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the “SAFE Notice No. 16”) was promulgated and became effective on June 9, 2016. According to the SAFE Notice No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Notice No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Notice No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

### LAWS AND REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends of foreign holding companies include the Company Law of the PRC (中華人民共和國公司法) promulgated by the SCNPC in 1993 and amended in 1999, 2004, 2005 and 2013, the Foreign Investment Enterprise Law of the PRC (中華人民共和國外資企業法) promulgated by the SCNPC in 1986 and amended in 2000 and 2016, and the Administrative Rules under the Foreign Investment Enterprise Law (外資企業法實施細則) promulgated by the State Council in 1990 and amended in 2001 and 2014. Under the laws and regulations, foreign investment enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly-foreign-owned enterprises in the PRC, like our PRC subsidiary, are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

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## REGULATION OVERVIEW

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### LAWS AND REGULATIONS ON TAX

#### 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%.

#### Tax Treaties

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (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) signed on August 21, 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities. The Announcement on Issues Concerning “Beneficial Owners” in Tax Treaties (《關於稅收協定中“受益所有人”的通知》) which was issued on February 3, 2018 by SAT, effective on April 1, 2018, abolished the determination of beneficial ownership is clarified under the Notice on Understanding and Determining Beneficial Owners (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) issued by the State Administration of Taxation on October 27, 2009, established for the purpose of avoiding or reducing tax obligations or transferring or accumulating profits and describes factors in favor of and factors not conducive to the determination of an applicant’s status as a “beneficial owner”.

Pursuant to the Notice on the Several Issues of the Implementation of Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the State Administration of Taxation and came into effect on February 20, 2009, the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty. Pursuant to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (非居民納稅人享受稅收協定待遇管理辦法), which was promulgated by the SAT on August 27, 2015, any non-resident taxpayer fulfilling conditions for enjoying the convention treatment may be entitled to the convention treatment on its own when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

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## REGULATION OVERVIEW

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### 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, February 6, 2016 and November 19, 2017 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.

## LAWS AND REGULATIONS ON EMPLOYMENT AND SOCIAL SECURITY

### 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 (中華人民共和國勞動合同法實施條例), which was promulgated by the State Council and became effective on September 18, 2008, (1) labor contracts in written form shall be executed to establish labor relationships between employers and employees, (2) wages cannot be lower than local minimum wage standards, (3) 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

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## REGULATION OVERVIEW

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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.

### **Social Insurance and Housing Funds**

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法) (the "Social Insurance Law") promulgated on October 28, 2010 by the SCNPC and implemented on July 1, 2011, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) promulgated and implemented 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.

### **REGULATIONS ON M&A AND OVERSEAS LISTING**

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "M&A Rules"), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.



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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 Advisors to determine whether our sales during the Track Record Period violate the international sanctions laws.

As advised by our International Sanctions Legal Advisors, 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."

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## HISTORY AND REORGANIZATION

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### OVERVIEW

We are a leading online game developer and operator in China. Our business commenced in 2008. In 2009, we launched our first online game, *DDTank* (彈彈堂), which has since become one of our flagship titles. Later in 2011, we launched another online game, *Wartune* (神曲), in the PRC. Both online games have obtained popularity domestically and internationally. In recent years, our Directors have recognized the fast development of mobile games market and the shift in development trend from web to mobile games. Accordingly, we have strategically expanded our business focuses to develop mobile and H5 games, and the mobile version of *DDTank* was launched in China in April 2017. We will continuously expand our game portfolio through developing and publishing new games in both web and mobile formats.

Mr. Meng, our executive Director, chief executive officer and chairman of our Board, joined Shenzhen 7Road, our first PRC operating entity, in June 2009. He served as the chief operation officer and director of Shenzhen 7Road since May 2011. Mr. Meng ceased to be a director of Shenzhen 7Road in May 2013 due to the fact that the entire interest of Shenzhen 7Road was acquired by Beijing Chang You and subsequently retired from his role as the chief operation officer in February 2014.

After his departure, Mr. Meng and a few investors, initiated discussions in relation to the acquisition of all the equity interests of Shenzhen 7Road with the then sole shareholder. After arm's length negotiation among the parties and a series of share transfers, the Management Buyout was completed in November 2015. See "Management Buyout" below for details.

In the meantime, in August 2015, to develop our overseas business, we executed an investment agreement to acquire 23% of the equity interest of Digital Hollywood (HK: 2022) which has been a publisher of our games in the overseas countries. Digital Hollywood is a leading global online game publisher for PRC-based game developers. Its shares have been listed on the Main Board of the Stock Exchange since December 15, 2017. See "Investment in Digital Hollywood" below for details.

One year later, in November 2016, Shenzhen 7Road introduced Ningbo Bao Pu and Shanghai Ting Can as its new financial investors. The then shareholders of Shenzhen 7Road transferred 30.76% and 20.24% of their equity interests in Shenzhen 7Road to Ningbo Bao Pu and Shanghai Ting Can respectively. See "Investments by financial investors" and "Pre-IPO Investments" below for details.

For the purpose of the Listing, our Company was incorporated in the Cayman Islands with limited liability on September 6, 2017 as a holding company of our Group.

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## HISTORY AND REORGANIZATION

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### MILESTONES OF DEVELOPMENT

The following is a summary of our business development milestones:

| Year | Event  |
|------|--|
| 2008 | Shenzhen 7Road was established in the PRC in January.  |
| 2009 | <i>DDTank</i> , our first online game and one of our flagship titles, was launched in the PRC in March.<br><br><i>DDTank</i> was launched in Southeast Asia in August. |
| 2010 | The average DAUs of <i>DDTank</i> reached 300,000 in March.  |
| 2011 | Our RPG online game and one of our flagship titles, <i>Wartune</i> , was launched in the PRC in December.  |
| 2012 | <i>Wartune</i> was launched in English-speaking countries in August.   |
| 2013 | <i>Wartune</i> received the “Facebook Staff Favorites Recognition” in July.  |
| 2015 | We completed our equity investment in Digital Hollywood in October.  |
| 2016 | The mobile game <i>Wartune Heroes</i> (神曲之符文英雄) was launched in the PRC in July.   |
| 2017 | The mobile game <i>DDTank (mobile)</i> (彈彈堂(手遊)) was launched in the PRC in April.   |

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## HISTORY AND REORGANIZATION

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### OUR OPERATING ENTITIES

As of the Latest Practicable Date, we had three PRC Operating Entities (i.e. Shenzhen 7Road, Shenzhen Qianqi and Huoerguosi 7Road) and one overseas operating entity (i.e. 7Road International Hong Kong), which made material contributions to our financial results during the Track Record Period. The dates of establishment, principal business activities and other material information of these companies are tabulated as below:

#### PRC Operating Entities

| Name             | Principal Business Activities                                 | Date of Establishment and Commencement of Business, Place of Establishment | Registered Capital | Business License(s) Owned  | Relationship with our Company   |
|------------------|---|--|--------------------|--|---|
| Shenzhen 7Road   | online game development, promotion, publishing and management | January 22, 2008<br>the PRC  | RMB10 million      | PRC Business License, ICP License, Internet Culture Business License (網絡文化經營許可證) and Online Publishing Service License (網絡出版服務許可證) | financial results have been consolidated and accounted as a subsidiary of our Company by virtue of the Contractual Arrangements |
| Shenzhen Qianqi  | online game development, promotion and management             | November 28, 2013<br>the PRC   | RMB26 million      | PRC Business License and Internet Culture Business License (網絡文化經營許可證)   | financial results have been consolidated and accounted as a subsidiary of our Company by virtue of the Contractual Arrangements |
| Huoerguosi 7Road | online game development, promotion and management             | November 27, 2015<br>the PRC   | RMB10 million      | PRC Business License and Internet Culture Business License (網絡文化經營許可證)   | financial results have been consolidated and accounted as a subsidiary of our Company by virtue of the Contractual Arrangements |

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### Hong Kong Operating Entity

| Name                          | Principal Business Activities | Date of Establishment and Commencement of Business, Place of Establishment | Share Capital                           | Business License(s) Owned         | Relationship with our Company                        |
|-------------------------------|-------------------------------|--|---|-----------------------------------|--|
| 7Road International Hong Kong | publishing of online games    | June 3, 2015<br>Hong Kong  | HK\$1.00, divided into 1 ordinary share | Business Registration Certificate | an indirectly wholly-owned subsidiary of our Company |

### OUR CORPORATE HISTORY

#### Shenzhen 7Road

Shenzhen 7Road is our first PRC Operating Entity and ranks the first in the Group in terms of financial contribution during the Track Record Period. It was established in the PRC on January 22, 2008 with an initial registered capital of RMB1.0 million and upon establishment was owned by two individual shareholders, both of whom are Independent Third Parties.

#### *Early development*

During the period from 2009 to 2011, there had been a series of share transfers in Shenzhen 7Road among a number of individual and corporate shareholders.

In April 2011, the then shareholders of Shenzhen 7Road transferred an aggregate of 68.26% of the equity interest in Shenzhen 7Road to Beijing Chang You at a total consideration of approximately US\$68.26 million based on arm's length negotiations and with reference to the valuation of Shenzhen 7Road at the time. Then on May 1, 2013, Beijing Chang You acquired the remaining 31.74% of the equity interest in Shenzhen 7Road at a total consideration of approximately RMB196.99 million based on arm's length negotiations and with reference to the valuation of Shenzhen 7Road at the time. The total consideration of the two transactions was fully settled on May 12, 2011 and June 5, 2013 respectively. Following the completion of these equity transfers, Shenzhen 7Road became a wholly-owned subsidiary of Beijing Chang You.

Beijing Chang You is a company incorporated under the laws of the PRC with limited liability and whose financial results were consolidated as a subsidiary of ChangYou, whose shares were listed on the NASDAQ (NASDAQ: CYOU) in 2009. Beijing Chang You is an Independent Third Party as of the Latest Practicable Date.

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## HISTORY AND REORGANIZATION

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### *Previous contractual arrangement*

To pursue potential development opportunities in the overseas capital markets, during the period from June 2012 to April 2015, Shenzhen 7Road had been controlled by Shenzhen 7<sup>th</sup> Road Internet Technologies Co., Ltd (深圳第七大道網絡技術有限公司) (“7Road Internet”) by virtue of contractual arrangements made among the then shareholders of Shenzhen 7Road and 7Road Internet. As at the Latest Practicable Date, 7Road Internet is an Independent Third Party and was a company ultimately controlled by the then shareholders of Shenzhen 7Road.

During the negotiation of the Management Buyout, the then shareholders of Shenzhen 7Road decided to terminate such contractual arrangement. Accordingly, in April 2015, such contractual arrangement was terminated by its respective parties by signing separate termination agreements.

### *Contemplated listing on NASDAQ*

In or around September 2012, the then holding company of 7Road Internet (the “Then Holdco”), together with 7Road Internet and Shenzhen 7Road (collectively, the “Previous Group”), sought an initial public offering on NASDAQ (the “contemplated NASDAQ listing”) and filed, in confidence, all related application documents including a draft of registration statement (the “Registration Statement”) to the U.S. Securities and Exchange Commission (the “SEC”) for its review.

However, in or around March 2013, the Previous Group decided not to proceed with the contemplated NASDAQ listing prior to the completion of the regulatory review process with the SEC due to unfavorable capital market conditions in the United States and undervaluation of the Previous Group.

As part of the SEC’s review process, the Previous Group received comments from the SEC from around September 2012 to April 2013. The comments were primarily related to the disclosure matters in relation to the business and financial information of the Previous Group. Major comments from the SEC included clarification and/or disclosure of (1) key web game operating metrics that the Previous Group adopted to evaluate its business; (2) details of the revenue sharing under the web game arrangements between the Previous Group and its joint operators; (3) revenue recognition of the Previous Group in respect of web game arrangements between the Previous Group and its joint operators; and (4) details of the reorganization of the contemplated NASDAQ listing and the previous contractual arrangement. The Previous Group addressed the SEC’s comments by (1) explaining and/or clarifying to the SEC in the Previous Group’s written responses; and (2) adding and/or revising disclosures to the Registration Statement accordingly.

As of the date of this prospectus, our Directors are of the view that there is no matter in relation to the contemplated NASDAQ listing relevant to the Listing which would affect our Company’s suitability for the Listing. In addition, our Directors confirm that, save for the contemplated NASDAQ listing and the Listing, none of our Group, our Group’s former holding companies, or our Company had made any application for listing of its respective shares on any other stock exchange.

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## HISTORY AND REORGANIZATION

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### *Management Buyout*

During the initial stage of Shenzhen 7Road from around 2009 to 2013, there are three members in the management team who had played essential roles in the development of Shenzhen 7Road. The three members are Mr. Meng, Mr. Hu and Mr. Liu. Mr. Meng joined Shenzhen 7Road in June 2009 as the chief operation officer and had also served as a director of Shenzhen 7Road from May 2011 to May 2013. In addition, he was a minority shareholder of Shenzhen 7Road from March 2010 to May 2013. Mr. Hu joined Shenzhen 7Road as the chief production officer in March 2009 and retired from the position in February 2014. Mr. Liu joined Shenzhen 7Road as the vice president of Shenzhen 7Road in May 2013 and retired from the position in December 2013. See “Directors and Senior Management” for further details.

After their departure from Shenzhen 7Road, Mr. Meng and a few investors initiated discussions in relation to the acquisition of Shenzhen 7Road with Beijing Chang You. As the first step of the Management Buyout, in April 2015, Mr. Meng together with other investors, through a limited partnership investment fund named Shanghai Yong Chong in which Mr. Meng was a general partner at the time, acquired from Beijing Chang You the entire equity interest of Shenzhen 7Road and two overseas subsidiaries of Beijing Chang You at an aggregate consideration of US\$205 million based on arm’s length negotiation with reference to the valuation of the target companies at the time, with the intention to further transfer such equity interests to the management team. The consideration was fully settled on August 21, 2015. Shanghai Yong Chong subsequently transferred an aggregate of 51% of the equity interest in Shenzhen 7Road to Mr. Meng, Mr. Hu and Mr. Liu in November 2015.

In order to align the interest of Mr. Meng, Mr. Hu and Mr. Liu in Shenzhen 7Road, on November 11, 2015, Shanghai Yong Chong transferred 23.50%, 16.56% and 10.95% of the equity interests in Shenzhen 7Road respectively to Mr. Meng, Mr. Hu and Mr. Liu at considerations of approximately RMB157.14 million, RMB110.73 million and RMB73.21 million based on arm’s length negotiation with reference to the valuation of the Shenzhen 7Road as well as the contribution of Mr. Meng, Mr. Hu and Mr. Liu to the development of Shenzhen 7Road at the time. The considerations were fully settled on June 4, 2016. As a condition for the share transfer, Mr. Meng, Mr. Hu and Mr. Liu were required by Shanghai Yong Chong to work for Shenzhen 7Road as employees for a period of three years. This lock-up requirement was terminated when Shanghai Yong Chong sold all of its equity interest in Shenzhen 7Road in late 2016. As a result, the above acquisition and arrangements were considered as share-based compensation arrangements. As such, we recorded share-based compensation costs in 2015 and 2016. See “Financial Information — Principal Profit or Loss Components — Share Based Compensations” for details. In November 2015, Shanghai Yong Chong also transferred 17.50% of the equity interests in Shenzhen 7Road to an investor namely Wuxi Yi Yao at a consideration of approximately RMB118 million.

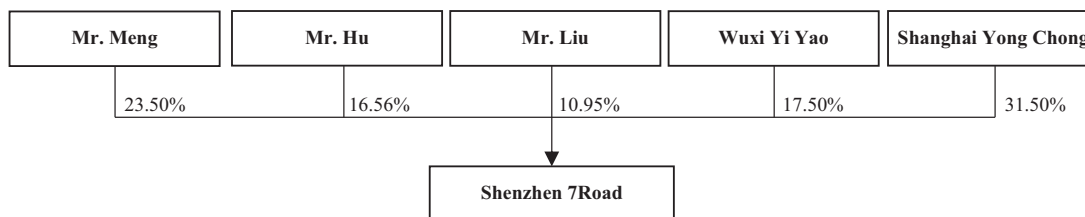
Shanghai Yong Chong and Wuxi Yi Yao are limited partnership investment fund incorporated under the laws of the PRC focusing on private equity investments.

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## HISTORY AND REORGANIZATION

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The following chart sets forth the shareholding structure of Shenzhen 7Road after the Management Buyout:



### *Proposed acquisitions of Shenzhen 7Road by PRC listed companies in 2015 and 2016*

In August 2015, Whole Easy Internet Technology Co., Ltd. (衆應互聯科技股份有限公司) (“Whole Easy”), a company incorporated under the laws of PRC and publicly listed on the Shenzhen Stock Exchange (002464.SZ), initiated negotiations with the then shareholder of Shenzhen 7Road in relation to the proposed acquisition of Shenzhen 7Road. However, in November 2015, the negotiations in relation to the proposed acquisition of Shenzhen 7Road between Whole Easy and the then shareholder of Shenzhen 7Road ceased as the parties could not agree on material commercial terms. Accordingly, Whole Easy announced the termination of the proposed acquisition of Shenzhen 7Road in November 2015. Our Directors confirmed that no related memorandum and/or agreement had been signed or entered into between Whole Easy and Shenzhen 7Road.

In March 2016, Jiangsu Liba Enterprise Joint-Stock Co., Ltd (江蘇立霸實業股份有限公司) (“Liba”), a company incorporated under the laws of PRC and publicly listed on the Shanghai Stock Exchange (603519.SH), initiated negotiations with the then shareholders of Shenzhen 7Road in relation to the proposed acquisition of Shenzhen 7Road. In June 2016, Liba and Shenzhen 7Road entered into a framework agreement, pursuant to which, Liba would acquire the entire equity interest of Shenzhen 7Road with cash and allotment of Liba’s shares. However, the negotiations between Liba and the then shareholders of Shenzhen 7Road ceased in August 2016 as the parties could not agree on further material commercial terms and the market conditions and industrial policies at the time were inappropriate for the proposed acquisition. Accordingly, the framework agreement entered in June 2016 was terminated and Liba announced the termination of the proposed acquisition in August 2016. Our Directors confirmed that, save for the terminated framework agreement, no related memorandum and/or agreement had been signed or entered into between Liba and Shenzhen 7Road.

Our Directors confirm that, save for the proposed acquisition of Shenzhen 7Road by Whole Easy and Liba in 2015 and 2016, there has been no other proposed acquisition of the Group or any of its related companies by a publicly listed company.



## HISTORY AND REORGANIZATION

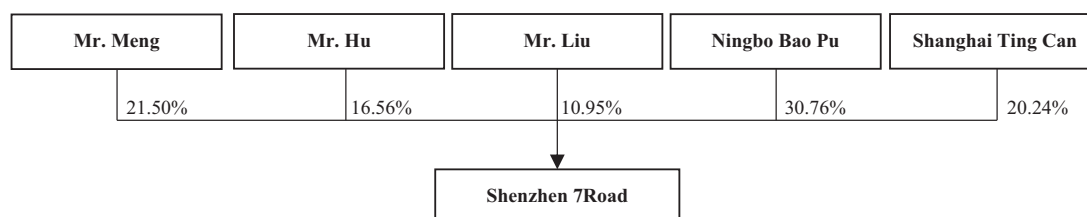
### *Investments by financial investors*

In late 2016, Shenzhen 7Road introduced two investors namely Ningbo Bao Pu and Shanghai Ting Can. Their investments consist of a series of equity transfers and the major conditions of the equity transfers are tabulated as below:

|  | <u>Ningbo Bao Pu</u>  | <u>Shanghai Ting Can</u>  |
|--|---|---|
| <b>Transferor and transferred equity interest</b>  | Shanghai Yong Chong transferred 30.76% of the equity interest of Shenzhen 7Road to Ningbo Bao Pu  | Wuxi Yi Yao transferred 17.50% of the equity interest of Shenzhen 7Road to Shanghai Ting Can<br><br>Mr. Meng transferred 2.00% of the equity interest of Shenzhen 7Road to Shanghai Ting Can<br><br>Shanghai Yong Chong transferred 0.74% of the equity interest in Shenzhen 7Road to Shanghai Ting Can |
| <b>Date of investment</b>                          | November 29, 2016   | November 7, 2016 and November 29, 2016  |
| <b>Total consideration paid</b>                    | aggregate of RMB1,292 million   | aggregate of RMB850.08 million  |
| <b>Basis of determination of the consideration</b> | the considerations were determined based on arm's length of negotiations between the parties after taking into consideration the valuation of Shenzhen 7Road at the time and timing of the transfer |   |
| <b>Settlement date of the consideration</b>        | May 15, 2017  | May 15, 2017  |

See "Pre-IPO Investments" below for details.

The following chart sets forth the shareholding structure of Shenzhen 7Road after the Pre-IPO Investments:



In financing the Pre-IPO Investments, Ningbo Bao Pu and Shanghai Ting Can had separately taken bona fide commercial loans (the "Loans") from an independent financial

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## HISTORY AND REORGANIZATION

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institution (the “Financial Institution”). As required by the Financial Institution, the Loans were secured by two share charges executed by Ningbo Bao Pu and Shanghai Ting Can in respect of their shares in Shenzhen 7Road (the “Onshore Share Charges”).

To facilitate the implementation of the Contractual Arrangement for the purpose of the Listing, Ningbo Bao Pu and Shanghai Ting Can arranged with the Financial Institution to release the Onshore Share Charges and replace the same with other financial securities. Consequently, the Onshore Share Charges have been released as of the Latest Practicable Date. As required by the Financial Institution, the Loans were newly secured by other financial securities including, among others, a share pledge (the “Offshore Share Pledge”) which is on all the Shares held by Mr. Meng, Mr. Hu, the partners of Ningbo Bao Pu and the partners of Shanghai Ting Can. As of the Latest Practicable Date, the Shares subject to the Offshore Share Pledge amount to 98.00% of the total issued share capital of our Company. Mr. Meng and Mr. Hu are independent to each other, Ningbo Bao Pu and Shanghai Ting Can while there is no overlapping of controlling shareholders in Ningbo Bao Pu and Shanghai Ting Can.

Upon the date of the prospectus, the Offshore Share Pledge on the Shares held by Mr. Meng, Mr. Hu and the partners of Ningbo Bao Pu will be fully released. On the other hand, a part of the Shares held by the partners of Shanghai Ting Can will continue to be subject to the Offshore Share Pledge after the Listing. The Shares subject to the Offshore Share Pledge immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised) will amount to 10.49% of the total issued share capital of our Company.

### **Shenzhen Qianqi**

Shenzhen Qianqi is one of our PRC Operating Entities. It was established in the PRC on November 28, 2013 with initial registered capital of RMB1.0 million and was owned as to 49% by Mr. Liu and 51% by Shanghai You Zu. At its incorporation, Shenzhen Qianqi was primarily engaged in online game development, promotion and management of online games.

On April 30, 2014, Shanghai You Zu transferred 21% and 30% of the equity interests in Shenzhen Qianqi respectively to Mr. Liu and Mr. Hu at nominal considerations of RMB1 each.

On August 5, 2015, Mr. Liu and Mr. Hu transferred 70% and 30% of the equity interests in Shenzhen Qianqi respectively to Shenzhen 7Road at a total consideration of RMB1.0 million. The consideration was settled on August 10, 2015. Following the completion of the said share transfers, Shenzhen Qianqi became a wholly-owned subsidiary of Shenzhen 7Road. As of the Latest Practicable Date, Shenzhen Qianqi had no business operation.

### **Huoguoosi 7Road**

Huoguoosi 7Road is one of our PRC Operating Entities. It was established in the PRC on November 27, 2015 as a wholly-owned subsidiary of Shenzhen 7Road with an initial

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## HISTORY AND REORGANIZATION

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registered capital of RMB10 million. The registered capital and shareholding structure of Huoerguosi 7Road have remained unchanged since its incorporation. As of the Latest Practicable Date, Huoerguosi 7Road had no business operation.

As confirmed by our PRC legal advisors, all the above-mentioned equity transfers are legal, valid and duly settled. They are binding on the relevant parties and are duly completed in accordance with applicable laws and regulations in the PRC. All necessary approvals as required by relevant authorities, if any, have been obtained.

### **7Road International Hong Kong**

7Road International Hong Kong is our overseas operating entity. It was established in Hong Kong on June 3, 2015 as a wholly-owned subsidiary of 7Road International with initial share capital of HK\$1.00. The share capital and shareholding structure of 7Road International Hong Kong remained unchanged since its incorporation.

### **INVESTMENT IN DIGITAL HOLLYWOOD**

In August 2015, to further expand our Group's overseas business, we executed an investment agreement to acquire 23% of the equity interest in Digital Hollywood from an Independent Third Party. Digital Hollywood was one of our largest customers during the Track Record Period. The consideration of the said acquisition totaled to approximately US\$27.6 million and was funded by cash from our Group and a commercial loan of approximately US\$22.5 million. The consideration was determined based on arms' length negotiations between the parties after considering the valuation of Digital Hollywood at the time of the acquisition. The consideration was paid by installments, with the first installment of approximately US\$14.1 million being paid on September 1, 2015, the second installment of approximately US\$8.3 million being paid on September 14, 2015, and the third installment of approximately US\$5.1 million being paid on September 24, 2015. Mr. Meng has been the non-executive director of Digital Hollywood since November 2, 2015.

Our Directors confirmed that the investment in Digital Hollywood has been properly and legally completed and settled.

Digital Hollywood (HK: 2022) is a leading global online game publisher for PRC-based game developers. Its shares were listed on the Main Board of the Stock Exchange on December 15, 2017. Following the listing of Digital Hollywood, we held 15.52% of the equity interests in Digital Hollywood and became a substantial shareholder of Digital Hollywood.

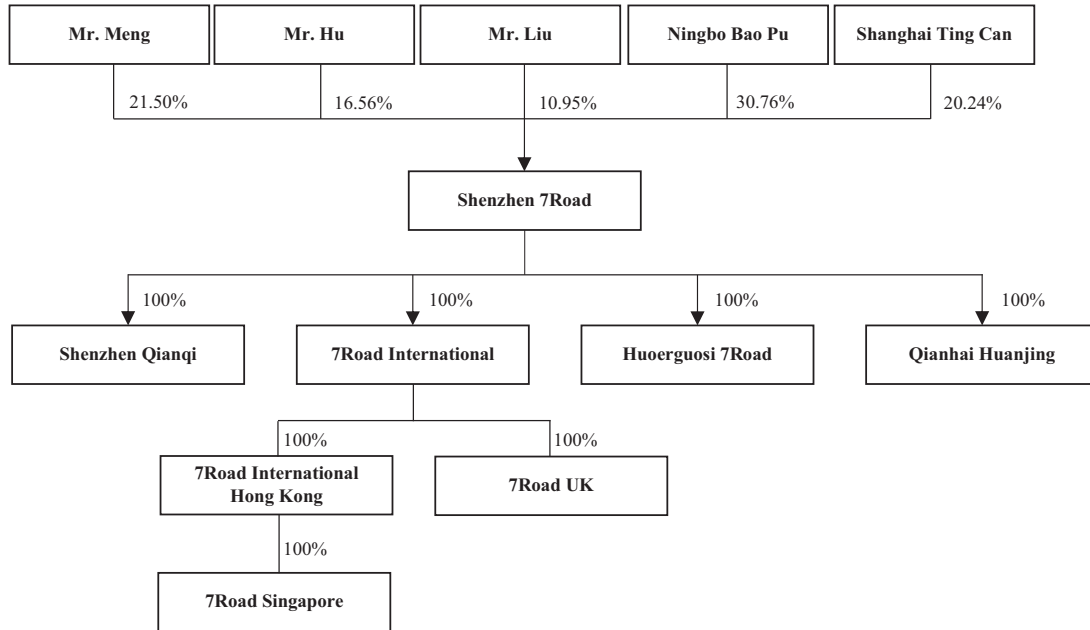
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## HISTORY AND REORGANIZATION

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### OUR GROUP STRUCTURE PRIOR TO REORGANIZATION

The following chart sets forth our Group's corporate and shareholding structure immediately prior to the Reorganization:



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## HISTORY AND REORGANIZATION

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### REORGANIZATION

In preparation for the Listing and to streamline our corporate structure, we underwent the following Reorganization.

#### Offshore Reorganization

##### *Incorporation of offshore holding companies*

As of the Latest Practicable Date, Mr. Meng, Mr. Hu, Mr. Liu, Shanghai Bao Pu, Shaoxing Shang Yu, Shanghai Bao Hu, Ms. Wei Hong, Shanghai Rong Xi, Guangzhou Ju Ze, Mr. Song Shuxing, Ms. Li Weimin, Mr. Liu Zhan, Mr. Zhou Fashun, Mr. Yang Lei and Mr. Chen Difeng (all being the ultimate beneficial owners of Shenzhen 7Road as well as our Company after the completion of the Reorganization) had each incorporated a wholly-owned investment holding company in the BVI. Details of each of the offshore holding companies are set out as below:

| Name of Company                | Shareholder                      | Equity Interest |
|--------------------------------|----------------------------------|-----------------|
| Ben Holdings                   | Mr. Meng <sup>(1)</sup>          | 100%            |
| World Holdings                 | Mr. Hu <sup>(1)</sup>            | 100%            |
| Zing Holdings                  | Mr. Liu                          | 100%            |
| Shanghai Bao Pu Holdings       | Shanghai Bao Pu <sup>(2)</sup>   | 100%            |
| Shaoxing Shang Yu Holdings     | Shaoxing Shang Yu <sup>(2)</sup> | 100%            |
| Shanghai Bao Hu Holdings       | Shanghai Bao Hu <sup>(2)</sup>   | 100%            |
| Red Shanghai Holdings          | Ms. Wei Hong <sup>(2)</sup>      | 100%            |
| Shanghai Rong Xi Holdings      | Shanghai Rong Xi <sup>(3)</sup>  | 100%            |
| Guangzhou Ju Ze Holdings       | Guangzhou Ju Ze <sup>(3)</sup>   | 100%            |
| Songshuxing Holdings           | Mr. Song Shuxing <sup>(3)</sup>  | 100%            |
| Liweimin Holdings              | Ms. Li Weimin <sup>(3)</sup>     | 100%            |
| Liuzhan Holdings               | Mr. Liu Zhan <sup>(3)</sup>      | 100%            |
| Zhoufashun Holdings            | Mr. Zhou Fashun <sup>(3)</sup>   | 100%            |
| Yanglei Holdings               | Mr. Yang Lei <sup>(3)</sup>      | 100%            |
| Chendifeng Holdings            | Mr. Chen Difeng <sup>(3)</sup>   | 100%            |
| ESOP 1 Holdings <sup>(4)</sup> | Ben Holdings                     | 100%            |
| ESOP 2 Holdings <sup>(4)</sup> | World Holdings                   | 100%            |

(1) The individual holds directorship in our Group.

(2) The individual and/or entity is a partner of Ningbo Bao Pu.

(3) The individual and/or entity is a partner of Shanghai Ting Can.

(4) The entity holds Shares of our Company as a settlor for the Shares on trust under the RSU Scheme.

##### *Incorporation of our Company*

On September 6, 2017, our Company was established in the Cayman Islands as an exempted company with limited liability and has an authorized share capital of US\$50,000, divided into 500,000,000 shares with a par value of US\$0.0001 each. On the same day, one Share was allotted and issued for cash at par to the initial subscriber, and was subsequently transferred to Ben Holdings, the offshore shareholding company wholly-owned by Mr. Meng. Our Company further allotted and issued 9,999 shares for cash at par to Ben Holdings on the same day.

## HISTORY AND REORGANIZATION

### *Offshore shareholding and voting arrangement*

As part of the Reorganization, (1) the partners of Ningbo Bao Pu namely Shanghai Bao Pu, Shanghai Bao Hu, Shaoxing Shang Yu and Ms. Wei Hong held an aggregate of 30.76% of our Shares through their respective offshore holding company in the same proportions as their interests in Ningbo Bao Pu; and (2) the partners of Shanghai Ting Can namely Shanghai Rong Xi, Guangzhou Ju Ze, Mr. Song Shuxing, Ms. Li Weimin, Mr. Liu Zhan, Mr. Zhou Fashun, Mr. Yang Lei and Mr. Chen Difeng held an aggregate of 20.24% of our Shares through their respective offshore holding company in the same proportions as their interests in Shanghai Ting Can (the “Offshore Shareholding Arrangement”).

Further, to reflect the contractual relationship and decision-making mechanism among partners as stipulated in the partnership agreement of Ningbo Bao Pu (i.e. Shanghai Bao Pu, being the sole general partner of Ningbo Bao Pu, controls and manages Ningbo Bao Pu’s investments), on April 13, 2018, the partners of Ningbo Bao Pu namely Shanghai Bao Pu, Shanghai Bao Hu, Shaoxing Shang Yu and Ms. Wei Hong, and their respective offshore holding companies had entered into a voting agreement, pursuant to which, among others, for the first year after the date of the Listing, Shanghai Bao Hu, Shaoxing Shang Yu and Ms. Wei Hong would unconditionally and irrevocably entrust and authorize Shanghai Bao Pu to be their proxy in exercising their shareholders’ voting rights in our Company (the “Offshore Voting Arrangement”).

### *Allotment and issue of Shares to offshore holding companies*

Pursuant to the Offshore Shareholding Arrangement, our Company allotted and issued an aggregate of 99,990,000 ordinary shares for cash at par to all the offshore holding companies as listed below. Upon completion, the shareholding structure of our Company is set out as below:

| Name of Company                | Shareholders      | Number of Ordinary Shares | Percentage of Shareholding |
|--------------------------------|-------------------|---------------------------|----------------------------|
| Ben Holdings                   | Mr. Meng          | 21,496,100                | 21.4961%                   |
| World Holdings                 | Mr. Hu            | 16,557,300                | 16.5573%                   |
| Zing Holdings                  | Mr. Liu           | 2,000,000                 | 2.0000%                    |
| Shanghai Bao Pu Holdings       | Shanghai Bao Pu   | 43,600                    | 0.0436%                    |
| Shaoxing Shang Yu Holdings     | Shaoxing Shang Yu | 8,720,500                 | 8.7205%                    |
| Shanghai Bao Hu Holdings       | Shanghai Bao Hu   | 17,635,700                | 17.6357%                   |
| Red Shanghai Holdings          | Ms. Wei Hong      | 4,360,200                 | 4.3602%                    |
| Shanghai Rong Xi Holdings      | Shanghai Rong Xi  | 59,400                    | 0.0594%                    |
| Guangzhou Ju Ze Holdings       | Guangzhou Ju Ze   | 864,800                   | 0.8648%                    |
| Songshuxing Holdings           | Mr. Song Shuxing  | 9,496,800                 | 9.4968%                    |
| Liweimin Holdings              | Ms. Li Weimin     | 2,161,900                 | 2.1619%                    |
| Liuzhan Holdings               | Mr. Liu Zhan      | 3,459,100                 | 3.4591%                    |
| Zhoufashun Holdings            | Mr. Zhou Fashun   | 1,729,500                 | 1.7295%                    |
| Yanglei Holdings               | Mr. Yang Lei      | 475,600                   | 0.4756%                    |
| Chendifeng Holdings            | Mr. Chen Difeng   | 1,992,900                 | 1.9929%                    |
| ESOP 1 Holdings <sup>(1)</sup> | Ben Holdings      | 4,946,600                 | 4.9466%                    |
| ESOP 2 Holdings <sup>(1)</sup> | World Holdings    | 4,000,000                 | 4.0000%                    |

(1) An aggregate of 8,946,600 ordinary shares of our Company held by ESOP 1 Holdings and ESOP 2 Holdings represent the ordinary shares of our Company originally planned to be allotted to Mr. Liu in accordance with his shareholding

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## HISTORY AND REORGANIZATION

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percentage in Shenzhen 7Road. However, Mr. Liu resigned as the director of Shenzhen 7Road, with effect from March 6, 2018, to pursue his own career opportunities and thus he will not hold any management position in our Group after the Listing. Considering his roles in our Group will be replaced by other management members and employees and after negotiations with our Directors, for the purpose of the long-term development of our Group, Mr. Liu contributed 8.9466% of shareholding based on the same valuation at the time of the Management Buyout for the establishment of the RSU Scheme.

### *Incorporation of offshore subsidiaries*

On September 15, 2017, 7Road BVI was established in the BVI as a wholly-owned subsidiary of our Company. On October 9, 2017, 7Road Hong Kong was established in Hong Kong as a wholly-owned subsidiary of 7Road BVI. 7Road Hong Kong is the holding company of our PRC subsidiary, Qianhai Huanjing.

### *Transfer of 7Road International and its subsidiaries*

Since the business engaged by 7Road International and its subsidiaries, namely, 7Road International Hong Kong, 7Road Singapore and 7Road UK, is not subject to restrictions under the PRC laws and regulations, these companies shall be controlled by our Company through direct shareholding rather than the Contractual Arrangement. On March 1, 2018, Shenzhen 7Road and our Company entered into a share transfer agreement, pursuant to which Shenzhen 7Road agreed to transfer the entire issued shares of 7Road International to our Company at a consideration of approximately US\$2.0 million.

### **Onshore Reorganization**

#### *Transfer of equity interest of Qianhai Huanjing*

On December 15, 2017, an equity transfer agreement was entered into by Shenzhen 7Road and Ms. Bao Wei (鮑薇), who is a natural person of foreign nationality and an Independent Third Party, pursuant to which Shenzhen 7Road agreed to transfer and Ms. Bao Wei agreed to purchase 5% of the equity interest of Qianhai Huanjing at a consideration of RMB250,000. On February 10, 2018, Shenzhen 7Road and Ms. Bao Wei transferred 95% and 5% of the equity interests in Qianhai Huanjing respectively to 7Road Hong Kong at considerations of approximately RMB2.97 million and RMB156,167 pursuant to equity transfer agreements dated February 10, 2018.

The considerations of the abovementioned equity transfers were determined based on the evaluation of the equity interest of Qianhai Huanjing at the time of the said equity transfers. As confirmed by our PRC legal advisors, the above-mentioned equity transfers were legally and validly completed on January 2, 2018 and February 10, 2018, respectively.

Upon the completion of the above-mentioned transfers, Qianhai Huanjing became an indirectly wholly-owned subsidiary of our Company and was then converted into a wholly foreign-owned enterprise.

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## HISTORY AND REORGANIZATION

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### *Transfer of Non-Restricted Business*

We undertook the following steps to transfer all Non-Restricted Business previously engaged by the PRC Operating Entities to Qianhai Huanjing, which is indirectly controlled by our Company.

As of the Latest Practicable Date, Shenzhen 7Road is the minority shareholder of several game development companies (the “Game Development Companies”) in the PRC whose businesses are not subject to regulatory restrictions on foreign ownership. Save for two of the Game Development Companies under the process of deregistration, as of the date of this Prospectus, Shenzhen 7Road has transferred its respective interests in each of the remaining Game Development Companies to an Independent Third Party.

On January 17, 2018, Shenzhen 7Road and Shenzhen Qianqi commenced the transfer of all of their Non-Restricted Business to Qianhai Huanjing. All such transfers either have been completed or will be completed before the Listing, except for the transfers of trademarks (“Trademarks”). Physical assets (such as computer equipment and facilities), copyrights and domain names relating to the operation of Non-Restricted Business have been transferred to Qianhai Huanjing; and all business contracts relating to the operation of Non-Restricted Business, including contracts of game development, have been either assigned to Qianhai Huanjing, or terminated and Qianhai Huanjing have entered into new business contracts with the same business parties under the same terms and conditions.

With respect to Trademarks pursuant to applicable PRC laws, transfer of trademarks shall become valid upon the proclamation of the related authorities, which normally takes six to eight months from the filing of the transfer application). All relevant transfer agreements have been executed and all relevant applications with the PRC authorities to register such transfers have been filed by March 2018. The completion of such registrations of transfers, upon which the transfers of Trademarks will be completed, is expected to occur no later than December 31, 2018. The relevant Trademark transfer agreements will grant Qianhai Huanjing exclusive right to fully control the Trademarks until the completion of the registrations of such transfers. Further, our Company’s PRC legal advisors is of the view that there is no legal impediment in completing the registrations of such transfers. In addition, our Company undertakes, and has adopted the following measures to ensure, that the public investors will be provided with sufficient information and protection regarding the pending registrations of such transfers:

1. our Company will provide an update in its annual report for fiscal year 2018, to inform the public investors of the then status of such registrations of transfers;
2. our independent non-executive Directors will meet regularly after the Listing to discuss the status of such registrations of transfers; and
3. our Company will issue an announcement upon completion of such registrations of transfers.



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## HISTORY AND REORGANIZATION

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With respect to the premises leased by Shenzhen 7Road (the “Leased Premises”), lease agreements regarding to a part of the Leased Premises have been terminated by Shenzhen 7Road and the landlord, and Qianhai Huanjing have entered into new lease agreements with the landlord under the same terms and conditions.

### *Contractual Arrangements*

On April 13, 2018, Qianhai Huanjing entered into a series of agreements with Shenzhen 7Road and Shenzhen 7Road’s shareholders in order to exercise and maintain control over the operation of Shenzhen 7Road and its subsidiaries and to obtain economic benefits from Shenzhen 7Road and its subsidiaries to prevent any leakage of assets and values to the shareholders of Shenzhen 7Road. See “Contractual Arrangements” for further details.

### **Adoption of RSU Scheme**

In recognition of the contributions of our Directors, senior management and employees and to provide incentive, on March 6, 2018, we adopted the RSU Scheme, pursuant to which 8,946,600 shares (representing approximately 8.9466% of the total issued share capital of our Company immediately upon the completion of the Reorganization) were issued and reserved for the vesting of RSUs granted under the RSU Scheme. Mr. Meng and Mr. Hu have been appointed as the trustees of the RSU Scheme and ESOP 1 Holdings and ESOP 2 Holdings have been appointed as the settlors of the RSU Scheme. To the extent permitted under applicable laws and regulations, the trustees shall procure the settlors to exercise the voting rights attached to the underlying Shares in accordance with the instructions of our Board. Since the settlors of the RSU Scheme, namely ESOP 1 Holdings and ESOP 2 Holdings are indirectly owned by Mr. Meng and Mr. Hu respectively, the Shares held by them will not be counted as public float.

As at the Latest Practicable Date, RSUs in respect of underlying Shares representing approximately 3.78% of the total issued share capital of the Company after the completion of the Share Subdivision and immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) had been granted to 66 RSU Participants pursuant to the RSU Scheme. Assuming the total number of Shares in issue on the Listing Date will be 2,666,680,000, the RSUs granted to the RSU Participants as of the Latest Practicable Date will represent 100,800,000 underlying Shares.

See “Statutory and General Information – RSU Scheme” in Appendix IV of this prospectus for details.

### **PRE-IPO INVESTMENTS**

Pursuant to a series of equity transfer agreements and related supplemental agreements dated October 31, 2016, November 7, 2016 and November 29, 2016, respectively (collectively, the “Equity Transfer Agreements”) by and among Mr. Meng, Shanghai Yong Chong and Wuxi Yi Yao as transferors, Ningbo Bao Pu and Shanghai Ting Can as transferees. Shanghai Yong Chong transferred 30.76% of its equity interest in Shenzhen

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## HISTORY AND REORGANIZATION

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7Road to Ningbo Bao Pu at a consideration of RMB1,292 million. Shanghai Yong Chong, Wuxi Yi Yao and Mr. Meng transferred an aggregate of 20.24% of their equity interest in Shenzhen 7Road to Shanghai Ting Can at a consideration of RMB850.08 million.

The table below sets out the key particulars of the Pre-IPO Investments mentioned above:

| <b>Name of Pre-IPO Investor</b>                     | Ningbo Bao Pu   | Shanghai Ting Can  |
|---|---|--|
| <b>Background of Pre-IPO Investors</b>              | Ningbo Bao Pu is a limited liability partnership investment fund organized and existing under the laws of the PRC, managed by its sole general partner, Shanghai Bao Pu, a fund management company focusing on investments in companies in technology, media and telecommunication, energy and healthcare industries. Shanghai Bao Pu is owned as to 50% by Mr. Li Gang and Mr. Zhou Hao, who are independent from our Group and connected persons of our Company other than the financial investment in our Group. Other than the financial investment in our Group, Ningbo Bao Pu and its partners are independent from our Group and connected persons of our Company. | Shanghai Ting Can is a limited liability partnership investment fund organized and existing under the laws of the PRC, managed by its sole general partner, Shanghai Rong Xi, a fund management company focusing on investments in companies in technology, energy and environmental protection industries. Shanghai Rong Xi is owned by six individuals who are independent from our Group and connected persons of our Company other than the financial investment in our Group. Other than the financial investment in our Group, Shanghai Ting Can and its partners are independent from our Group and connected persons of our Company. |
| <b>Date of investment</b>                           | November 29, 2016   | November 7, 2016 and November 29, 2016   |
| <b>Amount of consideration paid</b>                 | RMB1,292 million  | RMB850.08 million  |
| <b>Basis of determination of the considerations</b> | the considerations were determined based on arm's length of negotiations between the parties after taking into consideration the valuation of Shenzhen 7Road at the time and timing of the share transfer   |  |
| <b>Settlement date of the consideration</b>         | May 15, 2017  | May 15, 2017   |

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## HISTORY AND REORGANIZATION

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|---|--|--|
| <b>Cost per Share and premium of the Offer Price (immediately before the Global Offering)</b>         | HK\$1.92 per Share, representing a premium of 3.2% to an Offer Price of HK\$1.86 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)                  | HK\$1.92 per Share, representing a premium of 3.2% to an Offer Price of HK\$1.86 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)  |
| <b>Use of Pre-IPO Investment proceeds</b>   | No proceeds were received by the Company during the Pre-IPO Investment as the Pre-IPO Investors acquired existing shares from then shareholders  |  |
| <b>Strategic benefits</b>   | our Directors believe that the Pre-IPO Investors will bring strategic benefits to our Group by strengthening and diversifying the shareholders' portfolio of Shenzhen 7Road and our Group. |  |
| <b>Shareholding in our Company upon Listing (assuming the Over-allotment Option is not exercised)</b> | pursuant to the Offshore Shareholding Arrangement and the Offshore Voting Arrangement, the partners of Ningbo Bao Pu will hold an aggregate of approximately 23.07% of the Shares.         | pursuant to the Offshore Shareholding Arrangement, the partners of Shanghai Ting Can will hold an aggregate of approximately 15.18% of the Shares.   |
| <b>Lock-up</b>  | six months after the Listing   | six months after the Listing (except that the Shares beneficially owned by the partners of Shanghai Ting Can may be used as security for bona fide commercial loans in such period including for the purpose of the existing Offshore Share Pledge)  |
| <b>Public float</b>   | since the partners of Ningbo Bao Pu will hold more than 10% of our Shares pursuant to the Offshore Voting Arrangement, the Shares held by them will not be counted as public float         | since the shareholding of each of the partners of Shanghai Ting Can in our Company will be less than 10%, and the acquisition of their respective interest in our Shares was not directly or indirectly financed by any connected person of our Company, the Shares held by them will be counted as public float |

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## HISTORY AND REORGANIZATION

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### **Special rights**

The Pre-IPO Investors have been granted a number of special rights including profit guarantee and share compensations from Mr. Meng, Mr. Hu and Mr. Liu, as well as the right to request share repurchase from certain then shareholders. The Pre-IPO Investors undertook to suspend all their special rights under the conditions that (1) where the Listing has been successfully completed, each of the special rights shall be automatically terminated from the Listing Date; or (2) where the Listing has not been successfully completed, each of the special rights shall come into force again.

### **Compliance with Interim Guidance and Guidance Letters**

The Joint Sponsors have reviewed the relevant information and documentation in relation to the Pre-IPO Investment. On this basis, the Joint Sponsors are of the view that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12) and the Guidance on the Pre-IPO Investments (HKEx-GL43-12).

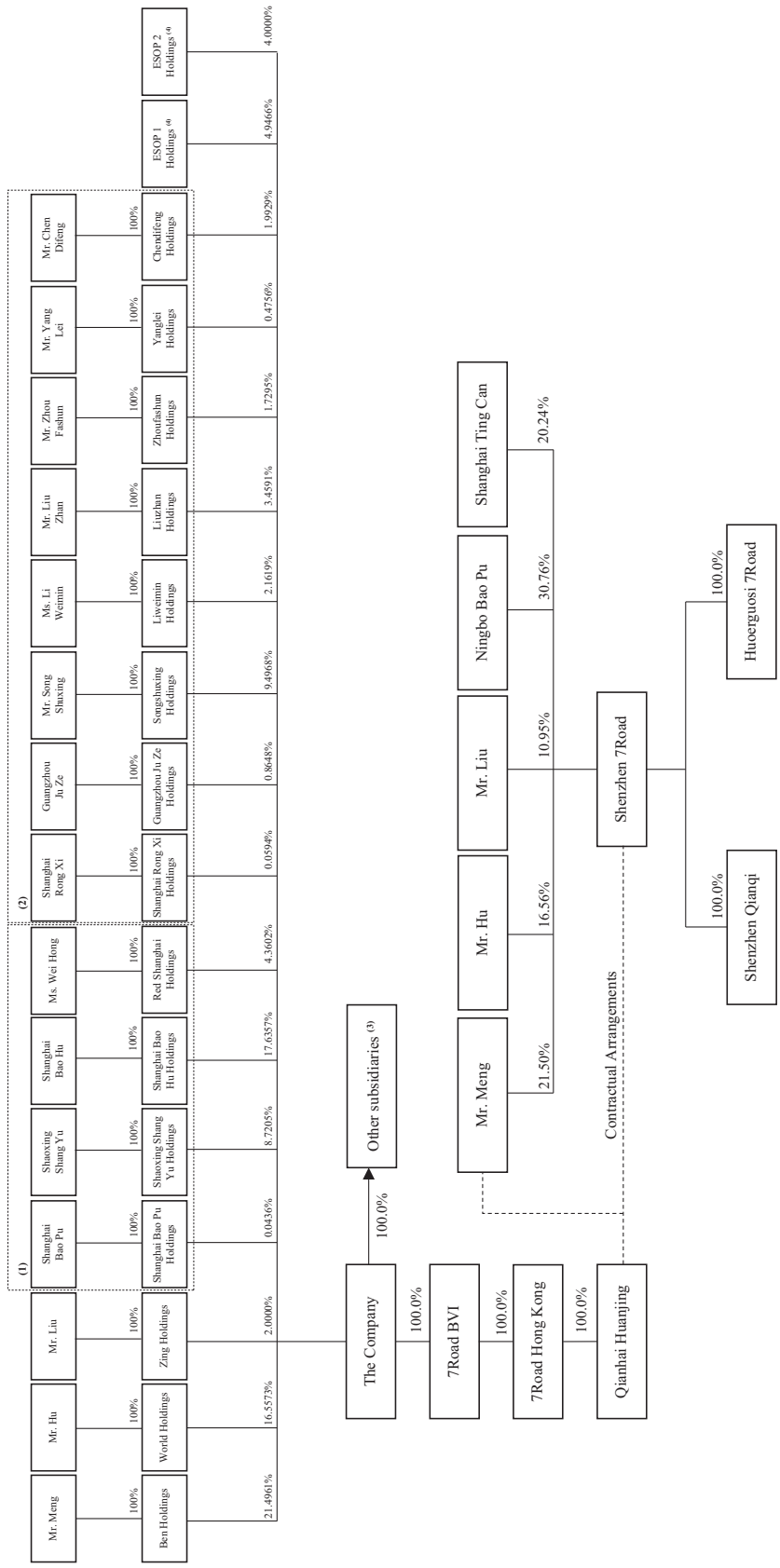
### **Share Subdivision**

On June 23, 2018, our Shareholders resolved that, among others, all the issued and unissued ordinary shares of our Company at a par value of US\$0.0001 each will be subdivided into 20 Shares at a par value of US\$0.000005 each such that the authorized share capital of our Company shall be US\$50,000 divided into 10,000,000,000 Shares at a par value of US\$0.000005 each and the issued share capital shall be US\$10,000 divided into 2,000,000,000 Shares at a par value of US\$0.000005 each.

CORPORATE STRUCTURES

Corporate Structure after the Reorganization and before the Global Offering

Our corporate and shareholding structure after the Reorganization and immediately prior to the completion of the Global Offering is as follows:



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## HISTORY AND REORGANIZATION

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- (1) Pursuant to the Offshore Voting Arrangement, for the first year after the date of the Listing, Shanghai Bao Hu, Shaoxing Shang Yu and Ms. Wei Hong would unconditionally and irrevocably entrust and authorize Shanghai Bao Pu to be their proxy in exercising their shareholders' voting rights in the Company.
- (2) Shanghai Rong Xi, Guangzhou Ju Ze, Song Shuxing, Ms. Li Weimin, Mr. Liu Zhan, Mr. Zhou Fashun, Mr. Yang Lei and Mr. Chen Difeng are the limited partners of Shanghai Ting Can.
- (3) Other subsidiaries include 7Road International, 7Road International Hong Kong, 7Road UK and 7Road Singapore.
- (4) ESOP 1 Holdings and ESOP 2 Holdings hold an aggregate of 178,932,000 Shares as the settlors under the RSU Scheme.



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## HISTORY AND REORGANIZATION

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### PRC LEGAL COMPLIANCE

#### SAFE and ODI Registration

Pursuant to the Circular 37, a PRC resident must register with the local branch of SAFE before he contributes legal assets or equity interests in China or overseas in an oversea special purpose vehicle, which is directly incorporate or indirectly controlled by the PRC resident for the purpose of overseas investment or financing. Pursuant to the ODI Rules, a domestic institution shall undergo registration procedure for foreign investment in accordance with the provisions of the ODI Rules, which require the domestic institution to register with relevant authorities prior to its overseas direct investment and obtain relevant recordation, approval, certificate or permit.

Pursuant to the Circular No. 13, SAFE canceled the foreign exchange registration approval under the overseas direct investment. 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 advisors, the ultimate shareholders of our Company, namely Mr. Meng, Mr. Hu, Mr. Liu, Ms. Wei Hong, Mr. Song Shuxing, Ms. Li Weimin, Mr. Liu Zhan, Mr. Zhou Fashun, Mr. Yang Lei and Mr. Chen Difeng have completed the foreign exchange registrations in March 2018 respectively pursuant to Circular No. 37 and Circular No. 13 in relation to their offshore investments as PRC residents, and the ultimate PRC corporate shareholders of our Company, namely Shaoxing Shang Yu, Shanghai Bao Hu, Shanghai Rong Xi and Guangzhou Ju Ze have completed the overseas direct investment registration with the local MOFCOM in April 2018 pursuant to the ODI Rules in relation to their offshore investments as domestic institutions and the Reorganization has been completed in compliance with PRC laws and regulations.

#### M&A Rules

According to the provision on the M&A Rules, a foreign investor is required to obtain necessary approvals when it (1) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (2) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (4) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among others, further require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

As advised by our PRC legal advisors, (1) given that Ms. Bao Wei is a natural person of foreign nationality and was not connected with our Group before her acquisition of 5%



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## HISTORY AND REORGANIZATION

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of the equity interests of Qianhai Huanjing, no approval from the MOFCOM is required in respect of her acquisition of shares of Qianhai Huanjing as the acquisition was not subject to the relevant articles of the M&A Rules; and (2) the acquisition of shares of Qianhai Huanjing by 7Road Hong Kong was not subject to the M&A Rules because Qianhai Huanjing was a Sino-foreign joint venture at the time of the acquisition of the shares. Accordingly, the said acquisition is not subject to any prior approval from the CSRC under the M&A Rules. However, as advised by our PRC legal advisors, as there has been no official interpretation or clarification of the CSRC approval requirement under the M&A Rules, there is uncertainty as to how the relevant clause will be interpreted or implemented. If the CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required for such acquisition, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. See “Risk Factors — We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulation and certain PRC regulations” for details.

**OVERVIEW**

We are a leading online game developer and operator in China with a global reach. We are committed to bringing quality gameplay experience in various game formats to our users. Since our inception in 2008, we have engaged in the development, operation and licensing of a number of popular online games such as *DDTank* (彈彈堂) and *Wartune* (神曲). We are the top web game developer in terms of revenue generated from proprietary web games in 2017 among China-based web games developers, according to the iResearch Report, and derive a sizable portion of our revenue from the overseas markets. As of the Latest Practicable Date, our games had been published in more than 100 countries and regions. In recent years, we have strategically expanded our business focuses to develop mobile games and H5 games, which are increasingly popular among the users. Leveraging our strong game development capabilities and our hit game titles, we have assembled valuable IP assets with great monetization potential.

We believe our success is attributable to our strong capabilities in developing online games. Our product development strategy focuses on maximizing the monetization of a limited number of high-quality game IPs. As of December 31, 2017, our game development center consisted of 262 members with extensive experience, accounting for 76.8% of our total employees. We gained credibility among industry insiders and users alike from our flagship web game titles, *DDTank* and *Wartune*, both of which have achieved considerably higher longevity over average web games of the same genre, which typically last no more than 12 months, according to the iResearch Report, due to our ability to retain long-term users by creating a user-focused game environment for superior gameplay experience. Our extensive experience in game development and the valuable IPs we assembled from developing and operating web games allow us to cost-effectively improve our existing games as well as launching new games in both web and mobile formats. As of the Latest Practicable Date, we had launched 15 proprietary games, including 12 web games, two mobile games and one H5 game, and had also built a robust pipeline of (1) seven proprietary games targeted for launch in 2018, and (2) three proprietary games targeted for launch in 2019.

We continue to expand and diversify our product offerings through in-house development and collaboration with third parties. In 2013, we began to collaborate with a number of select third-party game developers in China for joint game development and operation to enrich our game portfolio. As of the Latest Practicable Date, we had launched eight licensed games and had also built a pipeline of (1) three licensed games targeted for launch by the end of 2018, and (2) one licensed game targeted for launch by the end of 2019.

We publish our games primarily by cooperation with third-party game publishers to operate and market our games in China and the overseas markets, and to a lesser extent, by ourselves. We have forged trusted business collaboration with a number of premium game publishers worldwide to publish our games in our targeted markets. For example, we have collaborated with Tencent (HK: 0700), the leading China-based interactive entertainment conglomerate, to publish *DDTank (mobile)* (彈彈堂 (手遊)) in China; Oasis Games, a subsidiary of Zeus Entertainment (SZ: 002354), a Chinese leading online game publisher targeting on overseas markets, to publish various language versions of *Wartune* in Europe

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and the Portuguese version of *DDTank* in South America; Garena Online, a subsidiary of Sea Ltd. (NYSE: SE), a leading online game publisher in Southeast Asia, to publish a number of regional versions of *DDTank (mobile)* in certain Southeast Asian countries and regions; and Digital Hollywood (HK: 2022), a leading global online game publisher for China-based game developers, to publish *DDTank* and *Wartune* primarily in North America. As of the Latest Practicable Date, we collaborated with our game publishing partners to publish 14 games. We have partnered with over 70 and over 30 game publishers to publish our games in China and the overseas markets, respectively. As of the Latest Practicable Date, we published 11 games through our own websites.

As we diversify our revenue sources, we also offer online game technology and publishing solutions services, covering game design, art design, animation, programming and marketing consulting services to third parties. Leveraging the numerous valuable IP assets from our hit game titles and our large and expanding user base, we monetize our IPs by licensing them to third-party game developers for game development.

We grew steadily during the Track Record Period, primarily driven by our ability of attracting and retaining paying users. Our average MPUs for online games increased from approximately 342,000 in 2015 to 613,000 in 2017. Our mobile game business grew substantially during the Track Record Period. Our average MPUs for mobile games increased from approximately 59,000 in 2015 to 491,000 in 2017. Our revenue was RMB375.6 million, RMB403.2 million and RMB445.3 million in 2015, 2016 and 2017, respectively. Our gross profit was RMB312.7 million, RMB359.6 million and RMB407.4 million, respectively. Our gross profit margin was 83.3%, 89.2% and 91.5% in 2015, 2016 and 2017, respectively. Our adjusted net profit was RMB182.2 million, RMB212.0 million and RMB263.3 million in 2015, 2016 and 2017, respectively. See “Financial Information — Principal Profit or Loss Components — Non-IFRS Measures” for details.

### COMPETITIVE STRENGTHS

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

#### **Leading Online Game Developer and Operator with a Global Reach**

We are a leading online game developer and operator based in China with our games published in over 100 countries and regions. Since our inception in 2008, we have engaged in the development, operation and licensing of a number of popular web games especially in the genres of casual shooting games and SRPGs. We are the top web game developer in terms of revenue generated from proprietary web games in 2017 among China-based web games developers, according to the iResearch Report. As of the Latest Practicable Date, we had launched and operated 16 web titles in a number of language versions, including a number of chart-topping titles. We gained credibility among industry insiders and users alike from our 2009 title, *DDTank*, a casual shooting game, which has been one of the most popular casual shooting web games created by Chinese game developer in China based on gross billings, according to the iResearch Report. In 2011, we launched another celebrated web title, *Wartune*, an epic hybrid turn-based SRPG game, which has received numerous

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accolades in recognition of its commercial success in China and the English-speaking markets. *Wartune* was recognized as one of the Top Ten Best Web Games in China (年度中國遊戲十強之十大最受歡迎的網頁遊戲) by the Gaming Industry Committee of the China Audio-video and Digital Publishing Association (中國音像與數字出版協會遊戲工委) for three consecutive years from 2012 through 2014. In 2013, *Wartune* received the “Staff Favorites Recognition” by Facebook. *DDTank* and *Wartune* have since achieved considerably higher longevity over average web games of the same genre, which typically last no more than 12 months, according to the iResearch Report. Even in 2017, these games continued to attract an average MAUs of approximately 1,840,000 and 820,000 and an average approximately MPUs of 58,000 and 61,000, respectively. While we continue to generate recurring revenue from our existing portfolio of web games, we remain committed to continuously upgrading existing games with new features, levels and avatars and developing new games. As of the Latest Practicable Date, we had a pipeline of one new web game, which we plan to launch by the end of 2018.

As we have strategically expanded our business focuses to develop mobile games, our successful web game IPs and extensive experience accumulated from developing web games have allowed us to leverage our established market leadership and cost-effectively launch viable mobile games to engage and monetize smartphone users. We developed and launched *DDTank (mobile)*, the mobile remake of our flagship web title, *DDTank*. As a testament to our successful business expansion, *DDTank (mobile)* topped the free-to-download game chart on Apple Inc.’s App Store in China immediately following its launch in April 2017 and remained on the top 300 best-selling games in Apple Inc.’s App Store in China as of the Latest Practicable Date. As a key driver to our mobile game business, *DDTank (mobile)* generated over RMB467.3 million gross billings in 2017, and its average MAUs reached 3.0 million during the same period. In January 2018, we launched mobile game *Island Story—Let’s Boom!* (全民島主) through Tencent Games and achieved immediate success. The MAUs for *Island Story—Let’s Boom!* reached 1.4 million in February 2018. As of the Latest Practicable Date, we had a strong pipeline of five and four new mobile games planned to be launched by the end of 2018 and 2019, respectively.

### **Sophisticated Game Development and Data Analytics Capabilities**

We believe that the ability to continuously develop and launch viable online games is the foundation for our sustainable growth. We have established a game development center that focuses on the initiation, upgrade and optimization of online games. As developing new games and maintaining their commercial viability requires a commitment of significant resources, our product development strategy focuses on maximizing the monetization of a limited number of high-quality games, especially casual shooting games and SRPGs. Leveraging the collective vision and experience of our management members and their valuable experience in game genres for nearly a decade, we have achieved a virtuous cycle of fast and scalable development of games of these two genres, from identifying appealing game themes to creating superior gameplay content and maximizing game lifecycle and monetization through ongoing updates.

We view our games as artworks with aesthetic value, akin to literature and movies, and seek to compose rich storylines, create engaging gameplay scenes and design beautiful visual and audio effects to enhance the entertainment experience we bring to our users. We faithfully carried out this artistic philosophy to the utmost in our flagship web title,

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*Wartune*, which engages our users with exciting quests and battle themes. In addition, our games are equipped with proprietary technologies. For examples, we have successfully registered eight patent rights in China related to data processing, automatic testing and visual effects for the technologies powering our flagship title *Wartune*.

We continuously monitor user behavior and feed the gameplay data, such as DAUs and ARPPUs, to our game development center through an integrated system, which allows us to effectively analyze critical user metrics generated in our games to identify key performance drivers, non-performing virtual items, and other areas for improvement. Our game development center then translates such knowledge into well-timed game enhancements as well as new games with user-tested story mechanics, gameplay styles and virtual merchandising designs that appeal to our users, allowing us to continuously release upgrades and expansion packs to existing games with new features, avatars and game storylines to maintain user interest and maximize monetization. As of the Latest Practicable Date, we had launched 15 proprietary games in different formats, followed by over 400 major expansion packs that contain significant game upgrades and improvements, which are further refined by thousands of regular updates. We have also explored creative ways to design one game by incorporating elements inspired by another game under a different genre, which effectively helps us maintain the interest level of our game users and extend the game lifespan. For example, in *DDTank*, we have designed a feature to allow our users to play an embedded mini-game while the game is being loaded.

We attribute our success in game development to our people. Our game development center is based in Shenzhen, the hub of China's technology innovation. We have devoted and will continue to devote significant efforts and resources in building and maintaining our game development center. Headed by Mr. HU Min, our chief production officer, our game development center had 262 members as of December 31, 2017, accounting for 76.8% of our total employees as of the same date. Our team members on average have five years of relevant industry experience and more than half have a bachelor's or master's degree. We offer competitive compensation packages to attract and retain talents.

### **Expanding International Footprint Supported by Robust Localization**

We are the second largest web game developer in terms of total amount paid by overseas users in 2017 among China-based web games developers, according to the iResearch Report. We are among a select group of pioneers that ventured into the international arena with Chinese-made online games more than eight years ago. Over the years, we have accumulated extensive experience and valuable know-how serving a demographically and culturally diverse user community that spans various overseas markets, including Southeast Asia, North America and South America. As of the Latest Practicable Date, our games had been published in over 100 countries and regions. In 2017, we generated RMB149.3 million from overseas markets, representing 33.5% of our total revenue during the same period. Our revenue from overseas decreased during the Track Record Period as our certain web games progressed in their respective lifecycles. As we plan to roll out mobile games, such as *DDTank* (mobile) and *Demi-Gods and Semi-Devils* (mobile), to more countries in the future, leveraging on our previous success in launching games overseas, we currently do not expect our revenue generated from overseas markets to

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decline further. As users from different regions may have different preferences on online games, we believe that our vast geographical coverage helps us reduce any potential reliance on a single game or country in terms of revenue contribution.

We have built strong localization capabilities to structurally and artistically modify our game offerings through local language scripts and other in-game features specifically redesigned to meet the differentiated gameplay needs and preferences of users from diverse geographical markets. Our extensive experience and valuable game IPs allow us to minimize the duplication of development efforts in the process of localization. As of the Latest Practicable Date, we offered online games scripted in 21 languages, including simplified and traditional Chinese, English and other major tongues. We have also gained profound insights into the differences across geographical markets, which allow us to optimize each regional version of our game offerings. For example, we have redesigned the in-game merchandising system originally intended for Chinese users to improve the monetization of games published in the North America by deploying 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 geographical markets. For example, we have designed and embedded various artworks of chickens into the Vietnamese version of *DDTank*, in light of the local traditional fondness for chickens, which proved to be widely recognized by the local users and became an icon for this game. To enhance visual gameplay effects, we typically tailor certain in-game virtual items, such as avatar outfit and ornaments, to local preferences and recognizable customs in the regional markets. For example, we released virtual items such as Uncle Sam's suit and white hair in our games published in the United States, kimono in Japan, and Samba costumes in Brazil. We believe that we have built a self-refining localization process as we continue to release localized updates for and accumulate experience from the expansion of our geographical reach and global user base.

### **Strong Capabilities of Utilizing Proprietary Game IPs**

We have spent a significant amount of time and resources in developing online games, and our ability to protect and utilize our proprietary rights in our games is critical for the sustained success of our business. As of the Latest Practicable Date, we had registered 196 copyrights of art works, 116 copyrights of software, 211 trademarks and nine patent rights in China as well as 136 trademarks in overseas jurisdictions, including Taiwan, Hong Kong and Macau and three copyrights of software in the United States. We have also applied for registration of eight trademarks and three patent rights in China and 24 trademarks in overseas jurisdictions. For details, see “Business —Intellectual Properties.”

We are focused on the in-house development of new game IPs. Over the years, we have assembled valuable IP assets since we launched our first web title, *DDTank*, in 2009. Since then, we have launched a variety of proprietary games such as *Wartune*, *Mythic Glory* (神耀) and *Demi-Gods and Semi-Devils* (天龍八部). Leveraging the popularity of our game IPs, we were among the pioneers in China that entered into the overseas markets. In 2015, 2016 and 2017, our revenue generated from the overseas markets arising from our proprietary games was RMB207.1 million, RMB152.1 million and RMB145.3 million, respectively. Our game IPs have been celebrated in both China and the overseas markets, and our large and expanding user base is among the key drivers of the monetization of such

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IPs. We believe our game IPs are instrumental to building our brand as a leading game developer in both China and the overseas markets. We are also adaptive to the market trend and are open to revamp our game IPs for launching sequels or remakes in new format to extend the lifecycles of our game IPs. In April 2017, we launched the mobile game version of *DDTank* with great reception from our users. In addition, we expect to launch *DDTank Adventures H5* and *Wartune 3D (mobile)* in 2018. Since 2013, we also sought to leverage on the popularity of our games and began to license our game IPs to a select group of third-party game developers to create new games and generate revenue from such licensing arrangements. In 2015, 2016 and 2017, we generated revenue from IP licensing of RMB21.0 million, RMB13.9 million and RMB9.8 million, respectively. We intend to continue to make full use of our game IPs through different forms of collaborations with moviemakers, cartoon-makers and other third parties. For details, see “Business Strategies — Expand and Diversify Our Product and Service Offerings” below.

The extensive experience and IPs we accumulated from developing and operating casual shooting games and SRPGs allow us to cost-effectively improve our existing games as well as launching new games under such genres in both web and mobile formats. To replicate the proven success of our existing game IPs, we are currently developing several games in mobile formats based on our proprietary web game IPs, such as *Wartune 3D (mobile)*, for launch by the end of 2018.

We also seek to outsource attractive IPs from third parties, such as *King of Fighters* (拳皇), to develop a proprietary game, *King of Fighters H5* (拳皇H5) to boost the interest level of our users. In our selection, we seek to maximize the synergies with our existing game IPs.

### **Strong Partnerships with Premium Game Publishers Worldwide**

We have forged strong business collaboration with a number of premium game publishers worldwide. In China, we have partnered with Tencent (HK: 0700), the leading China-based interactive entertainment conglomerate, which has stringent criteria in selecting game candidates, to publish *DDTank (mobile)* on their distribution platforms and on Apple Inc.’s App Store. We believe that our collaboration with Tencent has enabled us to benefit from its large user base and traffic and brand image among smartphone users in China. As of the Latest Practicable Date, we had partnered with over 70 game publishers to operate online games in China, and over 30 of them had worked with us for more than five years.

We also collaborate with a number of reputable game publishers to operate online games in the overseas markets. As our important business partner, we collaborate with Digital Hollywood (HK: 2022), a leading global online game publisher for China-based game developers, to publish *DDTank* and *Wartune* primarily in North America. We began to collaborate with Digital Hollywood in March 2012, and to strengthen our business relationship, we acquired a 23% interest in Digital Hollywood in 2015. Leveraging Digital Hollywood’s established user traffic and market position, we believe this strategic acquisition creates considerable synergies that bridge game development and publication. We have also collaborated with Oasis Games, a subsidiary of Zeus Entertainment (SZ: 002354), a Chinese leading online game publisher targeting on overseas markets, to publish

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various language versions of *Wartune* in Europe and the Portuguese version of *DDTank* in South America. Since March 2017, we have also partnered with Garena Online, a subsidiary of Sea Ltd (NYSE: SE), a leading online game publisher in Southeast Asia, to publish a number of regional versions of *DDTank (mobile)* in certain Southeast Asian countries and regions. As of the Latest Practicable Date, we had partnered with over 30 game publishers to operate online games in the overseas markets, and 10 of them had worked with us for more than five years.

We work closely with our game publisher partners in adapting our games for each regional market and updating game content based on local user feedback. We believe that our business collaboration with premium game publishers enables us to leverage their user base and traffic, brand image and publishing experience and quickly scale up our operations in our target markets.

### **Visionary and Seasoned Management Team with Proven Success in the Online Game Industry**

Our senior management team possesses extensive industry experience, in-depth insight into the market trends and rich operational expertise, and has successfully guided us through the rapidly evolving industry and competitive landscape. Mr. Meng, our executive Director and chief executive officer, has more than 13 years of experience in the internet and game industry. He joined Shenzhen 7Road, our principal operating entity in China, in June 2009, and has served as our chief operation officer since May 2011. Mr. Meng is responsible for formulating our strategic plans, implementing corporate strategies and leading major game development projects. His vision and insight have significantly contributed to the shaping of our business strategies. Mr. Hu, our chief production officer, has more than eight years of experience in the internet and game industry in China, and has led the development of a number of successful games, including our flagship titles, *DDTank* and *Wartune*. He played a key role in building our game development center and was instrumental in the early stage of our business. Mr. Hu is currently in charge of our strategic planning for technology infrastructure and game development and localization. Mr. XU Jia, our chief operation officer, has over 13 years of experience in China's Internet industry. Prior to joining us, Mr. Xu worked with Baidu Inc. (NASDAQ: BIDU), a leading Internet company in China. He is currently responsible for the overall marketing, promotion, and channel distribution of our games.

We believe it is essential to keep abreast of the ever-changing development trend in the online game market. To cope with the market trend, we started planning for our mobile game business in 2014 and our H5 game business in 2017. On the other hand, our management ensures that we have given our dedicated attention and sufficient resources in developing our games and launching major expansion packs for unique gameplay experiences and prolonged game lifecycles. Our management team believes it is in the best interests of our Company to focus on the quality of our games, which may take up to 18 months to develop under our stringent game development cycle, instead of settling for a hasty game launch to capitalize on the latest market trend. We believe our strategy has been proven during the Track Record Period. For instance, we did not launch the mobile version of one of our flagship titles, *DDTank (mobile)*, until April 2017 but it has soon become a key revenue driver to our mobile game business, generating over RMB467.3 million gross billings in 2017.



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Our management team has developed vibrant corporate culture to inspire and encourage communication, collaboration and innovation. We provide our employees with ample opportunities to develop games they feel passionate about. We also offer in-person trainings and online resources to enhance the professional skills of our employees. We believe that these initiatives help us attract, retain and motivate a talented and aspiring employee force to drive our future business growth.

### **BUSINESS STRATEGIES**

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

#### **Continue to Focus on Casual Shooting Games and SRPGs**

According to iResearch Report, casual shooting games and SRPG games are among the more popular game genres in China. Throughout our operating history, we have accumulated abundant experience in developing and operating games of such genres due to the success of *DDTank* and *Wartune*. We intend to continue to focus our development and operational efforts primarily on developing new casual shooting games and SRPGs, leveraging the valuable experience amassed from developing and operating such games for nearly a decade. To this end, we plan to continue to enhance our existing casual shooting games and SRPGs by releasing new upgrades and expansion packs and launch new games under these genres. For example, we plan to launch *Wartune 3D (mobile)* based on the classic gameplay themes and styles of our flagship web title, *Wartune*, by the end of 2018. We also plan to further optimize *DDTank (mobile)* for parallel release in multiple languages and geographical markets and launch *DDTank II (mobile)* with substantial upgrades and expansion from its predecessor in 2019. We also seek to license our IPs under these existing games to third parties to diversify monetization avenues. In addition to developing new games in these two genres, we also seek opportunities to expand our game offerings in these two genres by acquiring relevant companies, IPs or other assets.

#### **Expand and Diversify Our Product and Service Offerings**

We plan to continue to expand and diversify our product offerings through in-house development and collaboration with third parties, including outsourcing attractive IPs from third parties for our game development, operating games developed by third parties and making equity investment in high-caliber game development studios.

We closely follow emerging and cutting-edge Internet technologies and envision the significant growth potential in H5 games, which allows users to play in browsers without installing the game applications on PCs and mobile devices. We plan to remake our flagship web titles, *DDTank* and *Wartune*, on H5 platforms to meet the rising user demand for gameplay flexibility. We also plan to launch H5 games based on popular IPs, including

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*McDull Adventures (H5)* (麥兜環球大冒險H5), a game with popular cartoon IPs developed by a third-party game developer, and *King of Fighters (H5)* (拳皇H5), a popular arcade game whose IP we licensed from SNK, by the end of 2018.

In addition, we seek to diversify our revenue sources. We plan to collaborate with moviemakers, cartoon-makers and other third parties to explore the commercialization of our IPs through the making of movies, cartoons and other forms of entertainment products. We also plan to launch targeted advertisement placements in our games for third-party advertisers, leveraging our data analytics capabilities and to cross-promote our game products based on individual user profile and gameplay data.

### **Deepen and Expand Our Geographical Coverage**

Leveraging our global reach we intend to continue to enhance our presence in our existing geographical markets by deepening collaboration with our current local partners and seeking cooperation with new partners. As we have a proven successful track record from our web games in certain major overseas markets, including Southeast Asia, North America and Europe, we plan to leverage our established presence and cross-promote our online games to the local users.

We closely monitor the countries and regions where the prevalence of PCs and mobile phones is relatively low, such as India and Indonesia, as they suggest great growth potential for our games as they catch up with the Internet era. We also seek to collaborate with major social networks with high user traffic, such as Facebook, to market our games. In addition, we seek to continually release more language versions based on our existing game portfolios, allowing us to expand our penetration in the regional markets where those languages are commonly spoken. As part of our game localization process, we make improvements to our games across multiple language versions at the same time.

### **Continue to Build Our Human Capital**

We believe we owe much of our success to our people. We plan to further invest in, and expand, our game development capabilities by continuing to recruit and retain talents for our team. Specifically, we plan to recruit senior-level research and development staff on a global basis to broaden our vision and support the international operation. We also have an internal training program to help our new recruiters to acquire the knowledge and skills needed for their positions and adapt to our corporate culture in a cost-effective manner.

We plan to retain and motivate our key employees through a combination of competitive salaries, performance-based bonuses and equity-based awards. In addition, we strive to maintain a collegial work environment and encourage our employees to express themselves and communicate with the management in order to cultivate a sense of belonging in our people.

### **Pursue Acquisition and Strategic Cooperation Opportunities**

We plan to selectively acquire, invest in or pursue strategic partnership with qualified game developers and game development studios to expand our game portfolio and

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strengthen our game development capabilities. As we seek to develop new games based on popular IPs and enhance the appeal of our existing games by incorporating popular IP elements, we also plan to acquire or invest in viable IPs from third parties, including literature, cartoons and popular stickers and memes used in social networks. In addition, we plan to strengthen the operation arm of our business and expand our geographical coverage by selectively acquiring, investing in or pursuing strategic partnership with qualified game publishers. As of the Latest Practicable Date, we had not identified any specific target for acquisition, investment or partnership.

### OUR REVENUE MODEL

We believe we have a diversified revenue stream as an online game developer and operator. We generate revenue primarily from our games developed in-house, and to a lesser extent, games licensed from third-party game developers. We publish online games primarily through collaboration with third-party game publishers, and to a lesser extent, by ourselves. As we continue to diversify our revenue sources, we also offer online game technology and publishing solutions services to third parties, leveraging our game development capabilities. As we assembled numerous valuable IP assets from our hit game titles and our large and expanding user base, we monetize our IPs by licensing them to third-party game developers or publishers. The following table sets forth the breakdown of our revenue for the periods indicated.

|   | Year ended December 31,                   |                         |                |                         |                |                         |
|---|---|-------------------------|----------------|-------------------------|----------------|-------------------------|
|   | 2015                                      |                         | 2016           |                         | 2017           |                         |
|   | <u>Amount</u>                             | <u>% of<br/>Revenue</u> | <u>Amount</u>  | <u>% of<br/>Revenue</u> | <u>Amount</u>  | <u>% of<br/>Revenue</u> |
|   | (RMB in thousands except for percentages) |                         |                |                         |                |                         |
| Online Game Revenue   | 344,702                                   | 91.8%                   | 345,547        | 85.8%                   | 388,929        | 87.3%                   |
| – Proprietary games   |   |                         |                |                         |                |                         |
| <i>published by us</i>  | 19,140                                    | 5.2%                    | 15,237         | 3.8%                    | 6,663          | 1.5%                    |
| <i>published by third-party publishers</i>                        | 311,123                                   | 82.8%                   | 258,426        | 64.1%                   | 371,603        | 83.4%                   |
| – Licensed games  |   |                         |                |                         |                |                         |
| <i>published by us</i>  | 1,657                                     | 0.4%                    | 378            | 0.1%                    | 12             | 0.0%                    |
| <i>published by third-party publishers</i>                        | 12,782                                    | 3.4%                    | 71,506         | 17.8%                   | 10,651         | 2.4%                    |
| Sales of online game technology and publishing solutions services | 9,925                                     | 2.6%                    | 43,724         | 10.8%                   | 46,577         | 10.5%                   |
| Intellectual property licensing                                   | 20,984                                    | 5.6%                    | 13,880         | 3.4%                    | 9,789          | 2.2%                    |
| <b>Total</b>  | <u>375,611</u>                            | <u>100.0%</u>           | <u>403,151</u> | <u>100.0%</u>           | <u>445,295</u> | <u>100.0%</u>           |

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Our online games are offered on web platforms and mobile devices. The following table sets forth the breakdown of our online game revenue by game platforms for the periods indicated.

|              | Year ended December 31,                   |              |                |              |                |              |
|--------------|---|--------------|----------------|--------------|----------------|--------------|
|              | 2015                                      |              | 2016           |              | 2017           |              |
|              | Amount                                    | % of Revenue | Amount         | % of Revenue | Amount         | % of Revenue |
|              | (RMB in thousands except for percentages) |              |                |              |                |              |
| Web games    | 333,768                                   | 88.9%        | 236,477        | 58.8%        | 169,075        | 37.9%        |
| Mobile games | 10,934                                    | 2.9%         | 109,070        | 27.0%        | 219,854        | 49.4%        |
| <b>Total</b> | <b>344,702</b>                            | <b>91.8%</b> | <b>345,547</b> | <b>85.8%</b> | <b>388,929</b> | <b>87.3%</b> |

Our online game revenue is recognized ratably over the estimated playing period of paying users. See “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition” for details.

### OUR GAMES

We are focused on developing high-quality online games. Since our inception in 2008, we have developed, operated and licensed a number of popular web games such as *Wartune* and *DDTank*. In recent years, we have strategically expanded our business focuses to develop mobile games and expanded our product offerings through in-house development and collaboration with third parties. As of the Latest Practicable Date, we launched 16 web games, eight mobile games and one H5 game. As all of our games are offered on a free-to-play basis, we generate revenue from the sale of in-game virtual items.

Our games generally experience in their lifecycles (1) an early growth stage during which the user number and the revenue generated from such game tends to increase; (2) a stable and mature stage during which the user number and the revenue generated from such game tends to be stable; and (3) a late stage during which the user number and the revenue generated from such game tends to decrease.

According to the iResearch Report, the lifecycles of web games and mobile games generally have similar duration, but mobile games which are adapted from popular web games will be able to enhance the IP value and lead to longer IP lifecycles primarily because such mobile games provide more diverse game content and gameplay styles to the fans of the original IP. For example, our *DDTank (mobile)*, adapted from the classic *DDTank (web)*, provides new game content and gameplay styles on a variety of portable devices, achieving good operational performance replicating *DDTank (web)*’s established popularity and success. In addition, we can continue to develop game sequels of *DDTank (mobile)* in the future to extend the lifecycle. Our Directors expect that the longer IP lifecycles will lead to a more sustainable development of our business, lower our research and development expenses and marketing expenses, and improve our profitability.

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### Existing Game Portfolio

We have a large portfolio of online games, including both proprietary and licensed games in diverse genres that are fun and easy to play. We may also license the IP rights of our proprietary games to third-party game developers or publishers. Apart from the games in web or mobile formats, we are also dedicated to keeping ourselves abreast of the emerging and cutting-edge Internet technologies. We are currently in the process of developing H5 games, which allow users to play in browsers without installing the game applications on PCs and mobile devices.

The following table sets forth certain key information relating to our games that are currently in operation in reverse chronological order.

| Title  | Form                                 | Genre     | Initial Launch<br>Date | Language Versions   | Source      | Lifecycle<br>Stage as of<br>the Latest<br>Practicable<br>Date |
|--|--------------------------------------|-----------|------------------------|---|-------------|---|
| 1. <i>Desperate to Survive</i><br>(天天突突突)                          | Web<br>game                          | Shooting  | May 2018               | Simplified Chinese  | Licensed    | Growth<br>Stage   |
| 2. <i>Demi-Gods and<br/>Semi-Devils</i><br>(mobile) (天龍八<br>部(手遊)) | Mobile<br>game                       | SRPG/ARPG | April 2018             | Traditional Chinese   | Licensed    | Growth<br>Stage   |
| 3. <i>Wartune H5</i> (神<br>曲H5)                                    | H5<br>game                           | SRPG      | April 2018             | Simplified Chinese  | Proprietary | Growth<br>Stage   |
| 4. <i>Island Story — Let's<br/>Boom!</i> (全民島主)                    | Mobile<br>game                       | Casual    | January 2018           | Simplified Chinese  | Licensed    | Growth<br>Stage   |
| 5. <i>Mythic Glory</i> (神耀)  | Web<br>game                          | SRPG      | January 2018           | English   | Proprietary | Growth<br>Stage   |
| 6. <i>DDTank (mobile)</i><br>(彈彈堂 (手遊))                            | Mobile<br>game                       | Casual    | April 2017             | Simplified Chinese,<br>Traditional<br>Chinese, English,<br>Vietnamese | Proprietary | Growth<br>Stage   |
| 7. <i>Crouching Tiger</i> (臥<br>龍吟)                                | Mobile<br>game<br>and<br>web<br>game | SRPG      | January 2017           | Traditional Chinese   | Licensed    | Stable<br>Stage   |
| 8. <i>True Demi-Gods<br/>and Semi-Devils</i><br>(真天龍八部)            | Web<br>game                          | SRPG      | April 2015             | Simplified Chinese  | Proprietary | Late<br>Stage   |
| 9. <i>Demi-Gods and<br/>Semi-Devils</i> (天龍<br>八部) <sup>(1)</sup>  | Web<br>game                          | SRPG/ARPG | January 2015           | Simplified Chinese,<br>Traditional<br>Chinese,<br>Vietnamese          | Proprietary | Late<br>Stage   |

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| Title                   | Form     | Genre  | Initial Launch Date | Language Versions   | Source      | Lifecycle Stage as of the Latest Practicable Date |
|-------------------------|----------|--------|---------------------|---|-------------|---|
| 10. <i>Wartune</i> (神曲) | Web game | SRPG   | November 2011       | Russian, Japanese, Korean, German, French, Italian, Indonesian, Thai, English, Arabic, Portuguese, Dutch, Swedish, Turkish, Spanish, Polish, Greek, Traditional Chinese, Simplified Chinese, Vietnamese | Proprietary | Stable Stage                                      |
| 11. <i>DDTank</i> (彈彈堂) | Web game | Casual | March 2009          | Thai, Russian, Simplified Chinese, English, Vietnamese, Portuguese, Turkish, Traditional Chinese, Spanish   | Proprietary | Stable Stage                                      |

- (1) This game was initially launched in China in January 2015 under the name *The Legend of Qiao* (喬峰傳), which was published to the overseas markets under the name *Demi-Gods and Semi-Devils* (天龍八部) since September 2015.

Some of our popular games are described below.

***DDTank* (彈彈堂)**



*DDTank* is a multiplayer turn-based casual shooting game initially launched in March 2009 in the format of web game. The game features easy controls, various scenarios and users-engaging features such as weapon synthesis and avatar customization. This game offers in-game purchases of various virtual items to enhance the performance of their avatars.

*DDTank (mobile) (彈彈堂(手遊))*



As we have strategically expanded our business focuses to develop mobile games, we launched *DDTank (mobile)*, the mobile remake of our flagship web title, *DDTank*, in April 2017. *DDTank (mobile)* generated over RMB467.3 million gross billings in 2017, and its average MAUs reached 3 million during the same period.

*Wartune (神曲)*



*Wartune* is an epic hybrid turn-based SRPG web game initially launched in November 2011. 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. This game offers in-game purchases of virtual items to enhance the performance of their avatars.

*Island Story — Let's Boom!* (全民島主)



*Island Story — Let's Boom!* is a casual social mobile game initially launched in January 2018. The MAUs for *Island Story — Let's Boom!* (全民島主) reached 1.4 million in February 2018. In *Island Story — Let's Boom!*, users may use various strategies to build and level up their islands by attacking other islands and deploying resources. This game features high-quality graphics, adorable cartoon avatars and engaging gameplays. This game offers in-game purchases of virtual items to allow users to enhance their gameplay experience.

*Demi-Gods and Semi-Devils* (天龍八部)



*Demi-Gods and Semi-Devils* is an SRPG game mixed with ARPG element initially launched in January 2015. It has a fantasy-based storyline adapted from an acclaimed Wuxia novel in China. In *Demi-Gods and Semi-Devils*, users may take on the role as a mighty hero and deploy mounts, weapons and other props to enhance the fighting power of their avatars, upgradable through battles. This game offers in-game purchases of virtual items to enhance the performance of their avatars.



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*Mythic Glory* (神耀)



*Mythic Glory* is an SRPG game with a medieval-fantasy themed storyline that mixes intensive turn-based strategy with fast-paced combat. Based on our web game *Wartune* and published primarily in the overseas markets, *Mythic Glory* allows our users to devise strategies and tactics to resolve a voluminous variety of quests and challenges, with real-time interaction with other users. This game offers in-game purchases of virtual items to enhance the performance and the appearance of their avatars.

During the Track Record Period, we generated a substantial majority of revenue from a limited number of games, including our proprietary flagship titles, *DDTank* and *Wartune*. We make ongoing optimization and launch updates frequently to our existing games to continue to maintain user interest and optimize gameplay experience. The following table sets forth a breakdown of our online game revenue for the periods indicated.

|   | Year ended December 31, |              |                |              |                |              |
|---|-------------------------|--------------|----------------|--------------|----------------|--------------|
|   | 2015                    |              | 2016           |              | 2017           |              |
|   | Amount                  | % of Revenue | Amount         | % of Revenue | Amount         | % of Revenue |
| (RMB in thousands except for percentages) |                         |              |                |              |                |              |
| Web games                                 |                         |              |                |              |                |              |
| <i>DDTank</i>                             | 52,757                  | 14.1%        | 48,815         | 12.3%        | 46,116         | 10.4%        |
| <i>Wartune</i>                            | 250,027                 | 66.6%        | 161,283        | 40.0%        | 105,546        | 23.7%        |
| Others                                    | 30,984                  | 8.2%         | 26,379         | 6.5%         | 17,413         | 3.8%         |
| Mobile games                              |                         |              |                |              |                |              |
| <i>DDTank</i>                             | –                       | –            | –              | –            | 154,327        | 34.7%        |
| <i>Wartune Heroes</i> <sup>(1)</sup>      | –                       | –            | 38,344         | 9.5%         | 62,638         | 14.0%        |
| <i>World of Wartune</i> <sup>(2)</sup>    | 10,934                  | 2.9%         | 70,726         | 17.5%        | 2,181          | 0.5%         |
| <i>Crouching Tiger</i> <sup>(2)</sup>     | –                       | –            | –              | –            | 708            | 0.2%         |
| <b>Total</b>                              | <b>344,702</b>          | <b>91.8%</b> | <b>345,547</b> | <b>85.8%</b> | <b>388,929</b> | <b>87.3%</b> |

(1) a proprietary game

(2) licensed games

Our flagship games have lifecycles significantly longer than the industrial average of games in the same genre. For example, our web game *DDTank* has a lifecycle of

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approximately nine years, significantly longer than the lifecycles of the other casual shooting games developed by China-based game developers which average four to twelve months, according to the iResearch Report. Our web game *Wartune* has a lifecycle of approximately seven years, significantly longer than the lifecycles of the SRPGs developed by China-based game developers which average two to eight months, according to the iResearch Report.

Our mobile game *DDTank (mobile)*, launched in April 2017, is expected to exceed the average lifecycle of the other casual shooting games in mobile format in China, according to the iResearch Report, for the following reasons:

- ***DDTank (mobile) is a remake of DDTank (web) in mobile version.*** *DDTank* is a popular IP worldwide and our *DDTank (mobile)*, adapted from the classic *DDTank (web)*, provides new game content and gameplay styles on a variety of portable devices, achieving good operational performance. The *DDTank (web)* was launched in 2009 and continued to generate significant revenue over the past nine years, and is still in the stable and mature stage in its lifecycle. According to the iResearch Report, mobile games which are adapted from popular web games will be able to enhance the IP value and lead to longer IP lifecycles.
- ***Sequels of DDTank (mobile) is in the pipeline.*** We plan to launch *DDTank II (mobile)* with substantial upgrades and expansion from predecessor in 2019 to extend the lifecycle. According to the iResearch Report, mobile games which developed based on classical IP, are easier to be developed into sequel games, which are beneficial to continuous operation. In addition, we can continue to develop game sequels of *DDTank (mobile)* in the future to further extend the lifecycle.
- ***Lifecycle can be extended for games with multi-language editions.*** We plan to further optimize *DDTank (mobile)* for parallel release in multiple languages and geographical markets. Launched in April 2017, *DDTank (mobile)* has been published in four language versions, i.e., Simplified Chinese, Traditional Chinese, Vietnamese and English, as of the Latest Practicable Date. Its MAUs continued to grow steadily with some minor fluctuations. Telling from the growth trends, the MAUs and gross billings of *DDTank (mobile)* are expected to experience a spurt after the launch of a new language version in a new country or a region. According to the iResearch Report, the lifecycles of games with multi-language versions, which have been published in various regions, can be extended by arranging the releasing time of different language versions properly and orderly.

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- ***The lifecycle of the games developed by us is significantly longer than the industry average.*** The *DDTank (mobile)* was launched in April 2017 and it remained on the top 300 best-selling games in Apple Inc.'s App store in China as of the Latest Practicable Date, according to the iResearch Report, which had already exceeded the average lifecycle of other casual shooting games in mobile format of four to 12 months. In addition to the reasons above, according to the iResearch Report, the *DDTank (mobile)*'s lifecycle is forecasted to exceed the average lifecycle of other casual shooting games in mobile format in China, for the following reasons below:
  - (1) there are examples in the market that successful casual shooting games could have a lifecycle of above four years, which demonstrates the possibility of successful casual shooting games in mobile format achieving a longer-than-average lifecycle;
  - (2) Tencent is the exclusive operator of *DDTank (mobile)* in China. The collaboration with Tencent has enabled and will continue to enable us to benefit from Tencent's large user base and traffic and brand image among smartphone users in China; and
  - (3) our management team has long-term operating experience for casual shooting games.

The following table sets out certain information of our top five online games in terms of revenue during the Track Record Period.

| Title                                   | Revenue | % of our total revenue | Source      | Form        | Initial Launch Date | Lifecycle stage as of the Latest Practicable Date | Self-Publishing/ Third-party publishing                        |
|---|---------|------------------------|-------------|-------------|---------------------|---|--|
|   |         |                        |             |             |                     |   |  |
| <b>2017</b>                             |         |                        |             |             |                     |   |  |
| <i>DDTank (mobile)</i> 彈彈堂 (手遊)         | 154,327 | 34.7%                  | Proprietary | Mobile game | April 2017          | Growth stage                                      | Third-party publishing   |
| <i>Wartune (神曲)</i>                     | 105,546 | 23.7%                  | Proprietary | Web game    | November 2011       | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>Wartune Heroes (神曲之符文英雄)</i>         | 62,638  | 14.0%                  | Proprietary | Mobile game | July 2016           | Out of operation                                  | Self-publishing  |
| <i>DDTank (彈彈堂)</i>                     | 46,116  | 10.4%                  | Proprietary | Web game    | March 2009          | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>Crouching Tiger (web)</i> (臥龍吟 (頁遊)) | 7,196   | 1.6%                   | Licensed    | Web game    | January 2017        | Stable stage                                      | Third-party publishing   |

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| Title   | Revenue          | % of our total revenue | Source      | Form        | Initial Launch Date | Lifecycle stage as of the Latest Practicable Date | Self-Publishing/ Third-party publishing                        |
|---|------------------|------------------------|-------------|-------------|---------------------|---|--|
|   | RMB in thousands | %                      |             |             |                     |   |  |
| <b>2016</b>   |                  |                        |             |             |                     |   |  |
| <i>Wartune (神曲)</i>                                   | 161,283          | 40.0%                  | Proprietary | Web game    | November 2011       | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>World of Wartune (神曲世界)</i>                        | 70,726           | 17.5%                  | Licensed    | Mobile game | November 2015       | Out of operation                                  | Third-party publishing   |
| <i>DDTank (彈彈堂)</i>                                   | 48,815           | 12.3%                  | Proprietary | Web game    | March 2009          | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>Wartune Heroes (神曲之符文英雄)</i>                       | 38,344           | 9.5%                   | Proprietary | Mobile game | July 2016           | Out of operation                                  | Self-publishing  |
| <i>Demi-Gods and Semi-Devils (天龍八部)<sup>(1)</sup></i> | 10,601           | 2.6%                   | Proprietary | Web game    | January 2015        | Late stage  | Third-party publishing   |
| <b>2015</b>   |                  |                        |             |             |                     |   |  |
| <i>Wartune (神曲)</i>                                   | 250,027          | 66.6%                  | Proprietary | Web game    | November 2011       | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>DDTank (彈彈堂)</i>                                   | 52,757           | 14.1%                  | Proprietary | Web game    | March 2009          | Stable stage                                      | Self-publishing in the PRC and third-party publishing overseas |
| <i>Demi-Gods and Semi-Devils (天龍八部)<sup>(1)</sup></i> | 15,660           | 4.2%                   | Proprietary | Web game    | January 2015        | Late stage  | Third-party publishing   |
| <i>World of Wartune (神曲世界)</i>                        | 10,934           | 2.9%                   | Licensed    | Mobile game | November 2015       | Out of operation                                  | Third-party publishing   |
| <i>True Demi-Gods and Semi-Devils (真天龍八部)</i>         | 6,796            | 1.8%                   | Proprietary | Web game    | April 2015          | Late stage  | Self-publishing  |

(1) This game was initially launched in China in January 2015 under the name *The Legend of Qiao (喬峰傳)*, which was published to the overseas markets under the name *Demi-Gods and Semi-Devils (天龍八部)* since September 2015.

### Game Pipeline

We continuously expand our game portfolio primarily through developing and publishing new games on mobile platforms and, to a lesser extent, in web format. To determine game candidates for development, we consider factors such as user demand, industrial trend related to game format, distribution platforms, availability of similar games and users' reception of such similar games in the target markets and monetization potential. According to the iResearch Report, we expect that the market size of H5 will increase gradually in the future. We are currently developing a suite of games in H5 format based on

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popular IPs. The H5 technology makes it possible to create more powerful games that can be run in any standards-compliant web browser with one code base. Users can directly play H5 games via browsers on both PCs and mobile devices without installing the games locally. We also plan to remake our flagship web titles, *DDTank* and *Wartune*, in H5 format to meet the rising user demand for gameplay flexibility.

As of the Latest Practicable Date, we were in the process of developing or publishing nine mobile games, four H5 games and one web game targeted for launch by the end of 2019. We estimate that we may incur RMB48.5 million and RMB113.5 million after the Track Record Period for the development costs of such games in 2018 and 2019, respectively. We expect to utilize cash flow generated from our operations and proceeds from the Global Offering to fund these new game development projects as well as enhancement of our existing games. The following table sets out certain information of our games in pipeline expected to be launched in 2018 and 2019.

| Title <sup>(1)</sup>                     | Genre      | Source      | Estimated<br>Launch<br>Time | Language<br>Version    | Features/Theme  |
|--|------------|-------------|-----------------------------|------------------------|---|
| <b>Mobile games</b>                      |            |             |                             |                        |   |
| 1. <i>Wartune 3D (mobile) (神曲3D(手遊))</i> | SRPG       | Proprietary | 2nd half of 2018            | English <sup>(2)</sup> | Mobile remake of our web game <i>Wartune</i>                                  |
| 2. <i>Billionaires (大富豪)</i>             | Simulation | Proprietary | 2nd half of 2018            | Simplified Chinese     | Simulation of commercial trading and company operation                        |
| 3. <i>The Cat (小賤貓)</i>                  | Casual     | Proprietary | 2nd half of 2018            | Simplified Chinese     | Adapted from popular memes  |
| 4. <i>Project S</i>                      | SRPG       | Proprietary | 2nd half of 2018            | Simplified Chinese     | Theme on a fantasy-based storyline set in Europe during the Middle Ages       |
| 5. <i>Project N</i>                      | Casual     | Proprietary | 2nd half of 2018            | Simplified Chinese     | Fantasy-based game with a romantic storyline targeting female users           |
| 6. <i>Project XX</i>                     | SRPG       | Proprietary | 1st half of 2019            | Simplified Chinese     | Fantasy theme with a storyline based on <i>Wartune</i>                        |
| 7. <i>Luna (mobile)</i>                  | Casual     | Licensed    | 1st half of 2019            | English                | Theme on the adventures in a fantasy land                                     |
| 8. <i>Wartune (Mobile) (神曲(手遊))</i>      | SRPG       | Proprietary | 2nd half of 2019            | Simplified Chinese     | Mobile remake of our web game <i>Wartune</i> published in the PRC market only |
| 9. <i>DDTank II (mobile) (彈彈堂II(手遊))</i> | Casual     | Proprietary | 2nd half of 2019            | Simplified Chinese     | Sequel of our mobile game <i>DDTank (mobile)</i>                              |

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| Title <sup>(1)</sup>                                       | Genre     | Source      | Estimated<br>Launch<br>Time        | Language<br>Version               | Features/Theme   |
|--|-----------|-------------|------------------------------------|-----------------------------------|--|
| <b>H5 games</b>  |           |             |                                    |                                   |  |
| 10. <i>King of Fighters H5</i><br>(拳皇H5)                   | Arcade    | Proprietary | 2nd half of<br>2018                | Simplified<br>Chinese             | Based on popular<br>IP from SNK                              |
| 11. <i>DDTank Adventures H5</i> (彈<br>彈堂大冒險H5)             | Casual    | Proprietary | 2nd half of<br>2018 <sup>(2)</sup> | Simplified<br>Chinese,<br>English | H5 remake of our<br>mobile game<br><i>DDTank</i><br>(mobile) |
| 12. <i>McDull Adventures H5</i> (麥<br>兜環球大冒險H5)            | Casual    | Licensed    | 1st half of<br>2018 <sup>(2)</sup> | Simplified<br>Chinese             | Adapted from<br>popular cartoon<br>IPs                       |
| 13. <i>Demi-Gods and Semi-Devils</i><br><i>H5</i> (天龍H5)   | SRPG/ARPG | Licensed    | 2nd half of<br>2018                | Simplified<br>Chinese             | Adapted from a<br>Chinese Wuxia<br>story                     |
| <b>Web games</b>   |           |             |                                    |                                   |  |
| 14. <i>Demi-Gods and Semi-Devils</i><br><i>3D</i> (天龍八部3D) | SRPG/ARPG | Licensed    | 2nd half of<br>2018                | Simplified<br>Chinese             | Adapted from a<br>Chinese Wuxia<br>story                     |

(1) The titles of certain games in pipeline have not been determined yet and the titles listed in the above table are subject to change before launch.

(2) At external beta testing stage

In addition, we are in the process of developing 13 additional language versions for our existing game portfolio, such as our *DDTank (mobile)* in German, Italian, French, Portuguese, Spanish and Indonesian for launch in various regional markets.

We have a robust pipeline of new games which is expected to launch in 2018. We expect such new games will generate a substantial portion of our revenue in 2018. Nevertheless, our Directors are of the view that the following factors should contribute to the sustainability of our business:

- *DDTank* and *Wartune* remained two of the top five online games in terms of revenue in each of the financial years during the Track Record Period. Being in the stable stage in their respective lifecycles, each of these two games has demonstrated during the Track Record Period that their revenue would not decrease drastically in light of its massive user base. In addition, the IPs of *DDTank* and *Wartune* have been proven to retain a loyal user base over the years provided that each of them was launched more than seven years ago. The Directors believe that our Company has laid a solid foundation through the two IPs and are not aware of any circumstances that would affect the sustainability of such IPs. Following the successful operation of *DDTank (mobile)* in the PRC market which was launched in April 2017, we have successfully launched *DDTank (mobile)* in certain overseas regions since the second half of 2017 and plan to roll out more language versions in multiple overseas regions. As of the Latest Practicable Date, we had entered into relevant publishing agreements in respect of such overseas regions.

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- As supported by the iResearch Report, the landscape of the online game industry is ever-changing. We need to innovate and adapt to the latest technological development constantly to keep up with the market trend. Since the commencement of the Track Record Period, we have launched mobile games and expanded into H5 games. Our Directors believe that it is crucial for our Company to expand into different ventures to remain competitive in the market. The revenue generated by our expansion in H5 games would be additional to the stable revenue source generated by the two IPs in either web or mobile format. By leveraging on the popular IPs such as *King of Fighters* (拳皇), *McDull* (麥兜), *DDTank* (彈彈堂) and *Demi-Gods and Semi-Devils* (天龍八部), our Company expects that these H5 games in pipeline, which are based on popular IPs, will be appealing to their respective user base. As at the Latest Practicable Date, our Company had entered into a publishing agreement with a major game distribution company in relation to one of its H5 games which will be launched in 2018.
- The online game industry has exhibited promising upward trend, and IP lifecycles can be prolonged by launching new game formats, such as H5, according to the iResearch Report. Our Company with our leading position and accumulated experience will be able to capitalize on the growth opportunities.

Our Company has accumulated abundant experience in launching games in different language versions in the overseas markets. Going forward, our Company will continue to explore different game genres based on the popular IPs held by us. Our Directors believe that our business is sustainable on the basis set forth above.

### OUR BUSINESS FLOW

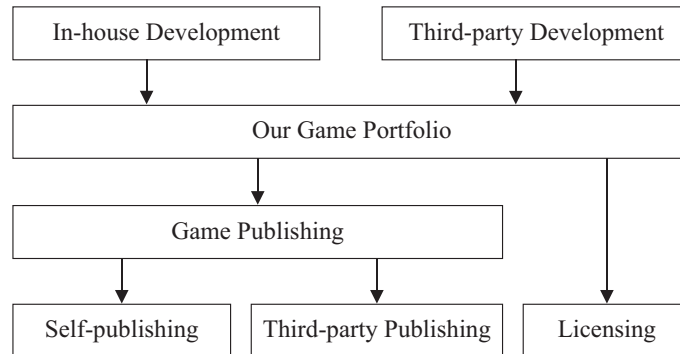
We commenced our business by developing web games and collaborating with third-party game publishers to launch our games in China and the overseas markets. In recent years, we have strategically expanded our business focuses to develop mobile games, capitalizing on our game IPs and experiences accumulated from developing web games. In 2013, we also began to collaborate with a number of select third-party game developers in China to enrich our game portfolio. As a growth strategy, we intend to continue 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.

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



- *In-house development.* We have an in-house game development center to develop games using our proprietary technologies. See “— Game Development — In-house development.”
- *Third-party development.* In addition to proprietary games, we also seek to license viable online games from third-party developers. See “— Game Development — Third-party development.”
- *Our game portfolio.* We currently have a diversified game portfolio consisting of both proprietary and licensed games in various genres. See “— Our Games.”
- *Game publishing.* We publish our games primarily by cooperation with reputable third-party game publishers in China and overseas. To a lesser extent, we also publish our games directly through third-party distribution platforms, including Apple Inc.’s App Store, and our own distribution platforms. See “— Game Publishing.”
- *Licensing.* We also license and assign our proprietary IPs under existing game products to other game developers or publishers to develop or publish online games.

## GAME DEVELOPMENT

### In-House Development

As of December 31, 2017, our game development center consisted of 262 members, accounting for 76.8% of our total employees as of the same date. In 2015, 2016 and 2017, the staff turnover rate of our game development center was 62.3%, 21.7% and 31.8%, respectively. The staff turnover rate in 2015 was particularly higher as our management reviewed its redundancy policies following the Management Buyout. Other than 2015, we believe our staff turnover rate is in line with the industry average. Our team members on average have approximately five years of relevant industry experience and more than half have a bachelor’s or master’s degree in such specialties as computer sciences, software



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engineering, network systems administration, multi-media design and production and others. We currently have three persons responsible for providing technical support, including the development and maintenance of our proprietary game development engine, and the “back-end” cross-game infrastructure software development. Our game development center is also responsible for the continuous enhancement of games developed in-house, including ongoing monitoring, problem fixing and development and release of upgrades.

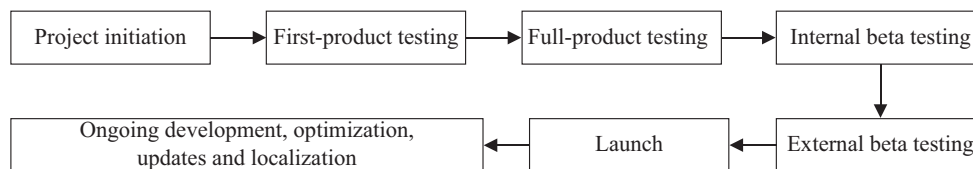
We have established other supporting departments to provide extensive operational functions. Our product design department is responsible for the user interface design for all of our games in order to deliver a consistent cross-game designs among users. Our testing department conducts tests on each product submitted before it is publicly launched. We believe that our internal game development process, which is seamlessly complemented by supporting functions, ensures effective allocation and sharing of internal resources and improves our overall operating efficiency and scalability.

We also occasionally outsource research and development efforts from third-party game developers when our game development projects are under considerable time constraint.

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 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. As of the Latest Practicable Date, we had launched 15 proprietary games, including two mobile games and one H5 game.

### *Games Development Cycle*

The following diagram illustrates a simplified process for the launch of a game developed in-house. Our game development process can be divided into seven stages. The first six stages usually take up to 18 months, depending on the game format and the complexity and novelty of the relevant project, and the final stage is ongoing until a game is phased out.



### *Project Initiation*

Our game development cycle starts with a preliminary proposal by a team of three to five members from our game development center that describes the gameplay, theme, overall storyline, artistic style and the revenue model of the proposed new game, illustrated

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by a short demo. Our product development committee reviews each preliminary proposal. Once the committee approves the proposal, they will pass it on for our management's review. Our management will ultimately decide whether to proceed with the proposed games. In determining themes for the proposed new games, our management takes into account the latest trends in entertainment and popular culture from different sources. They also consider the estimated time and manpower required to develop the games. This stage usually takes one to three months.

### *First-product Testing*

After our management's formal approval, our project team will then formulate a detailed development plan, which includes the game themes, functionalities, virtual merchandising designs and labor and budget planning, and will forthwith begin the development process. They will work on a first-product version that includes the key gameplay of the game and invite users to try out the game. The first-product version tests whether the design can achieve the effect contemplated in the original proposal, and will be revised on a continuous basis if necessary. If our product development committee is satisfied with the finalized first-product version, it will grant its formal approval to proceed onto the next stage. Depending on the complexity of the game, the first-product testing stage normally takes one to five months.

### *Full-product Testing*

During the full-product testing stage, our project team will complete the development of the entire game subject to strict quality standards for launch and start to prepare for the operation of the game. The project team will invite a group of more than 150 employees to try out the game and provide feedback on game functionalities and their gameplay experiences, so that the project team can refine the designs, resolve technical issues and fix software bugs. The full-product testing also allows us to detect early errors with respect to design and functionality.

During this stage, we will also showcase the game to multiple game publishers and have a grasp of their level of interest. If our product development committee concludes that the game does not have the potential for commercial success, we may decide to terminate the game development project. This stage usually takes 15 days to one month, depending on the complexity of the game.

### *Internal Beta Testing*

If the game passes full-product testing, it will advance to the internal beta testing stage. In this stage, our project team will prepare a beta version of the game that normally includes the first 30 minutes in the game. We will invite external users to try out the game. We will capture and monitor these external users' in-game behavior and activities, and seek their feedbacks, to generate additional insights to optimize the game. The internal beta testing normally takes two to five months.

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### *External Beta Testing*

In this stage, we will publish the game through small distribution channels and start trial operation. We normally limit the size of our community of beta testers to up to 100,000 users. Our beta community consists of selected existing users who are invited via email and new users directed through advertisements. The purpose of the external beta testing is to test the performance of the new game under open market conditions. In this stage, we start to sell virtual items and will delete testers' account files after the testing ends. Through user testing, we can reduce product failure risk, further improve product quality, and eliminate possible error before the official release of the game.

The external beta testing stage usually takes one to two months. We continue to monitor and analyze user behavior using our data analysis engine and optimize the game contents on a real-time basis. However, if there are major errors that cannot be resolved or if certain operating metrics are significantly below expectation, the game project may not proceed and must remain under the development phase for further development or in certain situations, be terminated.

### *Launch*

After the game has undergone sufficient beta testing, it is ready for commercial release. We consider a new game "launched" when it begins to generate revenue. We typically publish games through collaboration with our game publisher partners or, to a lesser extent, by ourselves.

### *Ongoing Development, Optimization, Updates and Localization*

After release of our games, the same project team is typically responsible for ongoing development, optimization and updates for the game in our daily operation until the game phases out. We continuously monitor and analyze user behavior and virtual item purchase and consumption patterns in our games, and collect and analyze data produced in our games to provide strong backstage support. Leveraging the massive amount of data the system provides to us, we continue to optimize our games on a real-time basis and release new updates periodically.

We continuously update our games, fix software bugs and other technical issues as soon as practicable after they are identified, either by us or our game publisher partners, and provide significant expansion packages on a periodical basis to add new game avatars, challenges and functionalities to keep our users engaged. We believe that these updates and enhancements, which reflect the feedback we collect from our daily operation, help us to maintain users' interest in our games and extend the lifecycles of our games.

We have built strong localization capabilities to structurally and artistically modify our game offerings through local language scripts and other in-game features specifically redesigned to meet the differentiated gameplay needs and preferences of users from diverse geographical markets. As of the Latest Practicable Date, we offered online games scripted in 21 languages, including simplified and traditional Chinese, English, French and Italian. We have also gained profound insights into the differences across geographical markets, which allow us to optimize each regional version of our game offering.

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### Third-party Development

In 2013, we began to collaborate with a number of select third-party game developers in China, such as Yuyou (Beijing) Online Technology Company Limited (雨游(北京)網絡科技有限公司), to enrich our game portfolio. During the Track Record Period, we collaborated with game developers on the development of two games which have not been launched. We believe the collaboration can expand our game portfolio and strengthen our game development capabilities in a cost-effective manner. Our third-party development process generally undergoes similar assessment, testing process and development cycle. Our game development agreements with third parties were entered into on a case-by-case basis with a term covering the game development and operation cycle. Some of the major terms under our game development agreements typically include:

- the game developers are responsible for developing the relevant games based on our requirements while we are vested with the IP proprietary rights;
- the game developers are responsible for providing content updates, necessary ongoing technical assistance for the installation and testing of game functionalities, and ongoing fixes and updates in connection with game operations;
- we are responsible for determining certain basic information of the games, such as avatar designs, scenes and backgrounds and providing the relevant designs and materials to the game developers; and
- we are liable to pay (1) a fixed payment in installments within a short period after the execution of the agreement or after the successful launch of the games and (2) an ongoing payment calculated based on a predetermined percentage of the revenue generated from the games.

### GAME PUBLISHING

We publish our games primarily by cooperation with third-party game publishers to operate and market our games, and to a lesser extent, by ourselves, which depends on our assessment of our publishing capabilities, resources and cost efficiency for self-publishing on a case-by-case basis. The following table sets forth the breakdown of our online game revenue by distribution type for the periods indicated.

|                        | Year ended December 31,                   |              |                |              |                |              |
|------------------------|---|--------------|----------------|--------------|----------------|--------------|
|                        | 2015                                      |              | 2016           |              | 2017           |              |
|                        | Amount                                    | % of Revenue | Amount         | % of Revenue | Amount         | % of Revenue |
|                        | (RMB in thousands except for percentages) |              |                |              |                |              |
| Third-party publishing | 323,905                                   | 86.2%        | 329,932        | 81.8%        | 382,254        | 85.8%        |
| Self-publishing        | 20,797                                    | 5.6%         | 15,615         | 4.0%         | 6,675          | 1.5%         |
| <b>Total</b>           | <b>344,702</b>                            | <b>91.8%</b> | <b>345,547</b> | <b>85.8%</b> | <b>388,929</b> | <b>87.3%</b> |

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According to the iResearch Report, the major players in the online game industry tends to develop their own distribution platforms and publish games by themselves, while other game developers choose to cooperate with game publishers due to the lack of game-publishing capabilities and resources. Third party publishing would allow game developers to focus their resources on their core game development business while tapping into the publishers' resources to reach out to targeted markets leveraging on their local resources and user bases. Self-publishing remains as an additional and supplemental channel to generate user traffic.

### **Third-party Publishing**

We have forged trusted business collaboration with a number of premium game publishers worldwide to publish our games in our targeted markets. Their local resources and user bases help us penetrate the target markets. Traditionally, we debut our new games in China and seek to distribute those that perform strongly in the overseas market with the assistance of our game publishers. Our game publisher partners distribute our games through their own platforms and a diversified range of third-party distribution platforms, such as Google Play, Apple Inc.'s App Store and Facebook.

We screen our game publishers and require them to have the requisite licenses, if any, for online game operations issued by the local regulators. We enter into a game distribution agreement with each game publisher partner under which the publisher is granted an exclusive or non-exclusive right to publish, market, advertise, distribute and service our game in certain authorized countries and regions. The game distribution agreements typically have a term of two to three years and are renewable upon mutual consent. Certain other major terms under our game distribution agreements typically include:

- the publishers have the right to distribute the games in the authorized territories within an agreed period of time, while we continue to hold the relevant IP rights, and the publishers are entitled to terminate the contracts if we fail to obtain and maintain the IP rights and qualifications pertaining to the games;
- the publishers are responsible for the sales and marketing, game server hosting, customer service, selection of distribution and payment channels, and legal compliance in the local markets;
- we are responsible for providing content updates as well as necessary ongoing technical assistance for the installation and testing of game functionalities, and ongoing fixes and updates in connection with game operations;
- we determine the price of in-game virtual items; and
- we are entitled to (1) a fixed payment for the exclusive authorization we granted to the publishers, which is usually paid to us in installments with the first installment before the publishers start operating the games, and (2) an ongoing payment calculated based on a predetermined percentage (ranging from 20% to 30%) of the gross billings.

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In China, we have collaborated with Tencent (HK: 0700), the leading China-based interactive entertainment conglomerate, to publish *DDTank (mobile)*. We believe that our collaboration with Tencent has enabled us to benefit from its large user base and traffic and brand image among smartphone users in China.

As Tencent is a leading player in the online game market and launched its mini programs on WeChat in January 2017, it is expected that Tencent will continue to be one of our major distribution channels in the PRC. Our revenue sharing arrangement with Tencent is generally as follows:

- for an exclusive right to publish our mobile games, we share 55% to 70% of the total gross billing derived from such games with Tencent;
- for a non-exclusive right to publish our mobile games, we share 55% of the total gross billing derived from such games with Tencent and we may be liable to pay a fixed amount of server fee to Tencent; and
- for an exclusive or a non-exclusive right to publish our web games, our gross billing sharing split with Tencent may vary significantly depending on the monthly gross billing of such games and we may be liable to pay a fixed amount of server fee to Tencent.

As of the Latest Practicable Date, we have partnered with over 70 game publishers to operate online games in China, and over 30 of them had worked with us for more than five years. We adopted predominately third-party publishing for our games during the Track Record Period in China.

We also collaborate with a number of reputable game publishers to operate online games in the overseas markets. As our important business partner, we collaborate with Digital Hollywood (HK: 2022), a leading global online game publisher for China-based game developers, to publish *DDTank* and *Wartune* primarily in North America. We began to collaborate with Digital Hollywood in 2012, and to strengthen our business relationship, we acquired a 23% interest in Digital Hollywood in 2015. Leveraging Digital Hollywood's established user traffic and market position, we believe this strategic acquisition creates considerable synergies that bridge game development and publication. We have also collaborated with Oasis Games, a subsidiary of Zeus Entertainment (SZ: 002354), a Chinese leading online game publisher targeting on overseas markets, to publish various language versions of *Wartune* in Europe and the Portuguese version of *DDTank* in South America. Since March 2017, we have also partnered with Garena Online, a subsidiary of Sea Ltd (NYSE: SE), a leading online game publisher in Southeast Asia, to publish a number of regional versions of *DDTank (mobile)* in certain Southeast Asian countries and regions. As of the Latest Practicable Date, we had partnered with over 30 game publishers to operate online games in the overseas markets, and 10 of them had worked with us for more than five years.

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### Self-Publishing

We have in-house publishing capabilities to publish our games primarily in China. As of the Latest Practicable Date, we directly published 11 games, including nine proprietary games and two licensed games through our websites.

We have obtained all the requisite licenses, including the ICP License, the Internet Culture Business License (網絡文化經營許可證) and the Online Publishing Service License (網絡出版服務許可證) for online game operations in China. For details, see “— Licenses, Permits and Approvals.”

### Top Customers

Our top customers primarily include third-party game publishers. As of December 31, 2017, we have maintained business relationship with our five largest customers for one to six years. Our payment terms with third-party game publishers typically range from two to four months. For 2015, 2016 and 2017, the revenue generated from our five largest customers was RMB210.2 million, RMB235.1 million and RMB224.8 million, representing 55.9%, 58.3% and 50.4% of our revenue for the same periods, respectively. Our largest customer contributed 19.0%, 26.1% and 28.3% of our revenue for the same periods, respectively.

Digital Hollywood was one of our top five largest customers during the Track Record Period. As of the Latest Practicable Date, we held a 15.52% interest in Digital Hollywood. Digital Hollywood is a global online game publisher for China-based game developers. We collaborate with Digital Hollywood to publish our web games, such as *DDTank* and *Wartune*, in certain overseas markets. Mr. Meng, our executive Director, is a non-executive director of Digital Hollywood. Save as disclosed above, 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 customers during the Track Record Period.

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

| <u>Customer</u> | <u>Transaction amount</u> | <u>% of our total revenue</u> | <u>Approximate length of relationship</u> | <u>Principal business</u>  |
|-----------------|---------------------------|-------------------------------|---|--|
|                 | RMB in millions           | %                             | Years                                     |  |
| <i>2017</i>     |                           |                               |   |  |
| Customer A      | 126.0                     | 28.3%                         | 6   | Domestic game publisher which is a subsidiary of a listed company in Hong Kong         |
| Customer B      | 32.0                      | 7.2%                          | 6   | International game publisher based in Hong Kong  |
| Customer C      | 26.4                      | 5.9%                          | 6   | International and domestic game publisher listed in Hong Kong                          |
| Customer D      | 22.4                      | 5.0%                          | 1   | International game publisher based in Hong Kong  |
| Customer E      | 18.0                      | 4.0%                          | 1   | International game publisher based in Singapore  |
| Total           | 224.8                     | 50.4%                         |   |  |
| <i>2016</i>     |                           |                               |   |  |
| Customer F      | 105.0                     | 26.1%                         | 2   | Domestic game publisher which is a subsidiary of a listed company in the United States |
| Customer B      | 45.9                      | 11.4%                         | 6   | International game publisher based in Hong Kong  |
| Customer C      | 45.4                      | 11.2%                         | 6   | International and domestic game publisher listed in Hong Kong                          |
| Customer G      | 22.6                      | 5.6%                          | 6   | International game publisher which is a subsidiary of a listed company in the PRC      |
| Customer H      | 16.2                      | 4.0%                          | 6   | Domestic game publisher based in the PRC   |
| Total           | 235.1                     | 58.3%                         |   |  |
| <i>2015</i>     |                           |                               |   |  |
| Customer B      | 71.5                      | 19.0%                         | 6   | International game publisher based in Hong Kong  |



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| Customer   | Transaction amount | % of our total revenue | Approximate length of relationship | Principal business  |
|------------|--------------------|------------------------|------------------------------------|---|
|            | RMB in millions    | %                      | Years                              |   |
| Customer C | 63.4               | 16.9%                  | 6                                  | International and domestic game publisher listed in Hong Kong                     |
| Customer G | 38.6               | 10.3%                  | 6                                  | International game publisher which is a subsidiary of a listed company in the PRC |
| Customer I | 18.5               | 4.9%                   | 6                                  | Domestic game publisher which is a subsidiary of a listed company in the PRC      |
| Customer H | 18.2               | 4.8%                   | 6                                  | Domestic game publisher based in the PRC  |
| Total      | 210.2              | 55.9%                  |                                    |   |

### DATA ANALYTICS AND GAME UPGRADES

#### Data Analytics Capabilities

We have built a comprehensive system for data collection, including client-end (PCs, iOS and Android) data collection software development kits, and server-end data collectors dedicated to receiving user data. The data we collect include time of gameplay, number of turns of games played, in-game activity levels, progress of skill levels, frequency of using specific in-game functions. Besides those collected through our own websites, we also acquire in-game user behavior data from games published by our game publisher partners on a monthly basis, pursuant to our game distribution agreements. We encrypt the data collected on the Internet multiple times and restrict access to them by an additional layer of firewall for maximum security during transmission. We do not collect any personal data of our users. Currently, the vast majority of data we collect on our own pass through our real-time data collection channels, which efficiently distribute data for permanent storage and, at the same time, transferring to our game development center for analysis.

We have a dedicated team of five data analysis technicians who oversee our data analytics platform and analyze the wide array of gameplay data we collect. Leveraging the centralized data management platform integrated into our game development center, we are able to (1) develop data reports indicating key performance indicators, such as DAUs and ARPPU, (2) centrally manage voluminous data from different games, (3) monitor and analyze user behavior in order to provide effective game development strategies, (4) assess users' receptiveness of new games or in-game virtual items, and (5) analyze different user groups' preferences and demands. Through these processes, we have built mechanisms in our games to stimulate user interest and re-engage dormant users. They also help us set up anti-fraud and anti-spam functions.

The data analytics enable us to understand our users' in-game behavioral patterns, and identify key performance drivers, non-performing virtual items, and other areas for

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improvement. Our data analysis technicians work closely with members from our game development center, who will translate such knowledge into well-timed game enhancements as well as new games with the storylines, gameplay styles and virtual merchandising designs that appeal to our users. In 2015, 2016 and 2017, we incurred approximately RMB0.8 million, RMB0.8 million and RMB0.9 million for acquiring in-game user behavioral data, respectively.

### **Game Upgrades**

Powered by our data analytics capabilities, we periodically release upgrades for our proprietary games and continue to optimize the functions and performance of our games based on user feedback. We upgrade our games with improved features, fix bugs and programming issues, install new in-game features and launch upgrades to run on newly released mobile devices or operating systems. For our licensed games, we primarily rely on the third-party game developers for ongoing enhancement to the games. Mobile users are usually able to access the upgraded version by downloading the upgrade package from the App marketplaces, and we strive to reduce the size of the upgrade package in order to minimize data usage and download time.

We upgrade our games frequently and at least on a monthly basis. The release of each new version typically takes four weeks to eight months to develop and launch, depending on the complexity and novelty of the improved features.

### **PAYMENT PROCESSING**

To offer users various major online payment methods in and outside China, we engage major third-party payment channels for games that we publish by ourselves, including integrated distribution platforms (such as Tencent's WeChat) and popular payment agents (such as Alipay and Paypal) for virtual items sold in our games. As of December 31, 2017, we maintained collaboration with 15 payment channels to facilitate in-game purchases. These channels offer credit card, online wire transfer and other payment options and can be safely linked with our users' bank accounts. We entered into payment service agreements with payment channels for credit terms of up to 120 days, typically with self-executing renewals upon expiry unless one party notifies the other otherwise in writing prior to expiration.

### **REVENUE SHARING**

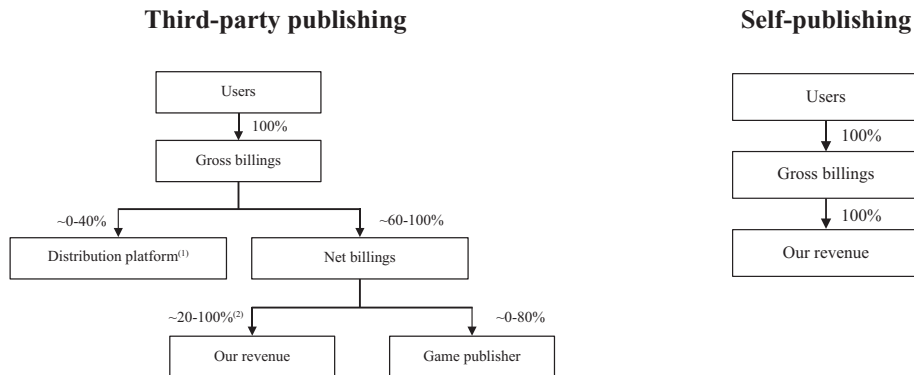
We have revenue sharing arrangements with third-party game developers, distribution platforms and payment channels. For games licensed from third parties, we negotiate the percentage of the revenue sharing on a case-by-case basis with the original game developers based on the roles and responsibilities of the parties during the developing and publishing process of the game. See “— Game Development — Third-party Development.” We publish our games (including both proprietary and licensed games) primarily in collaboration with third-party game publisher partners, and to a lesser extent, by ourselves. We negotiate the percentage of the revenue sharing on a case-by-case basis with such game publisher partners. The following diagrams illustrate our revenue generation process.

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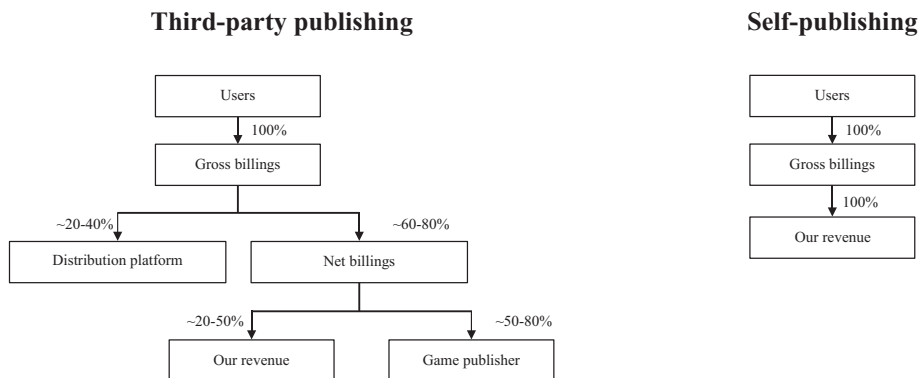
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### Revenue Sharing for Our Web Games



- (1) No deduction from gross billings is required for game publishers that operate integrated distribution platforms, such as Facebook and Tencent.
- (2) According to the agreement with a major game publisher, such major game publisher does not share our users' monthly billings until such monthly billings exceed RMB100,000. During the Track Record Period, there were no occasions where such major game publisher did not share our users' monthly billings.

### Revenue Sharing for Our Mobile Games



We generally receive our portion of the shared revenue after the pre-deduction of commission charges by third-party distribution platforms. For third-party publishing games, proceeds from selling virtual items of our games are collected by third-party publishers or their designated payment platforms and shared between our Group and the publishers based on a pre-determined rate. The payments we receive for sale of game tokens and other virtual items from third-party publishers are non-refundable. For details, see “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition” for details.

## MONETIZATION AND PRICING

We assess the popularity of our games by the number of active users and the number of paying users. We believe that games have attracted a larger number of users.

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Revenue from our games is primarily affected by three key metrics: (1) average MAUs, (2) average MPUs, and (3) ARPPU. 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, |         |         |
|---|-------------------------|---------|---------|
|   | 2015                    | 2016    | 2017    |
| <b>Average MAUs<sup>(2)</sup> (unit in thousands)</b> |                         |         |         |
| – Web games   | 7,733                   | 4,670   | 2,708   |
| <i>DDTank</i>   | 4,078                   | 3,020   | 1,836   |
| <i>Wartune</i>  | 3,121                   | 1,508   | 818     |
| <i>Others</i>   | 533                     | 143     | 55      |
| – Mobile games  | 826                     | 1,341   | 3,400   |
| <i>DDTank<sup>(5)</sup></i>                           | –                       | –       | 3,049   |
| <i>Wartune Heroes<sup>(6)</sup></i>                   | –                       | 709     | 338     |
| <i>World of Wartune<sup>(1)</sup></i>                 | 826                     | 632     | 14      |
| <b>Average MPUs<sup>(3)</sup> (unit in thousands)</b> |                         |         |         |
| – Web games   | 283                     | 185     | 122     |
| <i>DDTank</i>   | 103                     | 80      | 58      |
| <i>Wartune</i>  | 157                     | 95      | 61      |
| <i>Others</i>   | 23                      | 10      | 3       |
| – Mobile games  | 59                      | 109     | 491     |
| <i>DDTank<sup>(5)</sup></i>                           | –                       | –       | 461     |
| <i>Wartune Heroes<sup>(6)</sup></i>                   | –                       | 52      | 28      |
| <i>World of Wartune<sup>(1)</sup></i>                 | 59                      | 57      | 3       |
| <b>ARPPU (RMB)<sup>(4)</sup></b>                      |                         |         |         |
| – Web games   | 408                     | 416     | 403     |
| <i>DDTank</i>   | 176                     | 190     | 203     |
| <i>Wartune</i>  | 568                     | 592     | 584     |
| <i>Others</i>   | 357                     | 543     | 590     |
| – Mobile games  | 490                     | 378     | 136     |
| <i>DDTank<sup>(5)</sup></i>                           | –                       | –       | 120     |
| <i>Wartune Heroes<sup>(6)</sup></i>                   | –                       | 521     | 442     |
| <i>World of Wartune<sup>(1)</sup></i>                 | 490                     | 311     | 349     |
| <b>Revenue (RMB in thousands)</b>                     |                         |         |         |
| – Web games   | 333,768                 | 236,477 | 169,075 |
| <i>DDTank</i>   | 52,757                  | 48,815  | 46,116  |
| <i>Wartune</i>  | 250,027                 | 161,283 | 105,546 |
| <i>Others</i>   | 30,984                  | 26,379  | 17,413  |
| – Mobile games <sup>(5)</sup>                         | 10,934                  | 109,070 | 219,854 |
| <i>DDTank<sup>(6)</sup></i>                           | –                       | –       | 154,327 |
| <i>Wartune Heroes<sup>(7)</sup></i>                   | –                       | 38,344  | 62,638  |
| <i>World of Wartune<sup>(1)</sup></i>                 | 10,934                  | 70,726  | 2,181   |

(1) The operating data for *World of Wartune* in 2015 refer to the data collected since its initial launch date in November 2015.

(2) Average MAUs is the aggregate of the average MAUs of each game of the respective game type for the respective year. The average MAUs of a certain game of the respective game type for the respective year is computed as follows: the aggregate of MAUs of such game for the respective year divided by the total number of applicable months in that year.

(3) Average MPUs is the aggregate of the average MPUs of each game of the respective game type for the respective year. The average MPUs of a certain game of the respective game type for the respective year is computed as follows: the aggregate of MPUs of such game for the respective year divided by the total number of applicable months in that year.

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- (4) ARPPU is computed as follows: total revenue generated by the paying users for the respective game type for the respective year divided by total number of paying users for the respective game type for the respective year.
- (5) The revenue of mobile games in 2017 includes the revenue from *Crouching Tiger*.
- (6) For the four months ended April 30, 2018, the average MAUs, average MPUs and ARPPU of *DDTank (mobile)* was approximately 1,776,000, 102,000 and RMB138, respectively.
- (7) *Wartune Heroes* was withdrawn in August 2017. After taking into consideration the (1) diminishing effect on user acquisition and the promotional costs incurred in connection with the publishing arrangements and (2) revenue brought in by the game in the foreseeable period after the end of its marketing campaign, we decided that it would not be cost effective to continue its operation, as it was no longer commercially viable to continue the operation due to its low volume of active users before its withdrawal. The withdrawal of *Wartune Heroes* was in line with the lifecycle of similar card games within the same genre which typically ranges from six months to 12 months, according to the iResearch Report.

The following table sets forth the data in respect of average MAUs and reflects the movement of average MAUs during the Track Record Period.

|   | Year Ended December 31, |       |       |
|---|-------------------------|-------|-------|
|   | 2015                    | 2016  | 2017  |
| Average MAUs <sup>(1)</sup> (unit in thousands)                         | 8,559                   | 6,012 | 6,109 |
| Monthly average new registered users <sup>(2)</sup> (unit in thousands) | 7,194                   | 4,093 | 3,836 |
| Loss of monthly average active users <sup>(3)</sup> (unit in thousands) | 10,822                  | 6,640 | 3,739 |

- (1) Average MAUs is the aggregate of the average MAUs of each game of the respective game type for the respective year. The average MAUs of a certain game of the respective game type for the respective year is computed as follows: the aggregate of MAUs of such game for the respective year divided by the total number of applicable months in that year.
- (2) The number of monthly average new registered users refers to the average number of individuals who register a new account in each month during that period.
- (3) Loss of monthly average active users refers to the aggregate of monthly average new registered users in the current year and the average MAUs in the preceding year minus the average MAUs in the current year.

During the Track Record Period, our operating data are generally in line with our strategy to shift our focus from web games to mobile games. Our ARPPU in 2017 for mobile games was affected by our launch of *DDTank (mobile)* in the same year as casual shooting games tend to appeal to a broader user base but with less inclination for in-game purchases. As advised by iResearch, our industry consultant, casual games (including casual shooting games) usually have lower ARPPU than SRPG and other hard-core games because of the designs of gameplay styles and payment systems, and such decrease in our ARPPU in 2017 for mobile games was in line with the industry.

To monetize our broad and active user base, we seek to convert active users into paying users and increase each paying user's in-game spending. All our games are initially free-to-play. Users may choose to enhance their gameplay experience by purchasing in-game 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. All of our virtual items can be purchased conveniently and

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processed speedily through various payment options. The release of new editions with new functions and improved game design and graphics stimulates user spending.

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 most likely to trigger purchasing. We price each virtual item in each local market based primarily on an analysis of certain criteria, including the historical prices of similar virtual items offered in other games or versions, the behavioral pattern of targeted users, prices of similar virtual items offered in our competitors' games, the benefits or advantage associated with the virtual items, the level of demand for the virtual items, and the purchasing power of the target markets. In particular, for different language versions targeting different markets, we carefully formulate pricing strategies by evaluating the local purchasing power and assessing prices ranges of virtual items in comparable games in local markets. We also consult with our game publisher partners to leverage their insights into the market trends and demands to better design and price the in-game virtual items we offer.

### INTERNATIONAL FOOTPRINT

Among the early pioneers in China that ventured into the international arena with Chinese-made online games, we have established a broad user base overseas over the years, particularly in North America, Southeast Asia and Europe.

We seek to target users in different regional markets and we offer our games in various language versions to attract users globally. As of the Latest Practicable Date, we offered online games scripted in 21 languages, including simplified and traditional Chinese, English and other major tongues. The following table sets forth the breakdown of active user information of the largest language versions of our games measured by revenue for the periods indicated:

| Language Version    | Average DAUs            |            |              | Average MAUs            |              |              |
|---------------------|-------------------------|------------|--------------|-------------------------|--------------|--------------|
|                     | Year Ended December 31, |            |              | Year Ended December 31, |              |              |
|                     | 2015                    | 2016       | 2017         | 2015                    | 2016         | 2017         |
|                     | (in thousands)          |            |              |                         |              |              |
| Simplified Chinese  | 465                     | 360        | 719          | 3,677                   | 3,042        | 3,880        |
| Vietnamese          | 150                     | 171        | 138          | 1,384                   | 449          | 417          |
| Traditional Chinese | 35                      | 22         | 103          | 144                     | 92           | 361          |
| Turkish             | 96                      | 47         | 33           | 463                     | 243          | 210          |
| Portuguese          | 1                       | 0          | 3            | 2                       | 1            | 47           |
| English             | 86                      | 50         | 36           | 466                     | 245          | 169          |
| Spanish             | 170                     | 98         | 55           | 1,155                   | 342          | 157          |
| Russian             | 67                      | 39         | 23           | 493                     | 166          | 138          |
| Others              | 135                     | 128        | 44           | 775                     | 1,431        | 729          |
| <b>Total</b>        | <b>1,205</b>            | <b>915</b> | <b>1,153</b> | <b>8,559</b>            | <b>6,011</b> | <b>6,108</b> |

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We consider our game localization capabilities an important driver of our overseas success, which goes beyond language translations to incorporate significant cultural nuances and norms. Our first web title, *DDTank*, currently has nine language versions, including simplified and traditional Chinese, English, Vietnamese, Thai, Spanish, Portuguese, Turkish and Russian. Our flagship web title, *Wartune*, currently has 20 language versions, including simplified and traditional Chinese, English, German, Italian, Swedish, Greek, Arabic, Turkish and Spanish.

More importantly, we leverage our strong localization capabilities to structurally and artistically modify our game offerings through other in-game features specifically designed to meet the differentiated gameplay needs and preferences of users from diverse geographical markets. For example, users in North America and Europe generally feel distaste for rigid targets and time constraints on carrying out required gameplay activities to progress through a game. We then re-designed the original game mechanics in order to give them more flexibility in working out their own strategy to the endpoint while still keeping the game engaging. In the Vietnamese version of *DDTank*, given that Vietnamese users prefer cooperative games, we purposefully re-constructed the game metrics to make the game much less confrontational than its original Chinese version, so that users could have a laid-back and relaxing gameplay experience. In developing certain overseas versions of our games, we would devote significant resources comparable to developing a new game. For example, in June 2017, we designated a dedicated team to develop the overseas version of *DDTank*, in addition to the existing project team that worked on the development of the original Chinese version.

After releasing a game, we collect and act on the user feedback to improve the appeal of our existing games. We also constantly monitor the gameplay data and analyze user behavior to understand local demands in our user community, by leveraging our comprehensive data analytics system, in order to make data-informed decisions to release more well-tailored upgrades and new games in our target markets periodically.

We are also attentive to the cultural awareness of our users from different geographical markets. We are dedicated to adding esthetic and cultural elements to our games by incorporating localized in-game features to the liking of our local users, which we believe would enrich their gameplay experiences. We believe that we have built a self-refining localization process as we continue to release localized updates for and accumulate experience from the expansion of our geographical reach and global user base and the penetration into our target geographical markets.

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For example, we have imbedded various artworks of chickens into the Vietnamese version of *DDTank*, in light of the traditional fondness for chickens in Vietnam, which proved to be widely recognized by the local users and became an icon for this game. The following are examples of such artworks.



As some cultures present information in different orientations than that in English-speaking countries, in developing the Arabic version of *Wartune*, we reversed the orientation of game interface and created mirroring user controls, tab locations and text to accommodate the bidirectional nature of the Arabic language. The following is a screenshot of the Arabic version of *Wartune* showing an interface with a reversed orientation.



In addition, to enhance visual gameplay effects, we typically tailor certain in-game virtual items, such as avatar outfits and ornaments, to the user preferences and recognizable customs in the regional markets. For example, we released virtual items such as Uncle



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Sam's suit and white hair in our games published in the United States, kimono in Japan, and Samba costumes in Brazil. The following images illustrate such iconic outfits.



We have established trusted collaborative relationship with a number of reputable third-party game publishers in the overseas markets. During the Track Record Period, we had dedicated our efforts to game development and we believe it is more cost-effective to rely on the expertise and resources of the game publishers for localization and marketing in the overseas markets through third-party publishing compared with self-publishing. As we accumulate more experiences to operate games overseas, we plan to engage in self-publishing of our games in certain regions of the overseas markets and enhance our

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collaboration with some of the major distribution platforms in the overseas markets. We have authorized our game publisher partners to publish our games in over 100 countries and regions. We provide technical assistance with installation and testing of game functionalities and ongoing fixes and updates in connection with game operations, as typically stipulated in the game distribution agreements with these game publishers. We are also committed to providing our game publisher partners with other necessary support throughout the marketing and promotion of our games in the local markets. For more details about our business collaboration with our game publisher partners, see “— Game Publishing.”

In addition, we adjust the pricing of certain virtual items offered to different regional markets in accordance with differentiated consumption patterns and price ranges of virtual items in comparable games in such local markets. For more details about our pricing strategy, see “— Monetization and Pricing.”

### OUR USERS AND CUSTOMER SERVICE

#### Our Users

We have established a broad and fast-growing global user base, particularly in China, North America, Southeast Asia, and Europe, and we did not rely on any single user during the Track Record Period. Our average DAUs were 1.2 million, 0.9 million and 1.2 million in 2015, 2016 and 2017, respectively. Our average MAUs were 8.6 million, 6.0 million and 6.1 million in 2015, 2016 and 2017, respectively.

We offer our games on a free-to play basis and generate revenue from the in-game sale of virtual items. The payments received for in-game purchases are generally non-refundable. Our users are able to play and enjoy our games without spending money on in-game purchases. 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 2015, 2016 and 2017, our average MPUs for online games were approximately 342,000, 294,000 and 613,000, respectively, representing 4.0%, 4.9% and 10.0% of the average MAUs for the same periods, respectively.

Historically, our web games attracted the majority of our active users. In recent years, we have strategically expanded our business focuses to develop mobile games and H5 games. As of the Latest Practicable Date, we had developed and launched eight mobile games and one H5 game, including the mobile remake of our flagship web title, *DDTank*. As a result, the size of active user base of our mobile games experienced rapid growth in 2017. Our average MAUs for mobile games were approximately 826,000, 1,341,000 and 3,400,000 in 2015, 2016 and 2017, respectively.

#### Customer Service

We currently maintain a customer service team serving our users and supporting our global operations. Users can reach our customer service team anytime through multiple

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channels, including by telephone, emails or via our in-game ticketing system. For Chinese users, our customer team is also on several mainstream social networks in China, such as Sina Weibo, the Chinese micro-blogging platform. Our customer service team also maintains a few chat groups for each game via Tencent QQ, the leading instant messaging service in China, to provide our users with instant services. We also screen certain words according to the lists provided by the relevant government authorities and the illegal content such as obscenity, gambling, superstition, illegal transactions and information that threatens state security.

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

We believe that outstanding customer service plays a significant role in retaining users and differentiating us from other game developers. In serving our users, our customer service team also collects valuable first-hand user experience and feedback, which has helped us better understand user preference and demand and further enhance our games. As of the Latest Practicable Date, we had not received any material complaints from our users that resulted in material adverse effect on our business.

### **ONLINE GAME TECHNOLOGY AND PUBLISHING SOLUTIONS SERVICES AND LICENSING**

In addition to the revenue generated from our proprietary and licensed games, we have also been seeking different avenues to capitalize on our game development capabilities and offer sales of online game technology and publishing solutions services and IP licensing.

We offer online game technology and publishing solutions services to a few third-party online game developers, covering game design, art design, animations, programming and marketing consulting services, leveraging our cost-effective game development and operational capabilities, specifically under the genres of casual shooting games and SRPGs. The revenue generated from such services was RMB9.9 million, RMB43.7 million and RMB46.6 million in 2015, 2016 and 2017, representing 2.6%, 10.8% and 10.5% of the total revenue during the same periods, respectively.

Over the years, we have assembled valuable IP assets since we launched our first web title, *DDTank*, in 2009. As part of our growth strategy, we have begun seeking opportunities to better monetize our proprietary IPs under existing game portfolios. Since 2013, we have licensed our game IPs to a select group of third-party game developers to develop or publish related games based on our IPs in specific geographical markets for an agreed period. We are currently in collaboration of two third-party game developers for such IP licensing arrangement which have worked with us for more than five years. The revenue generated from our IP licensing was RMB21.0 million, RMB13.9 million and RMB9.8 million in 2015, 2016 and 2017, representing 5.6%, 3.4% and 2.2% of the total revenue during the same periods, respectively. We plan to collaborate with moviemakers,

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cartoon-makers and other third parties to explore the commercialization of our IPs through the making of movies, cartoons and other forms of entertainment products. See “— Business Strategies — Expand and Diversify Our Product and Service Offerings” for details.

### **PROCUREMENT AND SUPPLIERS**

We believe that we are in the upstream business in the online game industry as an online game developer. Accordingly, our cost of revenue is lower compared to our downstream partners. As a result, we consider our suppliers to be those business partners to which we pay fees which are recorded as cost of revenue or expenses. Our suppliers primarily consist of landlords of our office premises, advertising agencies, server providers, third-party game companies, and data backup service providers.

#### **Landlord of Our Office Premises**

We entered into a long-term lease agreement to rent our office premises in Shenzhen. For details, see “— Properties — Leased properties.”

#### **Advertising Agencies**

While we grew the majority of our user base organically, we also seek to expand our user base through marketing campaigns in collaboration with advertising agencies. We typically enter into one-year framework agreement with our advertising agencies.

#### **Server Providers**

We operate online games through, and store our users’ data, on servers leased from third parties. We choose our server providers based on a variety of factors, including R&D capabilities, service system and quality, history of cooperation, brand name and price. We select the servers through our highly-trained professional engineers after rigorous testing to guarantee capacity and quality.

#### **Third-party Game Companies**

We collaborate with third-party game companies for R&D services associated with game development, taking advantage of their expertise in certain genres of games, typically when our in-house game development projects are under considerable time constraints.

#### **Data Backup Service Providers**

We collect and store a large amount of user data, including identification information and in-game behavioral data. We value the privacy of our users and securities of their information and have implemented a strict internal user data security management policy and to protect our users’ confidential information. We adopt cloud backup technology to

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back up our core business database daily. We receive data back-up services with third parties for the foregoing purposes.

### **Top Suppliers**

As of December 31, 2017, we had maintained business relationship with our five largest suppliers, including our landlord of office premises, advertising agencies, server providers, third-party game companies, and data backup service providers, for one to 10 years. Our payment terms typically range from 15 to 60 days for advertising agencies, from 30 to 60 days for server providers, from 30 to 60 days for third-party game companies, and from 30 to 60 days for data backup service providers. For 2015, 2016 and 2017, our five largest suppliers contributed a total of 88.0%, 47.0% and 57.6%, respectively, of the total cost of procurement from our suppliers for the same periods, respectively. For 2015, 2016 and 2017, our largest supplier contributed 70.2%, 12.9% and 26.8% of the total cost of procurement from our suppliers for the same periods, respectively.

During the Track Record Period, three of our top suppliers are also our customers, contributing to 1.9%, 14.0% and 5.3% of our total cost of procurement from our suppliers for providing cloud server, promotion and advertising services in 2015, 2016 and 2017 and 2.0%, 5.0% and 34.7% of our revenue for publishing our games in 2015, 2016 and 2017, respectively. As these business partners are technology companies in China which engages in both upstream and downstream businesses in the online game industry, our Directors believes it is industry norm for any game development companies to have similar arrangements with such business partners. The gross profit derived from such business partners in 2015, 2016 and 2017 amounted to RMB5.0 million, RMB7.2 million and RMB131.0 million, respectively.

As of the Latest Practicable Date, our executive Director Mr. Meng held a 18.1% interest in Chengdu Peng Wan, a company principally engaged in online game development and operation and one of our top five suppliers in 2015. Other than Chengdu Peng Wan, 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 Period.

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

| Supplier                           | Transaction amount | % of total cost of procurement | Approximate length of relationship | Principal business              |
|------------------------------------|--------------------|--------------------------------|------------------------------------|---------------------------------|
|                                    | RMB in millions    | %                              | Years                              |                                 |
| <b>2017</b>                        |                    |                                |                                    |                                 |
| Supplier A                         | 20.3               | 26.8%                          | 1                                  | Advertising                     |
| Supplier B                         | 9.4                | 12.4%                          | 2                                  | Advertising                     |
| Supplier C                         | 8.1                | 10.7%                          | 4                                  | Landlord of our office premises |
| Supplier D                         | 3.4                | 4.5%                           | 1                                  | Advertising                     |
| Supplier E                         | 2.5                | 3.2%                           | 2                                  | Game development                |
| Total                              | <u>43.7</u>        | <u>57.6%</u>                   |                                    |                                 |
| <b>2016</b>                        |                    |                                |                                    |                                 |
| Supplier C                         | 11.4               | 12.9%                          | 4                                  | Landlord of our office premises |
| Supplier B                         | 11.3               | 12.7%                          | 2                                  | Advertising                     |
| Supplier F                         | 9.4                | 10.6%                          | 1                                  | Advertising                     |
| Supplier G                         | 4.9                | 5.5%                           | 1                                  | Advertising                     |
| Supplier H                         | 4.7                | 5.3%                           | 1                                  | Advertising                     |
| Total                              | <u>41.7</u>        | <u>47.0%</u>                   |                                    |                                 |
| <b>2015</b>                        |                    |                                |                                    |                                 |
| Supplier I                         | 97.2               | 70.2%                          | 3                                  | Game development                |
| Supplier C                         | 10.5               | 7.6%                           | 4                                  | Landlord of our office premises |
| Supplier J                         | 8.4                | 6.1%                           | 10                                 | Server rental                   |
| Chengdu Peng Wan                   | 3.1                | 2.2%                           | 4                                  | Game development and operation  |
| Supplier K<br>(Same as Customer A) | 2.6                | 1.9%                           | 6                                  | Cloud server and promotion      |
| Total                              | <u>121.8</u>       | <u>88.0%</u>                   |                                    |                                 |

Our transactions with the largest supplier in 2015 primarily consisted of the provision of technology services from Changyou to Shenzhen 7Road, which was terminated following our spin-off from Changyou in May 2015. See “Financial Information — Principal Profit or Loss Components — Research and Development Expenses” for details.

**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 comprehensive or broad economic sanctions targeting Sanctioned Countries, or against industry sectors, groups of companies or

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persons, and/or organizations within such countries. Our users are located in more than 100 countries and regions, including among others the Relevant Countries where certain International Sanctions are in place. During the Track Record Period, we entered into agreements with game publisher partners, which were located in, among others, Cyprus and Russia to publish different language versions of our games to users in the Relevant Countries. For the years ended December 31, 2015, 2016 and 2017, based on accounting records, invoices from our game publishers and other data we collected, our estimated revenue derived from our games published in the Relevant Countries was RMB1.9 million, RMB0.9 million and RMB0.8 million, representing 0.49%, 0.23% and 0.17% of our revenue during the same periods, respectively. As advised by our International Sanctions Legal Advisors, our Group's business activities in the Relevant Countries during the Track Record Period do not appear to implicate any restrictions under applicable International Sanctions. 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 game publisher partners by whom the sales to the Relevant Countries were made during the Track Record Period against the lists of persons and organizations subject to International Sanctions, and confirming that none of these publishers 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.

Further, given the scope of our Global Offering and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisors are of the view that the involvement by parties in the Global Offering will not implicate any applicable International Sanctions on such parties, including our Company, our Company's investors, shareholders, the Stock Exchange and its listing committee and group companies, or any person involved in the Global Offering and accordingly, the sanctions risk exposure to our Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Company's shares (including the Stock Exchange, its listing committee and related group companies) is very low.

Our Directors confirm that we have not been notified of that any International Sanctions will be imposed on us for our sales through distributors to the Countries subject to International Sanctions during the Track Record Period. None of the counterparties are specifically identified on the Specially Designated Nationals and Blocked Persons by OFAC or other restricted parties lists maintained by the European Union, Australia and the United Nations and therefore would not be deemed as sanctioned targets. Such sales through distributors do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

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We intend to continue to publish through distributors our games to end-users with Countries subject to International Sanctions after the Listing with strict compliance with our internal control procedures as described below, although our Directors do not expect any material increase in our Group's sales to these countries.

Our Directors and the Joint Sponsors, based on the advice from our International Sanctions Legal Advisors as highlighted above, are of the view that the risk of sanctions violations as a result of our Group's sales through game publishers to the Relevant Countries during the Track Record is remote.

### **Our Undertakings and Internal Control Procedures**

We have undertaken to the Stock Exchange that, after the Listing, (1) we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any activities or businesses with, or for the benefit of, the Countries subject to International Sanctions or Sanctioned Persons where this would be in breach of International Sanctions, (2) we will not enter into any sanctionable transactions that would expose our Group, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to any risk of being sanctioned, and (3) we will make timely disclosure on the Stock Exchange's website and our own website if we should believe that any of our business would put our Group or our Shareholders at risk of being sanctioned and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risks and our business intention relating to the Countries subject to International Sanctions.

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 operations. All of our designated staff are required to have legal backgrounds and relevant experience. The designated staff will review information relating to the counterparty of the contract (such as its identity, shareholdings 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, and/or is financing or facilitating, a person located in any of the Countries subject to International



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Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from external international legal advisors with the necessary expertise;

- if necessary, external international legal advisors 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 advisors will 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; and
- regarding our game publisher customers, we will use our best efforts to ensure in the future that our game publishers shall warrant to us, either in our contracts with such game publishers, or through their delivery of an annual certification to us, that they are complying with the International Sanctions laws in the course of publishing our games.

With regard to the internal control measures set out above, and subject to the full implementation and enforcement of these measures, the Joint Sponsors are of the view that these measures 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 so as to protect the interests of our Shareholders and us.

### **OUR TECHNOLOGY INFRASTRUCTURE**

We have built a proprietary technology platform with robust data analytics capabilities that integrates and tracks our business operations, which have also significantly contributed to our success. We currently have a technical support team located in Shenzhen, China, to maintain the stability of our current technology infrastructure and fix any technical issues when they arise.

#### **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 structure 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 analytics system constantly tracks and analyzes users' gameplay data. In addition, we feed the gameplay data collected from our third-party game publisher partners to our data analytics system. Through these efforts, we are able to gain invaluable insights into our users' needs, preference and purchasing patterns, and to make data-informed decisions.

#### **Large Server Infrastructure and Network-based Caches**

Our diversified online game portfolio and large global player base are supported by a stable and powerful network infrastructure. All of our games featuring real-time

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interaction, which require our server network to respond promptly with low latency. As of the Latest Practicable Date, we owned and leased a number of servers hosted in China. We believe that our current network facilities provide us with sufficient capacity to carry out our current operations and are able to be expanded to meet additional capacity needs relatively quickly and with minimum incremental cost.

### Data Center Service

The servers used in our game operation are hosted in data centers in different geographic regions in China. The data centers in our network are owned and maintained for us by data center service providers. We typically enter into leasing and hosting service agreements with data center service providers that are renewable annually. The data center service providers are responsible for providing server hosting space with stable power supply, IP addresses, broadband Internet connection facilities and firewall monitoring services that can meet our requirements. The data center service providers are also responsible for the technical consulting and supporting services on a 24/7 basis. We are obliged to pay service fees subject to the terms of the leasing and hosting service agreements. We are responsible for the content and information stored and published on the servers and the data center service providers and the server service providers are entitled to terminate the agreements with us if we are found in the violation of the relevant laws and regulations.

### RESEARCH AND DEVELOPMENT

We are committed to investing in our in-house R&D capabilities in a cost-effective manner. We strategically focus on (1) developing new mobile games and H5 games and new editions and upgrades of our existing games, (2) upgrading our cross-platform technology and our multi-dimensional data analysis engine, and (3) investing in creative game projects promoted by our employees. As our R&D team has accumulated extensive experience from the 14 proprietary online games launched to date, we believe that 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.

Headed by Mr. HU Min, our chief production officer, our R&D team consisted of 262 employees, who had an average of over five years of experience in the internet industry and had been with us for an average of three years. Despite the implementation of our cost control measure to optimize the workforce structure during the Track Record Period, the average salaries per month for the members of our R&D team increased from RMB12,000 in 2015 to RMB13,000 in 2016 and RMB15,000 in 2017, a testament to our commitment to continuously enhance our research and development capabilities.

Our R&D expenses were RMB149.5 million, RMB90.7 million and RMB92.5 million in 2015, 2016 and 2017, respectively, accounting for 39.8%, 22.5% and 20.8% of our revenue during the same periods, respectively.

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### SALES AND MARKETING

We implement different marketing and promotional measures to market and promote our online games, including social networks, online App marketplaces, and online game portals. We design different marketing activities tailored for each type of games.

These activities 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 and online marketing.* We promote our game through offline advertisements and at trade shows and industry events. We also present our games on various social media to further build our brand awareness.
- *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. We also invite celebrities to represent our certain games.

### EMPLOYEES

As of December 31, 2017, we had 341 full-time employees, all based in Shenzhen, China. The following table set forth the number of our employees by function as of December 31, 2017:

| <b>Function</b>            | <b>Number of Employees</b> | <b>% of Total</b> |
|----------------------------|----------------------------|-------------------|
| Research and development   | 289                        | 84.7              |
| – Game development         | 262                        | 76.8              |
| – Game operation           | 27                         | 7.9               |
| Marketing and sales        | 7                          | 2.1               |
| General and administration | 45                         | 13.2              |
| Total                      | <u>341</u>                 | <u>100.0%</u>     |

We believe that we owe much of our success to our people. Therefore, we strive to build and maintain a strong workforce. We recruit our employees based on a number of criteria, including their work experience, educational background and our vacancies, and provide our employees with regular on-the-job education, training and other opportunities to improve their skill sets. 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

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obligations and grounds for termination. We set performance targets for our employees based on their roles and regularly review their performance. The results of such reviews are used in their salary determinations, discretionary bonus awards and promotion appraisals.

As required by PRC laws, we participate in various employee benefit plans that are organized by municipal and provincial governments, including basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing accumulation funds. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We believe that we have maintained a good working relationship with our employees. 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 during the Track Record Period. We did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the same period.

### COMPETITION

We are a China-based online game developer with integrated publishing capabilities. The online game industry in which we operate is highly competitive, characterized by the frequent introduction of new products and services, limited 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 developers on our abilities to develop highly engaging online games and localize game features, expand the lifecycle of online games, assemble and exploit game IPs, retain and expand paying user bases, continuously enhance user experience, maintain brand awareness and reputation, and forge trusted relationships with major game publisher partners. We believe that we compete effectively on these factors, leveraging our in-depth understanding of the target markets, extensive industry experience, and proprietary technical know-how. In addition, we consider our established global presence another competitive advantage over other online game developers who rely on a single country to generate revenue.

We compete principally with online game developers and operators in both the PRC market and our major overseas markets. In addition, game publishers, including our business partners, may also build their own development capabilities, leveraging their experience and market position in game publishing. Moreover, we compete more broadly with providers of other forms of entertainment on the Internet or mobile devices, such as social network services and video and music streaming services.

Some of our existing and potential competitors have significantly greater financial, technological and marketing resources, a larger user base, stronger relationships with industry participants and a larger and more diverse portfolio of online games, greater development experience and resources than we do. For a discussion of risks relating to competition, see “Risk Factors — Risks Relating to Our Business and Our Industry — We may be challenged with increasingly intense competition, and the barriers to enter the

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online game industry are low. Both factors disfavor our market position and would materially and adversely affect our results of operations.” and “Risk Factors — Risks Relating to Our Business and Our Industry — We are faced with competition from a broader entertainment industry. Our existing and prospective users may be attracted to competing forms of entertainment such as television, movies and sports, social network services, as well as other recreational options on the Internet.”

### INTELLECTUAL PROPERTIES

We regard our proprietary domain names, copyrights, trademarks, trade secrets and other intellectual property highly important to our business operations. We had 56 registered domain names as at the Latest Practicable Date, including 7road.com and dandantang.com. We rely on a combination of patents, copyrights, trademarks and trade secret laws to protect our intellectual properties. As of the Latest Practicable Date, we had registered 196 copyrights of art works, 116 copyrights of software, 211 trademarks and nine patent rights in China as well as 136 trademarks in overseas jurisdictions, including Taiwan, Hong Kong, Macau, and the United States and three copyrights of software in the US.

As of the Latest Practicable Date, we had (1) eight pending trademark applications in China, (2) 24 pending trademark applications in overseas jurisdictions, including Hong Kong, Macau, and the United States, and (3) three pending patent applications in China. As our trade names, brands and trademarks are becoming more recognized in China and overseas markets, we expect to devote additional resources to enhance the protection of our trademarks and register our trademarks and other intellectual properties in overseas markets where we offer our games. Most of our intellectual properties are owned by 7Road Shenzhen for the purpose of maintaining and renewing its operating license as required by relevant PRC government authorities. See “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights” for detailed information for our intellectual properties.

We also have obtained intellectual property rights from third parties in the form of software code, patented technology and trade secrets.

To the best knowledge of our Directors, we had not been subject to any material dispute, claims for infringement upon third parties’ trademarks, licenses and other intellectual property rights, as of the Latest Practicable Date.

We have adopted various measures to protect our intellectual property rights, such as placing IP protection terms in our standard agreements with business partners and entering into confidentiality agreements with our key employees. While we actively take steps to protect our intellectual property rights, circumstances beyond our control could pose a threat to our intellectual property rights. Measures we have taken may not be adequate to prevent the infringement or misappropriation of our intellectual property. Also, we cannot be certain that our games and services do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others. See

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discussion in “Risk Factors — Risks Relating to Our Business and Industry — We cannot be certain that our business operations do not or will not infringe on any patents, valid copyrights or other intellectual property rights held by third parties. We may incur significant legal expenses in case of third parties’ claims.” and “Risk Factors — Risks Relating to Our Business and Industry — Our business and reputation may be adversely affected by unauthorized use of our IPs.”

### PROPERTIES

Our principle executive offices are located in Shenzhen, Guangdong province, China. 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 Latest Practicable Date, we own one property in Shenzhen, China with a gross floor area of 1,603.6 square meters in Shenzhen, China, currently under renovation and will be used as a game development studio to support our business operations. We have obtained all relevant properties title certificates and the building ownership certificates for the property. According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance which require a valuation report with respect to all our Group’s interests in land or buildings, for the reason that, as of December 31, 2017, none of the properties held or leased by us had a carrying amount of 15% or more of our combined total assets.

#### Leased Properties

As of Latest Practicable Date, we had entered into certain lease agreements with independent third parties in China with an aggregate leased area of approximately 4,700 square meters. The properties we leased are primarily used for our office space and staff dormitory. Our lease agreements have a term ranging from one year to five years. Except for our leased properties used as staff dormitory with an aggregate area of approximately 800 square meters, all the lessors have provided property ownership certificates to us certifying that they have the right to lease such properties. Our PRC legal advisors advise us that all of our leases are valid and legally binding. If any disputes arises due to the title defects of the above-mentioned properties, we may have to relocate our staff dormitory but our business, financial condition, results of operations and prospects would not be materially affected as the estimated expenses for such relocation would be minimal.

#### *Non-registration*

All of our lease agreements have not been registered with the relevant administrative authorities. We have been advised by our PRC legal advisors that the non-registration of

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lease agreements will not affect their validity, 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.

### INSURANCE

We do not maintain any insurance policies covering technology infrastructure for losses due to fire, earthquake, flood or any other disaster. We do not maintain business liability or interruption insurance, which, based on public available information available to us relating to online game companies based in China, is in line with customary industry practice in China. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities 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.”

### ENVIRONMENTAL, HEALTH AND WORKPLACE SAFETY COMPLIANCE

As an online game developer and operator, we do not believe that 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.

### LICENSES, PERMITS AND APPROVALS

#### Game Operations in China

As advised by our PRC legal advisors, we have obtained all licenses permits and approvals which are material for our business operations in the PRC, including the ICP License, the Internet Culture Business License (網絡文化經營許可證) and Online Publishing Service License (網絡出版服務許可證).

The table below sets forth the relevant details of major licenses required for our operation in the PRC:

| <u>License/Permit</u> | <u>Holder</u>  | <u>Expiration Date</u> | <u>Renewal Requirements</u>                            |
|-----------------------|----------------|------------------------|--|
| ICP License           | Shenzhen 7Road | March 9, 2020          | Submit renewal application 90 days prior to expiration |

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| License/Permit                    | Holder          | Expiration Date   | Renewal Requirements                                   |
|-----------------------------------|-----------------|-------------------|--|
| Internet Culture Business License | Shenzhen 7Road  | May 6, 2019       | Submit Renewal Application 30 days prior to expiration |
| Internet Culture Business License | Huoguoosi 7Road | January 17, 2019  | Submit Renewal Application 30 days prior to expiration |
| Online Publishing Service License | Shenzhen 7Road  | September 2, 2021 | Submit Renewal Application 60 days prior to expiration |

### Game Operations in Overseas

We screen our game publishers and require them to have the requisite licenses, if any, for online publishing issued by the local regulators. We enter into a game distribution agreement with each game publisher partner under which the publisher is granted the exclusive or non-exclusive right to publish, market, advertise, distribute and service our game in certain authorized countries and regions. The publishers are responsible for the sales and marketing, game server hosting, customer service, selection of distribution and payment channels, legal compliance in the local markets. We are responsible for providing content updates as well as necessary ongoing technical assistance for the installation and testing of game functionalities, and ongoing fixes and updates in connection with game operations.

In respect of our game development activities, we are advised by our PRC legal advisors 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 requisite licenses, permits or approvals or failure to comply with applicable laws and regulations may adversely affect our ability to conduct our business.”

### AWARDS

During the Track Record Period, our games earned a number of awards, a summary of which is as follows:

| Award   | Issuing Organization   | Issuing Year |
|---|--|--------------|
| Top 10 Best Mobile Gamer Company (十大優秀手機遊戲公司)                                 | Tencent  | 2018         |
| Best Jinyao Award of the Year (年度最佳金耀獎)                                       | 3367 Mobile Games  | 2017         |
| Top 10 Best Web Games in China — <i>Wartune</i> (年度中國遊戲十強之十大最受歡迎的網頁遊戲—神曲)     | China Audio-video and Digital Publishing Association (中國音像與數字出版協會遊戲工委) | 2012-2014    |
| Outstanding Game Publication in China — <i>DDTank</i> (第四屆中華優秀出版物獎遊戲出版物獎—彈彈堂) | China Audio-video and Digital Publishing Association (中國音像與數字出版協會遊戲工委) | 2012         |
| Staff Favorites Recognition   | Facebook   | 2013         |



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### LEGAL PROCEEDINGS AND COMPLIANCE

#### Legal Proceedings

During the Track Record Period and as of the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which could have a material adverse effect on our operations or financial condition. Our PRC legal advisors have confirmed that, based on their knowledge after due inquiry and our Group's confirmation, there are no material legal, arbitral or administrative proceedings before any court of the PRC current or pending against, or involving the properties, or the business of, our Group (including claims from any intellectual property right holders for any infringement of its intellectual property rights) or to which any of the properties or members of our Group is subject.

#### Legal Compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in our target overseas markets and China. In China, we have engaged external counsel to help us ensure that (1) we comply with all filing and registration requirements under the PRC laws with respect to the games we develop and offer, and (2) the content of our games and the virtual items used in our games are in compliance with applicable laws and regulations in China. In overseas jurisdictions, we will engage local advisors when necessary to assess the impact of law laws and regulations on our existing or proposed business activities and take measures to comply with such laws and regulations. In the jurisdictions where we have established subsidiaries, namely Singapore and the United Kingdom, we have engaged local counsels to provide advice on compliance with local laws and regulations. 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 PRC legal advisors, during the Track Record Period and up to the Latest Practicable Date, we had complied with all the relevant PRC laws and regulations in all material respects.

### RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to a variety of risks during our operation. For details, see "Risk Factors." We have established and maintained risk management and internal control systems consisting of policies, procedures and organizational framework to ensure risk management on various aspects of our operations. We are dedicated to continuously improving these systems. Our Board constantly oversees and manages the overall risks associated with our operations.

We have adopted and implemented comprehensive risk management policies primarily in the areas of financial reporting, information system, internal control and human resource management.

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### **Financial Reporting Risk Management**

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statement preparation policies and financial department and staff management policies, we have various procedures in place to implement accounting policies, and our financial department reviews our management accounts based on such procedures. We also provide regular training to our financial department staff to ensure that they understand our accounting policies, and hold weekly meetings to discuss issues and updates in relation to financial reporting.

As of December 31, 2017, our finance department consisted of 15 employees. It is headed by our chief financial officer, Mr. LIN Sen, who has more than 11 years of experience in financial reporting.

### **Information System Risk Management**

We consider sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that user data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

Our user data protection policy is set forth in our Backup and Disaster Recovery Plan. We collect, use and store our user data in a centralized data center, and back-up such data on a daily basis in separate and various secured data back-up systems to minimize the risk of user data loss or leakage. We also frequently review our data center and back-up systems to ensure that they function properly and are well-maintained. In addition, we implement a set of procedures such as regular system check, password policy, access control system and data back-up, as well as data recovery test, to safeguard our information assets and ensure the proper management of our operational data.

Our technology department is responsible for protecting user data and ensuring the stability of our information technology system. As of December 31, 2017, our technology department consisted of 16 employees. We provide regular trainings to our technology team and hold weekly meetings to review our information technology operations and discuss any issues or necessary updates.

### **Internal Control Risk Management**

We have designed and adopted strict internal procedures to ensure regulatory compliance of our business operations in our major target overseas markets and China. In accordance with these procedures, our in-house legal department is responsible for monitoring the regulatory environment and development of local laws and regulations to support our business expansion in our existing and future target markets. It examines the contracts we entered into with our users, game publishers and suppliers, and reviews all relevant documents for our business operations.

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For IP-related issues, we have designated one IP specialist, who is with our in-house legal department, and engaged external IP legal advisors/professional IP agencies, to assist us in registering, applying and reviewing the relevant patent and trademark rights of our IPs, and handling IP-related claims.

As of December 31, 2017, our in-house legal department consisted of 4 employees with an average of four years of experience in internal control and general legal compliance. We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

### **Human Resources Management**

We have established internal control policies covering various aspects of human resource management such as training, recruiting, work ethics and legal compliance.

We regularly organize internal training sessions conducted by our senior employees or outside consultants on topics of interest that employees can vote on. Our human resources department schedules trainings and follows up with employees to evaluate the impact of such trainings. Through these efforts, we ensure that our employees' skill sets remain up-to-date and enable them to meet our users' needs.

We have adopted increasingly high standards in recruitment with strict procedures to ensure the quality of new hiring. We hold monthly workshops where our development staff can share their design ideas and work experience.

We have in place an employee handbook approved by our management and distributed to all our employees. It contains comprehensive internal rules and guidelines regarding best commercial practices, work ethics, fraud-prevention mechanism, negligence and corruption. We provide employees with regular trainings and resources to explain the guidelines contained in the handbook. We have also made available various reporting channels 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.

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## CONTRACTUAL ARRANGEMENTS

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### **Background**

We are a leading online game developer and operator based in China with a global reach, and we are considered to be engaged in the provision of value-added telecommunications services as a result of the operations of our business. We conduct online games business through our PRC operating entity, Shenzhen 7Road. Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting online games business and are restricted to conduct value-added telecommunications services. For further details of the limitations on foreign ownership in PRC companies conducting online games business and value-added telecommunications services under applicable PRC laws and regulations, see “Regulation Overview — Applicable Laws and Regulations in China.”

As a result of the foregoing, on April 13, 2018, we entered into a series of contractual arrangements (the “Contractual Arrangements”) with Shenzhen 7Road through Qianhai Huanjing to conduct its online games business in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of Shenzhen 7Road. The existing agreements underlying such contractual arrangements with Shenzhen 7Road include: (1) Exclusive Business Cooperation Agreement, (2) Exclusive Option Agreement, (3) Equity Pledge Agreement, and (4) Voting Rights Proxy Agreements.

Pursuant to the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group, through Qianhai Huanjing, and all risks arising from the business of the Consolidated Affiliated Entities are also effectively borne by our Group as a result of such Consolidated Affiliated Entities being treated as our wholly-owned subsidiaries. Accordingly, our Directors consider that it is fair and reasonable for Qianhai Huanjing to be entitled to all economic benefits generated by the business operated by the Consolidated Affiliated Entities through the Contractual Arrangements as a whole.

### **Qualification Requirements under the FITE Regulations**

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “FITE Regulations”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including ICP services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “Qualification Requirements”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for the past three years, satisfactory

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## CONTRACTUAL ARRANGEMENTS

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proof of the Qualification Requirements and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC legal advisors have advised us that as of the Latest Practicable Date, (1) this guidance memorandum had no legal or regulatory effect under the PRC laws and (2) no applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have taken and plan to continue to take specific steps to comply with the Qualification Requirements, including:

- i. as of the Latest Practicable Date, we have launched our games in 21 language versions worldwide including North America, Southeast Asia and Europe through our international game publisher partners on a wide range of third-party distribution platforms, such as Google Play, Apple Inc.'s App Store and Facebook. We plan to continue to launch our games in multiple languages and geographical markets;
- ii. we have established a broad user base overseas. As of the Latest Practicable Date, our games had been published in over 100 countries and regions. We plan to continue to cross-promote our mobile games to local users leveraging our established presence in certain major overseas markets such as Southeast Asia, North America and Europe; and
- iii. as of the Latest Practicable Date, we had registered 136 trademarks in overseas jurisdictions, including Taiwan, Hong Kong, Macau and the US and three copyrights of software in the US, and had 24 pending trademark applications in overseas jurisdictions, including Hong Kong, Macau and the US relating to our online game operation business.

Based on the foregoing, our PRC legal advisors are of the view that, subject to the discretion of the competent authority in determining whether our Group has fulfilled the Qualification Requirements, the above steps taken by us are reasonable, appropriate and sufficient in relation to the Qualification Requirements. We will maintain close contact with the relevant PRC regulatory authorities and seek specific guidance as to the Qualification Requirement. We undertake to provide periodic updates in annual and interim reports as requested by the Stock Exchange after the Listing to inform the investing public of our efforts and actions taken to comply with the Qualification Requirement as well as the progress of our efforts.

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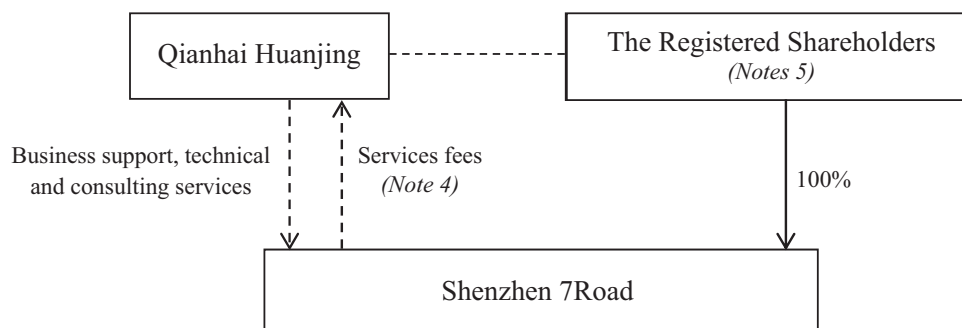
## CONTRACTUAL ARRANGEMENTS

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### Contractual Arrangements

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

- (1) Powers of attorney to exercise all shareholders' rights in Shenzhen 7Road (*Note 1*)
- (2) Exclusive option to acquire all or part of the equity interest in and/or assets of Shenzhen 7Road (*Note 2*)
- (3) First priority security interest over the entire equity interest in Shenzhen 7Road (*Note 3*)



Notes:

- (1) Please refer to “Contractual Arrangement — Voting Rights Proxy Agreement and Power of Attorney” for details.
- (2) Please refer to “Contractual Arrangement — Exclusive Option Agreement” for details.
- (3) Please refer to “Contractual Arrangement — Equity Pledge Agreement” for details.
- (4) Please refer to “Contractual Arrangement — Exclusive Business Cooperation Agreement” for details.
- (5) The Registered Shareholders are Mr. Meng, Mr. Hu, Mr. Liu, Ningbo Bao Pu, Shanghai Ting Can, holding 21.5%, 16.6%, 10.9%, 30.8% and 20.2% shares in Shenzhen 7Road, respectively.
- (6) “ $\longrightarrow$ ” denotes direct legal and beneficial ownership in the equity interest and “ $\text{----}\longrightarrow$ ” denotes contractual relationship.

### Voting Rights Proxy Agreement and Powers of Attorney

Each of Shenzhen 7Road, the Registered Shareholders and Qianhai Huanjing entered into the Voting Rights Proxy Agreement on April 13, 2018, pursuant to which, each Registered Shareholder, through the power of attorney (“Power of Attorney”), irrevocably appoints Qianhai Huanjing or our Directors and their successors (including a liquidator replacing our Directors) but excluding those non-independent or who may give rise to conflict of interests, as his attorney-in-fact to exercise such shareholder’s rights in Shenzhen 7Road, including without limitation to, the rights to (1) convene and participate in shareholders’ meeting in the capacity of a proxy of the Registered Shareholder; (2) exercise the voting rights, on behalf of the Registered Shareholder, and adopt and execute resolutions, on matters to be discussed and resolved at shareholders’ meetings, including

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## CONTRACTUAL ARRANGEMENTS

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without limitation to, the appointment and election of directors of Shenzhen 7Road or any senior management that should be appointment and dismissed by the shareholders of Shenzhen 7Road; (3) exercise other voting rights of shareholders under the articles of association of Shenzhen 7Road; (4) submit any required document to any company registry or other authorities in the capacity of a proxy of each Registered Shareholder; and (5) enter into or sign, on behalf of the Registered Shareholder, any resolutions equity transfer agreement or other related documents, and process any governmental approvals, registration, filing or other procedures to effect the transfer under the Exclusive Option Agreement.

The Voting Rights Proxy Agreement has an indefinite term and will be terminated in the event that (1) the Voting Rights Proxy Agreement is unilaterally terminated by Qianhai Huanjing; or (2) it is legally permissible for Qianhai Huanjing to hold equity interests directly or indirectly in Shenzhen 7Road.

### *Exclusive Option Agreement*

Qianhai Huanjing, Shenzhen 7Road and the Registered Shareholders entered into the Exclusive Option Agreement on April 13, 2018, pursuant to which the Registered Shareholders jointly and severally granted irrevocably to Qianhai Huanjing the rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in Shenzhen 7Road to Qianhai Huanjing and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Qianhai Huanjing any consideration in such way required by Qianhai Huanjing they receive in the event that Qianhai Huanjing exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in Shenzhen 7Road.

Pursuant to the Exclusive Option Agreement, the Registered Shareholders and Shenzhen 7Road have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior approval from Qianhai Huanjing, including but not limited to the following matters:

- (1) Shenzhen 7Road shall not alter its constitutional documents or its registered capital;
- (2) Shenzhen 7Road shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards;
- (3) Shenzhen 7Road shall not sell, transfer, create encumbrances or otherwise dispose of any assets with an amount of over RMB1 million, business, legal or beneficial interest of its income or allow any guarantee or security to be created on its assets;
- (4) Shenzhen 7Road shall not incur, take up, guarantee or allow any indebtedness other than those in the ordinary course of business and having been disclosed to and consented by Qianhai Huanjing in writing;

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## CONTRACTUAL ARRANGEMENTS

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- (5) Shenzhen 7Road shall not enter into any material contracts with an amount of over RMB1 million other than in the ordinary course of business or with our Company and/or our subsidiaries;
- (6) Shenzhen 7Road shall operate its business in order to maintain its asset value or not allow any acts or omission which adversely affects its business or assets value;
- (7) Shenzhen 7Road shall not engage in any mergers or acquisitions or make investment in any entities;
- (8) Shenzhen 7Road shall immediately inform Qianhai Huanjing if its assets or business involved in any disputes, litigations, arbitrations or administrative proceedings;
- (9) Shenzhen 7Road shall not distribute any dividend to its shareholders. Each Registered Shareholder shall transfer all distributable dividends, capital dividend and other asset receivable by him at nil consideration to Qianhai Huanjing as soon as practicable upon request;
- (10) the Registered Shareholders shall not sell, transfer, create encumbrances or otherwise dispose of their beneficial ownerships of Shenzhen 7Road except as pursuant to the Equity Pledge Agreement; and
- (11) the Registered Shareholders shall not engage in business that may compete with Shenzhen 7Road and/or its subsidiaries.

The Registered Shareholders and Shenzhen 7Road shall procure the subsidiaries of Shenzhen 7Road to comply with the above undertakings as if they were parties to the Exclusive Option Agreement. The Exclusive Option Agreement is for a term of 10 years commencing on April 13, 2018, being the date of the agreement, until it is terminated (1) by Qianhai Huanjing by giving Shenzhen 7Road and the Registered Shareholders a prior written notice of termination, or (2) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Shenzhen 7Road to Qianhai Huanjing or its designated person. Neither Shenzhen 7Road nor the Registered Shareholders is contractually entitled to terminate the Exclusive Option Agreement with Qianhai Huanjing.

### ***Equity Pledge Agreement***

Qianhai Huanjing, Shenzhen 7Road and the Registered Shareholders entered into the Equity Pledge Agreement on April 13, 2018, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Shenzhen 7Road to Qianhai Huanjing as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.



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Under the Equity Pledge Agreement, Shenzhen 7Road represents and warrants to Qianhai Huanjing that appropriate arrangements have been made to protect Qianhai Huanjing's interests in the event of death, bankruptcy or divorce of the Registered Shareholders to avoid any practical difficulties in enforcing the Equity Pledge Agreement and shall procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Shenzhen 7Road declares any dividend during the term of the pledge, Qianhai Huanjing is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or Shenzhen 7Road breaches or fails to fulfill the obligations under any of the aforementioned agreements, Qianhai Huanjing, as the pledgee, will be entitled to dispose of the pledged equity interests, entirely or partially. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken to Qianhai Huanjing, among other things, not to transfer the interest in his equity interests in Shenzhen 7Road and not to create or allow any pledge thereon that may affect the rights and interest of Qianhai Huanjing without its prior written consent;

The Equity Pledge Agreement takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until (1) all the obligations under the Contractual Arrangements (other than the Equity Pledge Agreement) have been fulfilled; (2) each of the Registered Shareholders has transferred his equity interests in Shenzhen 7Road in accordance with the Exclusive Option Agreement; (3) all the agreements underlying the Contractual Arrangements have been terminated; (4) Shenzhen 7Road has transferred all of its assets in accordance with the Exclusive Option Agreement; (5) the Equity Pledge Agreement has been unilaterally terminated by Qianhai Huanjing; and (6) the Equity Pledge Agreement has been terminated by applicable PRC laws and regulations.

The registration of the Equity Pledge Agreement as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and PRC laws and regulations prior to the Listing.

### ***Exclusive Business Cooperation Agreement***

Shenzhen 7Road and Qianhai Huanjing entered into the Exclusive Business Cooperation Agreement on April 13, 2018, pursuant to which Shenzhen 7Road agreed to engage Qianhai Huanjing as its exclusive provider of technical support, consultation and other services, including (1) technical assistance; (2) technical consultation; (3) network support; (4) business management consultation; (5) the grant of the use of intellectual properties; (6) rental of hardware and equipment; (7) market consultation; (8) system integration; research and development of online game software and maintenance of the system; and (9) other relevant services requested by Shenzhen 7Road from time to time to the extent permitted under PRC laws.

Pursuant to the Exclusive Business Cooperation Agreement, the service fee shall be equivalent to the total consolidated profit of Shenzhen 7Road, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Qianhai Huanjing shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating

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conditions and expansion needs of the Consolidated Affiliated Entities. Shenzhen 7Road has agreed to pay the service fee within 60 days after each fiscal year end for the services provided in the preceding fiscal year.

In addition, pursuant to the Exclusive Business Cooperation Agreement, without the prior written approval from Qianhai Huanjing, Shenzhen 7Road shall not, and shall procure the other Consolidated Affiliated Entities not to, enter into any transactions (save as those transactions entered into in the ordinary course of business) that may materially affect its assets, obligations, rights or operation, including but not limited to (1) the disposal, transfer or acquisition of any assets, (2) the provision of any guarantee or any financial assistance, (3) the entering into of any material contracts, (4) any merger, acquisition or restructuring, and (5) cause any conflict of interest between Shenzhen 7Road and Qianhai Huanjing as well as its shareholders.

The Exclusive Business Cooperation Agreement also provides that Qianhai Huanjing has the ownership of any and all intellectual property rights developed or created by the Consolidated Affiliated Entities during the performance of the Exclusive Business Cooperation Agreement.

Our Directors consider that the above arrangement will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to Qianhai Huanjing and hence, our Group as a whole. As at the Latest Practicable Date, Qianhai Huanjing has employed a total of 242 staff members to provide management, market promotion, technical support, research and development and other relevant services as required to be provided to the Consolidated Affiliated Entities pursuant to the Exclusive Business Cooperation Agreement, whilst our Consolidated Affiliated Entities have employed a total of 49 staff members, whom are mainly responsible for game publishing and operations. Our Company believes that such allocation of resources would allow a proper discharge of the respective responsibilities of Qianhai Huanjing to the Consolidated Affiliated Entities under the Contractual Arrangements and also ensure sound and effective operation of our Group in compliance with the Contractual Arrangements and applicable laws and regulations.

The Exclusive Business Cooperation Agreement is for a term of 10 years commencing from April 13, 2018, the date of the agreement, and will be automatically extended. The Exclusive Business Cooperation Agreement may be terminated by Qianhai Huanjing by giving Shenzhen 7Road a 30 days' prior written notice of termination and shall be terminated, among others, upon the transfer of the entire equity interests in and/or the transfer of all assets of Shenzhen 7Road to Qianhai Huanjing or its designated person pursuant to the Exclusive Option Agreement. Shenzhen 7Road is not contractually entitled to terminate the Exclusive Business Cooperation Agreement with Qianhai Huanjing.

### **Confirmations from Mr. Meng, Mr. Hu and Mr. Liu**

Each of Mr. Meng, Mr. Hu and Mr. Liu has confirmed to the effect that (1) his spouse does not have the right to claim any interests in the respective Registered Shareholder (together with any other interests therein) or exert influence on the day-to-day management

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of the respective Registered Shareholder; and (2) in the event of his death, incapacity, divorce or any other event which causes his inability to exercise his rights as a shareholder of the respective Registered Shareholder, he will take necessary actions to safeguard his interests in the respective Registered Shareholder (together with any other interests therein) and his successors (including his spouse) will not claim any interests in the respective Registered Shareholder (together with any other interests therein) to the effect that the Registered Shareholder's interests in Shenzhen 7Road shall not be affected.

### **Spousal undertakings**

The spouse of each of Mr. Meng, Mr. Hu and Mr. Liu, has executed a written consent to the effect that (1) she unconditionally and irrevocably consents that the respective Registered Shareholder's interests in Shenzhen 7Road (together with any other interests therein) will be disposed of pursuant to the agreements under the Contractual Arrangements; (2) she waives any rights or entitlements to such interests of the respective Registered Shareholder; and (3) undertakes to be bound by the agreements under the Contractual Arrangements (as amended, supplemented or restated from time to time) in the event that she for any reason obtains any equity interests of Shenzhen 7Road as the relevant Registered Shareholder's spouse.

Our PRC legal advisors are of the view that (1) the above arrangements provide protection to our Group even in the event of death or divorce of any of Mr. Meng, Mr. Hu and Mr. Liu and (2) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and Qianhai Huanjing or our Company can still enforce their right under the Contractual Arrangements against the Registered Shareholders.

### **Dispute Resolution**

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Shenzhen Court of International Arbitration for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our Shenzhen 7Road or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Shenzhen 7Road; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of Qianhai Huanjing or Shenzhen 7Road are located for interim remedies or injunctive relief.

However, our PRC legal advisors have advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands

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may not be recognizable or enforceable in the PRC. As a result of the above, in the event that Shenzhen 7Road or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors — Risks Relating to our Contractual Arrangements” for further details.

### **Conflict of Interest**

Each of the Registered Shareholders has given their irrevocable undertakings in the Voting Rights Proxy Agreement which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the paragraph headed “Voting Rights Proxy Agreement and Powers of Attorney” above.

### **Loss Sharing**

Under the relevant PRC laws and regulations, none of our Company and Qianhai Huanjing is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. Qianhai Huanjing intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreement, without the prior written consent of Qianhai Huanjing, Shenzhen 7Road shall not, among others, (1) sell, transfer, create encumbrances or otherwise dispose of any assets with an amount of over RMB1 million, business, legal or beneficial interest of its income or allow any guarantee or security to be created on its assets; (2) incur, take up, guarantee or allow any indebtedness other than those in the ordinary course of business and having been disclosed to and consented by Qianhai Huanjing in writing; (3) enter into any material contracts with an amount of over RMB1 million other than in the ordinary course of business; and (4) engage in any mergers or acquisitions or make investment in any entities. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Qianhai Huanjing and our Company in the event of any loss suffered from Shenzhen 7Road can be limited to a certain extent.

### **Liquidation**

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders shall give the proceeds they received from liquidation as a gift to Qianhai Huanjing or its designee(s) to the extent permitted by the PRC laws.

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### **Insurance**

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

### **Our Confirmation**

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its business through our Consolidated Affiliated Entities under the Contractual Arrangements.

### **LEGALITY OF THE CONTRACTUAL ARRANGEMENTS**

Based on the above, our PRC legal advisors are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- i. each of Qianhai Huanjing and Shenzhen 7Road is an independent legal entity which is duly incorporated in the PRC. Their respective establishment is valid, effective and complies with the relevant PRC laws;
- ii. each of Qianhai Huanjing and Shenzhen 7Road has obtained necessary approvals and completed registration procedures as required by the applicable PRC laws and regulations;
- iii. each of the agreements under the Contractual Arrangements is legal, valid and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidation committee:
  - (1) the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Shenzhen 7Road, injunctive relief and/or winding up of Shenzhen 7Road, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under the PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the Shenzhen 7Road in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and
  - (2) the Contractual Arrangements provide that the Registered Shareholders undertake to appoint a committee designated by Qianhai Huanjing as the liquidation committee upon the winding up of Shenzhen 7Road to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC laws.

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- iv. none of the agreements under the Contractual Arrangements violates any provisions of the articles of association of Qianhai Huanjing or Shenzhen 7Road;
- v. the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that the pledges under the Equity Pledge Agreement is required to be registered with the relevant Administration of Industry and Commerce, which has been duly completed on April 18, 2018;
- vi. the Contractual Arrangements are not in violation of applicable PRC laws and regulations; and
- vii. the consummation of the contemplated listing of our Company's shares on the Stock Exchange is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定), which was adopted by six PRC regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, and effective since September 2006 and amended on June 22, 2009.

The Administrative Provisions on Online Publication Service (《網絡出版服務管理規定》) (the "Internet Publication Measures"), were jointly promulgated by the GAPP and the MIIT on February 4, 2016 and became effective on March 10, 2016. Pursuant to the Internet Publication Measures, the GAPP, as the competent department of the Internet publication services industry, is responsible for the prior approval, supervision and administration of the online publishing services nationwide.

The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the "Internet Culture Provisions"), which was promulgated by the MOC on May 10, 2003, provide that Internet cultural entities are classified into operational Internet cultural entities and non-operational Internet cultural entities. Operational Internet cultural entities shall file application for establishment to the competent culture administration authorities for approval and must obtain the online culture operating permit.

In accordance with Article 3 of Online Game Measures and Article 2 of Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the MOC, the State Administration of Radio Film and Television (the "SARFT") and the GAPP (關於中央編辦對文化部、廣電總局、新聞出版總<“三定”規定>中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋) (the "Interpretation") issued by the State Commission Office for Public Sector Reform (a division of the State Council) effective from September 7, 2009, the MOC is the competent government authority for the administration of online games in the PRC and the GAPP will have responsibility for the examination and approval of online games to be uploaded on the Internet and that, after such upload, online games will be administered by the MOC.

On September 28, 2009, the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on

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Pornographic and Illegal Publications, jointly issued the Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹和落實國務院<“三定”規定>和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) (the “GAPP Notice”). Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support.

Notwithstanding the foregoing, our representatives and representatives of the Joint Sponsors conducted an interview with the Guangdong Communications Administration (廣東省通信管理局) on March 2, 2018, an interview with the Guangdong Provincial Department of Culture (廣東省文化廳) on March 12, 2018, and an interview with the SAPPRFT on March 13, 2018, all of them being competent government authorities and the primary regulatory authorities for value-added telecommunications services, online game operation and Internet publication services in the PRC, respectively, provided oral confirmation that our Contractual Arrangements would not be challenged or subject to penalty due to violation of any PRC laws or regulations, and they had never imposed any administrative proceedings, or penalties on any online game company which have adopted contractual arrangements similar to our Contractual Arrangements.

Our representatives and representative of the Joint Sponsors also conducted an interview with the SAPPRFT (國家新聞出版廣電總局) on April 16, 2018 with respect to the GAPP Notice and its implementation status. According to the interview, (1) the SAPPRFT is authorized to review and approve publication of online games before launch on the Internet, while the MOC is authorized to administer and regulate the overall online gaming industry; (2) no implementation rule or interpretation of the GAPP Notice has been issued by the GAPP; (3) SAPPRFT has not, to the date of the interview, individually or collectively with other PRC regulatory authorities, imposed any administrative proceedings or penalties on any online game company which adopt contractual arrangements similar to the Contractual Arrangements. Based on the interview above, our PRC legal advisor is of the opinion that (1) our ownership structure does not violate existing PRC laws and regulations; (2) the Contractual Arrangements will not be deemed ineffective or invalid under the GAPP Notice; and (3) the Contractual Arrangements will not result in any administrative proceedings or penalties on us.

Based on the above analysis and advice from our PRC legal advisors, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. Our PRC legal advisors are of the view that the Guangdong Communications Administration (廣東省通信管理局), the Guangdong Provincial Department of Culture (廣東省文化廳), the SAPPRFT and the personnel consulted in the interview are competent and authorized to interpret the relevant laws, regulations and rules of the PRC for the industry in which our Company operates its business and make the abovementioned oral confirmations.

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We are aware of a Supreme People's Court ruling made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (1) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (2) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (1) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (2) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (3) the contract damages the public interest; (4) an illegitimate purpose is concealed under the guise of legitimate acts; or (5) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC legal advisors are of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC legal advisors are of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (4) above under Article 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (1) to enable Shenzhen 7Road to transfer its economic benefits to Qianhai Huanjing as service fees for engaging Qianhai Huanjing as their exclusive service provider and (2) to ensure that the Registered Shareholders do not take any actions that are contrary to the interests of Qianhai Huanjing. In accordance with Article 4 of the PRC Contract Law, which is a section of Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of our Consolidated Affiliated Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, our PRC legal advisors are of the view that the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

Based on the foregoing, our PRC legal advisors are of the opinion that (1) our ownership structure does not violate existing PRC laws and regulations, (2) except for certain terms of the Contractual Agreements regarding the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, the Contractual Arrangements are valid and legally binding and do not result in any violation of existing PRC laws and regulations, and (3) the Contractual Arrangements entered into by our Group do not fall within any of the circumstances (including, without limitation, "concealing illegal intentions with a lawful form", "violating public interest and/or public policy") under Section 52 of the PRC Contract Law pursuant to which the contracts would be determined to be invalid.



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### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

#### Consolidation of Financial Results of our Consolidated Affiliated Entities

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by Qianhai Huanjing, Shenzhen 7Road will pay services fees to Qianhai Huanjing. The services fees, subject to the Qianhai Huanjing's adjustment, are equal to the entirety of the total consolidated profit of Shenzhen 7Road (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). Qianhai Huanjing may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. Qianhai Huanjing also has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, the Qianhai Huanjing has the ability, at its sole discretion, to extract all of the economic benefit of Shenzhen 7Road through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Business Cooperation Agreement and the Exclusive Option Agreement, Qianhai Huanjing has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as Qianhai Huanjing's prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through Qianhai Huanjing and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountant's Report in Appendix I to this prospectus.

### DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

#### Background

MOFCOM published a discussion draft of a proposed Foreign Investment Law (中國人民共和國外國投資法) (the "Draft FIL") in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China.

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MOFCOM has solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft FIL, if enacted as proposed, may materially impact the entire legal framework regulating foreign investment in China.

Among other things, the Draft FIL purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or foreign invested entity (“FIE”).

The Draft FIL stipulates restrictions of foreign investment in certain industry sectors. The “negative list” set out in the Draft FIL classifies the relevant prohibited and restricted industries into the Catalog of Prohibitions and the Catalog of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfill certain conditions and apply for permission before making such investment.

However, the Draft FIL does not specify the businesses to be included in the Catalog of Restrictions and the Catalog of Prohibitions.

The Draft FIL specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the Draft FIL to cover any of the following categories:

- directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:
  - (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision-making bodies,
  - (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision-making bodies, or

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- (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or
- having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control", the Draft FIL looks at the identity of the ultimate natural person or enterprise that controls the FIE. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft FIL defines "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a "negative list" to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

### **Impact of the Draft Foreign Investment Law on VIE**

The "variable interest entity" structure (the "VIE structure"), has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control over our Consolidated Affiliated Entities, through which we operate the business in the PRC. According to the Draft FIL, where the FIE under the actual control of PRC investors (either by way of PRC state-owned enterprises or agencies or PRC citizens) invests in a sector set out in the Catalog of Restriction, when applying for access permission (准入許可) they may submit documentary evidence to apply for identification as an investment by PRC entities and/or citizens. However, our PRC legal advisors is of the view that the Contractual Arrangements will be deemed legitimate and effective if the ultimate controlling person(s) is/are of PRC nationality or they take other measures as required by the foreign investment law then in force. Despite the content and the classification of the categories in the "negative list" being unclear and unpredictable at this stage, we will take any reasonable measures and actions under the foreign investment law then in force to minimize the adverse effect of such laws on the Contractual Arrangements.

The Draft FIL has not been enacted and our Contractual Arrangements were established before the enactment of the Draft FIL. Notwithstanding that the accompanying explanatory notes to the Draft FIL (the "Explanatory Notes") do not provide a clear direction in dealing with VIE structures existing before the Draft FIL becomes effective, which (together with the Draft FIL) were still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling in the "negative list":

- (1) requiring them to make a filing (申報) to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;

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## CONTRACTUAL ARRANGEMENTS

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- (2) requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification (認定) by the competent authority, the VIE structures may be retained; and
- (3) requiring them to apply to the competent authority for access permission (准入許可) to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, “making a filing” is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, while for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the Draft FIL and the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation. The Draft FIL also stipulates that investors from Hong Kong, Macau and Taiwan who control a domestic enterprise may attract special treatment and recommends the State Council to separately issue regulations to this effect.

Where foreign investors and FIEs circumvent the provisions of the Draft FIL by entrusted holdings, trusts, multi-level re-investments, leasing, contracting, financing arrangements, protocol control, overseas transactions or otherwise, make investments in sectors specified in the Catalog of Prohibitions, make investments in sectors specified in the Catalog of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft FIL, as the case may be.

If foreign investors make investments in the sectors specified in the Catalog of Prohibitions, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft FIL, including by way of failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading

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## CONTRACTUAL ARRANGEMENTS

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information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

As at the Latest Practicable Date, there is no definite timeline when the new Foreign Investment Law will come into effect, and more importantly, whether it is to be promulgated in the current draft form, and MOFCOM has neither issued any definite rules or regulations to govern existing contractual arrangements, nor any regulations concerning the treatment of investors from Hong Kong, Macau and Taiwan who control a domestic enterprise.

### **Potential impact of the Draft Foreign Investment Law on our Company**

#### ***Potential impact to our Company if the Contractual Arrangements are not treated as domestic investment***

According to the Draft FIL, “actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Under the Draft FIL if an entity is organized in a foreign jurisdiction but cleared by the relevant PRC government authority in charge of foreign investment in the PRC as “controlled” by PRC citizens, it would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. If the Draft FIL is promulgated in the current draft form, our PRC legal advisors is of the view that we can apply for the recognition of the Contractual Arrangements as a domestic investment and it is likely that the Contractual Arrangements will be considered as legal on the following basis:

- i. Shanghai Bao Pu, Shanghai Bao Hu and Shaoxing Shang Yu will hold approximately 23.07% of the issued share capital of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). Each of them is a PRC entity controlled by PRC citizens;
- ii. Mr. Meng, our executive Director and one of our substantial shareholders, will hold approximately 16.12% of the issued share capital of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). Mr. Meng is a PRC citizen;
- iii. Mr. Hu, our other executive Director and one of our substantial shareholders, is expected to own 12.42% of the issued share capital of our Company immediately upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Mr. Hu is a PRC citizen;

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## CONTRACTUAL ARRANGEMENTS

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- iv. ESOP 1 Holdings and ESOP 2 Holdings, which are indirectly owned by Mr. Meng and Mr. Hu respectively, will hold 6.71% of the issued share capital of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). Each of them is an entity controlled by Mr. Meng or Mr. Hu as the trustee of the RSU Scheme;
- v. the Shareholders mentioned above will hold collectively 58.32% of the issued share capital of our Company immediately upon completion of the Global Offering assuming the Over-allotment Option is not exercised and 56.21% of the issued share capital of our Company upon completion of the Global Offering assuming the Over-allotment Option is exercised. Accordingly, upon completion of the Global Offering, no foreign investors will hold 50% or more of the issued share capital of our Company.
- vi. our Company, through Qianhai Huanjing, exercises effective control over Shenzhen 7Road pursuant to the Contractual Arrangements.

If the operation of the Relevant Business is no longer on the “negative list” and we can legally operate the Relevant Business under PRC Laws, Qianhai Huanjing will exercise the call option under the Exclusive Option Agreement to acquire the equity interest and/or assets of Shenzhen 7Road and unwind the Contractual Arrangements subject to any then applicable approvals from relevant authorities.

If the operation of the Relevant Business is on the “negative list” and the Draft FIL as finally enacted is refined or deviates from the current draft, depending on the treatment of existing VIE structures, the Contractual Arrangements may be regarded as invalid and illegal. As a result, we would not be able to operate the Relevant Business through the Contractual Arrangements and would lose our rights to receive the economic benefits of Shenzhen 7Road and its subsidiaries. As a result, the financial results of Shenzhen 7Road and its subsidiaries would no longer be consolidated into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. If the Group does not receive any compensation, an investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing entities engaged in the apps and game industries, some of which have obtained listing status abroad, are operating under contractual arrangements, our Directors are of the view that it is unlikely, if the Draft FIL is promulgated, that the relevant authorities will apply it retrospectively to require relevant enterprises to remove or otherwise unwind their contractual arrangements.

However, there are uncertainties as to the definition of control that may be adopted in the Draft FIL as finally enacted, and the relevant government authorities will have a broad discretion in interpreting the law. See “Risk Factors — Risks relating to our Contractual Arrangements” for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the Foreign Investment Law, if and when it comes into force.

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## CONTRACTUAL ARRANGEMENTS

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### *Potential measures to maintain control over and receive economic benefits from our Consolidated Affiliated Entities*

As mentioned above, our PRC legal advisors are of the view that the Contractual Arrangements are to be deemed as a domestic investment if the Draft FIL were to become effective in its current form and content.

To ensure the Contractual Arrangements are likely to continue to be in compliance with applicable PRC laws and Stock Exchange requirements so that our Group can maintain control over Shenzhen 7Road and its subsidiaries and receive all economic benefits derived from them, each of Shanghai Bao Pu, Shanghai Bao Hu, Shaoxing Shang Yu, Mr. Meng, Mr. Hu, ESOP 1 and ESOP 2 (the “Covenantor”) has executed an undertaking (the “Undertaking”) to our Company, and our Company has agreed with the Stock Exchange to enforce such Undertaking, that during the subsistence of the Contractual Arrangements, they will use their best efforts to do and procure our Company and the Covenantors to do all such possible acts that are necessary to give effect to the Contractual Arrangements and/or to enable the continuation of business operations of our PRC operating entity as a result of any impact due to the promulgation and implementation of the new Foreign Investment Law and other future laws and regulations relating to foreign investment, and in particular the following:

- (1) in the case of ESOP 1 Holdings and ESOP 2 Holdings, maintaining its “actual controller” as natural persons of Chinese nationality or Chinese entities;
- (2) in the case of Mr. Meng and Mr. Hu, maintaining his Chinese nationality;
- (3) in the event that the “actual controller” of our Company may not be a domestic investor, cooperating with our Company and our other Shareholders to take all necessary actions to ensure that the Contractual Arrangements will continue to be regarded as a domestic investment under the Draft FIL or the new Foreign Investment Law (as enacted), as the case may be;
- (4) in the event of any transfer or disposal by any of Mr. Meng, Mr. Hu, ESOP 1 Holdings and ESOP 2 Holdings of a shareholding that may result in the transferee(s) acquiring “control” over our Company (as defined in the Draft FIL or the new Foreign Investment Law (as enacted), as the case may be), they will (as may be relevant) (a) procure that the transferee(s) provide an undertaking on substantially the same terms and conditions as the one provided by them to our Company and (b) demonstrate to the reasonable satisfaction of our Company and the Stock Exchange that the Contractual Arrangements will continue to be viewed as a domestic investment under the Draft FIL or the new Foreign Investment Law (as enacted), as the case may be; and
- (5) in the event of any transfer or disposal by Shanghai Bao Pu, Shanghai Bao Hu and Shaoxing Shang Yu of a shareholding that may result in the transferee(s) acquiring “control” over our Company (as defined in the Draft FIL or the new Foreign Investment Law (as enacted), as the case may be) they will (as long as the transferee(s) is/are identified) (a) procure that the transferee(s) provide an undertaking on substantially the same terms and conditions as the one provided

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## CONTRACTUAL ARRANGEMENTS

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by them to our Company and (b) demonstrate to the reasonable satisfaction of our Company and the Stock Exchange that the Contractual Arrangements will continue to be viewed as a domestic investment under the Draft FIL or the new Foreign Investment Law (as enacted), as the case may be.

The Undertaking will become effective from the date of the listing of our Shares on the Stock Exchange and will remain effective until the earlier of the occurrence of the following events: (1) such Covenantor ceasing to be a Shareholder of our Company; (2) compliance with the relevant requirements under the new Foreign Investment Law or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required and the Stock Exchange has consented to this; (3) compliance with the Undertaking is no longer required, as advised by the Stock Exchange, or (4) the Stock Exchange and any applicable Chinese regulatory departments have consented to such termination. To the extent that only part of the Undertaking above is no longer required as a result of any of the events in (2), (3) or (4) of the preceding sentence occurring, only such part of the Undertaking that is no longer required shall cease to be effective. To the extent that the Undertaking (or any part thereof) is no longer effective, our Company will issue an announcement as soon as practicable.

Taking into account that the Covenantors can only transfer their interests in our Company in circumstances where the transfer is in compliance with the new Foreign Investment Law as finally enacted, such arrangement will ensure that control of our Company will at all times be in accordance with the requirements of the Foreign Investment Law as finally enacted. For the avoidance of doubt, as advised by our PRC legal advisors, there are no restrictions under the current PRC laws and regulations for the Covenantors to transfer their interests in our Company.

As advised by our PRC legal advisors and based on the aforesaid undertakings given by the Covenantors, our Directors are of the view that (1) the Contractual Arrangements are likely to continue to be in compliance with applicable PRC laws; and (2) our Group can maintain control over Shenzhen 7Road and its subsidiaries and receive all economic benefits derived from them.

Notwithstanding the above, there may be uncertainties that the above measures to maintain control over and receive the economic benefits from Shenzhen 7Road and its subsidiaries alone may not be effective in ensuring compliance with the Foreign Investment Law together with, if any, all its subsequent amendments or updates, as promulgated (if and when it becomes effective).

### **Sustainability of our business**

If the new foreign investment law as finally promulgated and the “catalog of special administrative measures” as finally issued mandate further actions for us to retain the Contractual Arrangements, we will take all reasonable measures and actions to comply with the foreign investment law then in force and to minimize the adverse effect of such laws on our Company. However, there is no assurance that we can fully comply with such law. In the worst case scenario, we will not be able to conduct our online game publishing and operating business through the Contractual Arrangements and will lose our rights to receive the economic benefits from our Consolidated Affiliated Entities. In such case, the Stock



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## **CONTRACTUAL ARRANGEMENTS**

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Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. See “Risk Factors — Risks Relating to Our Contractual Arrangements” for details.

Nevertheless, considering that a number of existing entities are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements. Our PRC legal advisors believes that the PRC government is likely to take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them, and make decisions according to different situations in practice.

Our Directors undertake that our Company will, to the extent that our Company would be required to announce such information pursuant to Part XIVA of the SFO after the Listing, timely announce (1) any updates or material changes to the Draft Foreign Investment Law and (2) in the event that the new foreign investment law has been promulgated, a clear description and analysis of the law, specific measures adopted by our Company to comply with the law (supported by advice from our PRC legal advisors), as well as its impact on our business operation and financial position.

### **DECISION ON AMENDING FOUR INBOUND INVESTMENT LAWS**

On September 3, 2016, the Standing Committee of the National People’s Congress of the PRC (全國人大常務委員會) published the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws Including the “Law of the People’s Republic of China on Wholly Foreign-Owned Enterprises” (全國人大常務委員會關於修改中華人民共和國外資企業法等四部法律的決定) which came into effect on October 1, 2016 and seeks to revise the current foreign investment legal regime.

### **COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS**

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

- (1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (2) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (3) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (4) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Qianhai Huanjing and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Upon completion of the Reorganization and prior to the Global Offering, the sole general partner of Ningbo Bao Pu namely Shanghai Bao Pu (the “GP”), and three limited partners of Ningbo Bao Pu namely Shaoxing Shang Yu, Shanghai Bao Hu and Ms. Wei Hong (the “LPs”), through their respective wholly-owned offshore holding companies, indirectly held approximately 0.04%, 8.72%, 17.64% and 4.36% of the total issued share capital of our Company, respectively.

As part of the Reorganization and to reflect the contractual relationship and decision-making mechanism between the GP and LPs as stipulated in the partnership agreement of Ningbo Bao Pu (i.e. Shanghai Bao Pu, being the sole general partner of Ningbo Bao Pu, controls and manages Ningbo Bao Pu’s operation and investments), on April 13, 2018, the GP and LPs and their respective offshore holding companies entered into a voting agreement, pursuant to which, among others, for the first year after the date of the Listing, the LPs would unconditionally and irrevocably entrust and authorize the GP to be their proxy in exercising their shareholders’ voting rights in the Company. Accordingly, the proxy, pursuant to the shareholder voting agreement, would act on behalf of the LPs in relation to a total of 30.76% of shares collectively and indirectly held by them. Since this group of the GP and LPs, through their respective wholly-owned offshore holding companies, are the ultimate beneficial owners of the 30.76% shares of the Company, which are more than 30% of the total issued shares of the Company, this group of the GP and LPs shall therefore be regarded as a group of Controlling Shareholders of our Company as at the date of this prospectus.

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the GP and LPs will hold approximately 23.07% of the total issued share capital of our Company. Since each of our Controlling Shareholders namely the GP and LPs and their respective offshore holding companies will hold less than 30% of our outstanding Shares following the completion of the Global Offering, none of them will be our controlling shareholder as defined under the Listing Rules upon the Listing despite the fact that each of them is referred to a “Controlling Shareholder” in the prospectus. The GP and LPs, together with their respective offshore holding companies, will be our single largest group of Shareholders upon the Listing.

### DELINEATION OF BUSINESS

Our Group is principally engaged in online game development, publishing, promotion and management.

Our Controlling Shareholders are principally engaged in private equity investment and investment management.

As at the Latest Practicable Date, Mr. Meng, one of our executive Directors, held 18.11% and Shenzhen Qianqi, one of our PRC Operating Entities, held 4.22% of the total issued shares of Chengdu Peng Wan, respectively.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Chengdu Peng Wan is principally engaged in online game development and operation. Similar to the online games developed by our Group such as *Wartune* and *Demi-Gods and Semi-Devils*, Chengdu Peng Wan develops RPG games as well. Additionally, Chengdu Peng Wan mainly distributes its games in the PRC, which is also the main distribution area of our Group. Based on the foregoing, our Directors are therefore of the view that the business of Chengdu Peng Wan competes with our business.

According to Chengdu Peng Wan's audited accounts prepared in accordance with the China Accounting Standards for Business Enterprises as included in its 2017 annual report, the company recorded a revenue of RMB28.7 million for the year ended December 31, 2017, with net assets of RMB60.9 million as of December 31, 2017. Except for Mr. Meng and our minority shareholding in Chengdu Peng Wan, our Company does not have any other relationship with Chengdu Peng Wan. In addition, Mr. Meng had been a passive shareholder of Chengdu Peng Wan since he had not been appointed as a director, or a management member of Chengdu Peng Wan, and had not participated in the day-to-day management and operation of Chengdu Peng Wan. Thus, our Directors are of the view that we are capable to carrying our business independently from Chengdu Peng Wan. In addition, our Company will adopt certain corporate governance measures to manage the conflict of interest arising from the competing interest of Mr. Meng. See "Corporate Governance Measures" below for details.

Save as disclosed above, neither of our Controlling Shareholders, our Directors nor their respective close associates have any interest in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### **Corporate Governance Measures**

Our Directors believe that there are adequate corporate governance measures in place to manage conflicts of interest after the Listing. In particular, we will implement the following measures:

- as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;
- a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the board meetings on matters in which such Director or any of his close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with a physical Board meeting rather than a written resolution. Independent non-executive Directors who have no material interest in the transaction should be present at that Board of meeting;
- we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors, see “Directors and Senior Management — Board of Directors — Independent Non-executive Directors”;
- in the event that our independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Company shall disclose the decisions of our independent non-executive Directors (including why business opportunities referred to it by our Controlling Shareholders were not taken up) either through its annual report or by way of announcements; and
- we have appointed Red Solar Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors’ duties and corporate governance.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after the Listing.

#### Management Independence

Our Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. For more details, see “Directors and Senior Management”.

Each of our Directors is aware of his fiduciary duties as a Director which require, among others, that he must act for the benefit and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interests arising out of any transaction to be

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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entered into between our Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates has a material interest and shall not be counted in the quorum present at the relevant Board meeting. In addition, we believe that our independent non-executive Directors can bring independent judgment to the decision-making process of our Board.

The daily operation of our Group is carried out by an independent and experienced management team. We have the capabilities and personnel to perform all essential administrative functions, including financial and accounting, human resources, business management and research and development on a standalone basis.

Based on the above, our Directors are satisfied that the Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently.

### **Operational Independence**

Although our Controlling Shareholders will become our single largest group of Shareholders after the Listing, we have full rights to make all decisions regarding, and carry out, our business operations independently. We have established our own organizational structure and each department is assigned to specific areas of responsibilities. We are also in possession of all necessary relevant licenses, approvals and certificates to carry on our business and we have sufficient operational capacity in term of capital and employees to operate and manage our business independently. We do not rely on our Controlling Shareholders or their respective close associates for our operations. We have independent access to suppliers and an independent management team (including our Directors and senior managements) to handle our daily operational work. We have dedicated employees for our operations and management for human resources.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after the Listing.

### **Financial Independence**

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control function of our Company. The finance department is independent from our Controlling Shareholders. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. In addition, we have been and are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Controlling Shareholders or their respective close associates.

As of the Latest Practicable Date, there were no loans, advances or balances due to and from our Controlling Shareholders and their respective close associates which have not

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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been fully settled, nor were there any pledges and guarantees provided by any of our Controlling Shareholders and their respective close associates on our Group's borrowing which have not been fully released or discharged.

Based on the above, our Directors are satisfied that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

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## CONNECTED TRANSACTIONS

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We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below details of the non-exempted continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### Contractual Arrangements

##### *Background*

As disclosed in "Contractual Arrangements", due to regulatory restrictions on foreign ownership in the PRC, we cannot directly or indirectly, hold any equity interest in the Consolidated Affiliated Entities, which hold certain licenses and permits required for the operation of our businesses. As a result, our Group has entered into the Contractual Arrangements with Shenzhen 7Road and its shareholders to enable us to, among others, (1) receive substantially all of the economic benefits from the Consolidated Affiliated Entities in consideration for the services provided by Qianhai Huanjing to Shenzhen 7Road; (2) exercise effective control over the Consolidated Affiliated Entities; and (3) hold an exclusive option to purchase all or part of the equity interests in Shenzhen 7Road when and to the extent permitted by PRC laws.

The Contractual Arrangements consist of various types of documents. For detailed terms of these documents, see "Contractual Arrangements".

##### *Listing Rules implications*

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their relationship with our Group.

| <u>Connected persons</u> | <u>Connected relationship</u>  |
|--------------------------|--|
| Mr. Meng                 | an executive Director and a substantial shareholder of our Company                                 |
| Mr. Hu                   | an executive Director and a substantial shareholder of our Company                                 |
| Mr. Liu                  | a substantial shareholder of Shenzhen 7Road and a director of Shenzhen 7Road in the last 12 months |
| Ningbo Bao Pu            | an associate of our Controlling Shareholders   |
| Shanghai Ting Can        | a substantial shareholder of Shenzhen 7Road  |
| Shenzhen 7Road           | an associate of our Controlling Shareholders   |

Our Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Contractual Arrangements are fundamental to our Group's legal structure and business operations and the nature of transactions contemplated under the Contractual Arrangements require a duration longer than three years. The

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## CONNECTED TRANSACTIONS

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Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of our Group and are in line with normal business practice, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by Shenzhen 7Road and any member of our Group (“New Intergroup Agreements” and each of them, a “New Intergroup Agreement”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent shareholders’ approval requirements.

### APPLICATION FOR WAIVER

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (1) the announcement, circular and independent shareholders’ approval in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, and (2) setting annual caps for the transactions contemplated under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, subject to the following conditions:

- (1) *No changes without independent non-executive Directors’ approval.* No changes to the Contractual Arrangements (including with respect to any fees payable to Qianhai Huanjing thereunder) will be made without the approval of our independent non-executive Directors.
- (2) *No changes without independent Shareholders’ approval.* Save as described in paragraph (4) below, no changes to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once the independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (5) below) will however continue to be applicable.
- (3) *Economic benefits flexibility.* The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through: (1) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in



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## CONNECTED TRANSACTIONS

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Shenzhen 7Road for nominal consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations; (2) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Qianhai Huanjing under the Exclusive Business Operation Agreement; and (3) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of Shenzhen 7Road.

- (4) *Renewal and adoption.* The Contractual Arrangements framework may be renewed and/or adopted upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company engaging in the same business which our Group might wish to establish, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of these entities will, upon renewal and/or adoption of the Contractual Arrangements, be treated as the connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.
- (5) *Ongoing reporting and approvals.* We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- The Contractual Arrangements in place during each financial period will be disclosed in the annual reports and accounts of our Company in accordance with the relevant provisions of the Listing Rules.
  - Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in the annual reports and accounts of our Company for the relevant year that: (1) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (2) no dividends or other distributions have been made by Shenzhen 7Road to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (3) any new contracts entered into, renewed or reproduced between our Group and Shenzhen 7Road during the relevant financial period under paragraph (4) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and its Shareholders as a whole.
  - Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to the Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of the Directors and have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Shenzhen 7Road to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

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## CONNECTED TRANSACTIONS

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- For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- The Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor with full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.

In addition, we have applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with the requirements of (1) the announcement, circular and independent shareholders’ approval in respect of the transactions contemplated under any New Intergroup Agreements (as defined above) pursuant to Rule 14A.105 of the Listing Rules, and (2) setting an annual cap for the transactions contemplated under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

### JOINT SPONSORS’ VIEW

The Joint Sponsors have (1) considered our Group’s business model and reviewed the relevant documents and information pertaining to the Contractual Arrangements; (2) discussed with the Company and the relevant professional parties and obtained written confirmations from the Company and the executive directors; (3) considered that the Contractual Arrangements will be subject to independent shareholders’ approval upon the end of 2020; and (4) considered that the long duration of the Contractual Arrangements will ensure that (1) the financial and operational policies of the Consolidated Affiliated Entities can be effectively controlled by Qianhai Huanjing; (2) Qianhai Huanjing can obtain the economic benefits derived from the Consolidated Affiliated Entities, and (3) any possible leakages of assets and values of the Consolidated Affiliated Entities can be avoided.

Based on the above, the Joint Sponsors are of the view that the transactions contemplated under the Contractual Arrangements are fundamental to the Group’s corporate structure and business operations and the nature of transactions contemplated under the Contractual Arrangements require a duration longer than three years. The Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of the Group and are in line with normal business practice, are on normal commercial terms or better and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Upon the Listing, our Board will consist of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. The following table provides certain information about our Directors:

| Name                       | Age | Position  | Key Roles  | Date of Joining our Group | Date of Appointment as Director |
|----------------------------|-----|---|--|---------------------------|---------------------------------|
| Mr. Meng Shuqi<br>(孟書奇)    | 40  | Chairman of the Board, executive Director and Chief Executive Officer | Overall management, strategic planning and decision-making                     | June 2009 <sup>(1)</sup>  | September 6, 2017               |
| Mr. Hu Min (胡敏)            | 36  | Executive Director and Chief Production Officer                       | Strategic planning and overseeing the product development                      | July 2009 <sup>(2)</sup>  | March 6, 2018                   |
| Mr. Wang Chendong<br>(王臣棟) | 37  | Executive Director and Chief Human Resource Officer                   | Overseeing and managing human resource and administrative matters of our Group | September 2016            | March 6, 2018                   |
| Mr. Li Shimeng<br>(李詩夢)    | 31  | Non-executive Director  | Supervising the management of our Group  | March 6, 2018             | March 6, 2018                   |
| Mr. Yan Kaidan<br>(嚴凱聃)    | 28  | Non-executive Director  | Supervising the management of our Group  | March 6, 2018             | March 6, 2018                   |
| Mr. Ho Chit (何捷)           | 43  | Independent non-executive Director                                    | Supervising and providing independent judgement to our Board                   | June 23, 2018             | June 23, 2018                   |
| Mr. Liu Yunli<br>(劉運利)     | 38  | Independent non-executive Director                                    | Supervising and providing independent judgement to our Board                   | June 23, 2018             | June 23, 2018                   |
| Mr. Wu Xiaoguang<br>(吳宵光)  | 43  | Independent non-executive Director                                    | Supervising and providing independent judgement to our Board                   | June 23, 2018             | June 23, 2018                   |

(1) Mr. Meng joined our Group in June 2009. He temporarily left our Group in February 2014 and returned in April 2015.

(2) Mr. Hu joined our Group in July 2009. He temporarily left our Group in February 2014 and returned in August 2015.

### Executive Directors

**Mr. Meng Shuqi (孟書奇)**, aged 40, is an executive Director, the chairman of the Board, and the chief executive officer of our Group. He is responsible for the overall management, strategic planning and decision-making of our Group.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Meng has more than 13 years of experience in the internet and game industry. Prior to joining our Group, from May 2004 to October 2006, Mr. Meng had served as a business manager in A8 Music Group (A8音樂集團), a company primarily engaged in value-added telecommunication service, where Mr. Meng was in charge of its business operation and commercial decision-making.

Mr. Meng joined Shenzhen 7Road in June 2009. He had served as the chief operation officer and a director of Shenzhen 7Road since May 2011. He ceased to be the director of Shenzhen 7Road in May 2013 and subsequently retired from his role as the chief operation officer in February 2014. In April 2015, Mr. Meng returned to Shenzhen 7Road and has been acting as the chief executive officer of Shenzhen 7Road since then. He has also been acting as the director and chairman of the board of Shenzhen 7Road since August 2015. Despite his temporary absence in the management of Shenzhen 7Road from March 2014 to March 2015, Mr. Meng has been in charge of the overall management, strategic planning and decision-making of Shenzhen 7Road most of the time since 2011.

Mr. Meng has been the non-executive director of Digital Hollywood (HK: 2022) since November 2, 2015.

**Mr. Hu Min (胡敏)**, aged 36, is an executive Director and the chief production officer of our Group. He is responsible for strategic planning and overseeing the product development of our Group.

Mr. Hu has more than eight years of experiences in the internet and game industry. He joined Shenzhen 7Road in July 2009 and had served as the chief production officer of Shenzhen 7Road from July 2013 until he temporarily retired from the position in February 2014. He returned to Shenzhen 7Road in August 2015 and has been acting as the director of Shenzhen 7Road since then. Mr. Hu's primary responsibilities, from the date he joined Shenzhen 7Road in July 2009 to his temporary departure in February 2014 and since his return to Shenzhen 7Road in January 2015, had and have been to oversee the product development of Shenzhen 7Road. Mr. Hu has also been acting as the director and manager of Qianhai Huanjing since July 2015 and the chief production officer of Shenzhen Qianqi since February 2014.

Mr. Hu received his bachelor's degree in light chemical engineering from Donghua University (東華大學) in July 2004.

**Mr. Wang Chendong (王臣棟)**, aged 37, is an executive Director and the chief human resource officer of our Group. He is responsible for overseeing human resource and administrative matters of our Group.

Mr. Wang has more than 13 years of experiences in human resource management. Prior to joining our Group, Mr. Wang had served as the human resource officer and vice president in three other technology companies and had been in charge of their human resource and administrative matters for more than 10 years. Mr. Wang joined Shenzhen 7Road in September 2016 and has been serving as the chief human resource officer since then. His primary responsibilities include overseeing human resource matters and managing the human resource department of Shenzhen 7Road as well as our Group.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Wang received his bachelor's degree in business administration from Xidian University (西安電子科技大學) in July 2004.

### Non-executive Directors

**Mr. Li Shimeng (李詩夢)**, aged 31, is a non-executive Director of our Group. Mr. Li is designated by the Pre-IPO Investors and he is responsible for supervising the management of our Group. Mr. Li has been acting an executive director of Shenzhen Ta Shan Corporate Management Consultancy Co., Ltd (深圳市他山企業管理諮詢有限公司) since September 2016. Mr. Li received his master's degree in law from Wuhan University (武漢大學) in July 2009.

**Mr. Yan Kaidan (嚴凱聃)**, aged 28, is a non-executive Director of our Group. Mr. Yan is designated by the Pre-IPO Investors and he is responsible for supervising the management of our Group. Mr. Yan has been acting as an executive director of Shanghai Lu Xin Investment Management Co., Ltd (上海璐鑫投資管理有限公司) since July 2017. Mr. Yan received his bachelor's degree in information management and information system from Zhejiang Gong Shang University (浙江工商大學) in June 2013.

### Independent non-executive Directors

**Mr. Ho Chit (何捷)**, aged 43, is an independent non-executive Director of our Group. He is responsible for supervising and providing independent judgment to our Board.

Mr. Ho has over 20 years of experience in accounting profession and the internet industry. From 2005 to 2008, he had served as the senior financial supervisor in Sohu.com Inc., a leading Chinese online media, Internet search engine and online game provider, whose shares were listed on the NASDAQ (NASDAQ: SOHU) in 2000. From 2009 to March 2014, Mr. Ho had served as the chief financial officer in Chang You. Mr. Ho has been acting as the chief executive officer and the chairman of the board of directors of Fox Fintech Group (狐狸金服科技集團) since April 2014.

Mr. Ho is a member of the American Institute of Certified Public Accountants. Mr. Ho received his bachelor's degree in business administration from the University of Hong Kong in December 1997 and later received his master's degree in executive master of business administration from Tsinghua University (清華大學) in July 2013.

Mr. Ho was a director of the following company which was incorporated in Hong Kong prior to its dissolution:

| <u>Name of the relevant company</u>                   | <u>Principal business activity prior to cessation of business</u> | <u>Date of dissolution</u> | <u>Means of dissolution</u> | <u>Reason for dissolution</u> |
|---|---|----------------------------|-----------------------------|-------------------------------|
| Vision Jupiter Investment Company Limited (志必達投資有限公司) | Investment Holding  | February 6, 2009           | Striking Off                | Cessation of business         |

As confirmed by Mr. Ho, the above company was solvent prior to its dissolution.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Liu Yunli (劉運利)**, aged 38, is an independent non-executive Director of our Group. He is responsible for supervising our Board and providing independent judgment.

Mr. Liu has over nine years of experiences in the internet industry. Mr. Liu has been working at Sina Corporation since August 2008. Sina Corporation is a leading online media company based in China, whose shares were listed on the NASDAQ (NASDAQ: SINA) in 2004. His current position in Sina Corporation is the vice president and assistant to the chairman.

Mr. Liu received his bachelor's degree in engineering from Changchun University of Science and Technology in March 2005.

**Mr. Wu Xiaoguang (吳宵光)**, aged 43, is an independent non-executive Director of our Group. He is responsible for supervising our Board and providing independent judgment.

Mr. Wu has extensive experience in product research and development, product planning, product operation and marketing of Internet business. Mr. Wu joined Tencent (HK: 0700) in 1999 and had served as the product manager, general manager of instant messaging products, general manager of Internet business division and senior vice president of Internet services division. From 2012 to 2015, Mr. Wu had served as the chief executive officer of Tencent E-Commerce Holdings Limited and was responsible for the development and management of the e-commerce business of the said company. Mr. Wu has been the founding partner of Welight Capital (微光創投) since 2015.

Mr. Wu received his bachelor's degree in meteorology from Nanjing University (南京大學) in 1996.

### **Other disclosure pursuant to Rule 13.51(2) of the Listing Rules**

Save as disclosed in this prospectus, each of our Directors confirms that (1) he did not hold any other positions or short positions in the Shares, underlying Shares, debentures of our Company and/or any associated corporation (with the meaning of Part XV of the SFO) as the Latest Practicable Date; (2) he had no other relationship with any Directors, senior management and/or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; (3) he did not hold any 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' appointments that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant Rule 13.51(2) of the Listing Rules.

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## DIRECTORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business. The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

| Name                    | Age | Position                                   | Key Role   | Date of<br>Joining<br>our Group |
|-------------------------|-----|--|--|---------------------------------|
| Mr. Xu Jia (徐嘉)         | 36  | Chief Operation Officer                    | Assisting Mr. Meng in overseeing overall and daily operation of our Group        | April 2015                      |
| Mr. Lin Sen (林森)        | 42  | Chief Financial Officer                    | Providing overall financial and accounting guidance to our Group                 | June 2017                       |
| Mr. Long Chunyan (龍春燕)  | 34  | Chief Technology Officer                   | Overseeing technical matters in the development of our games                     | April 2018                      |
| Ms. Guo Hua (郭華)        | 35  | Head of the Testing Department             | Overseeing product testing and managing our Testing Department                   | July 2009                       |
| Mr. Shi Shuanghua (石雙華) | 34  | Head of the Arts Department                | Overseeing artwork designing and managing our Arts Department                    | October 2012                    |
| Ms. Xu Jing (許菁)        | 34  | Head of the Business Management Department | Overseeing commercial data analysis and assisting in marketing strategy planning | August 2011                     |

**Mr. Xu Jia (徐嘉)**, aged 36, is our chief operation officer and joined our Group in April 2015. Mr. Xu's primary responsibility is assisting Mr. Meng in overseeing the overall operation of our Group.

Mr. Xu has over 12 years of experience in the Internet and game industry. Prior to joining our Group, Mr. Xu had served as a senior manager in Baidu Online Technology (Beijing) Co., Ltd. (百度在線網絡技術(北京)有限公司) from December 2005 to March 2015 where Mr. Xu was in charge of market promotion of games and other Internet products. Mr. Xu joined Shenzhen 7Road in April 2015 and has been serving as the chief operation officer since then. His primary responsibilities are to assist Mr. Meng in overseeing the overall operation of our Group.

Mr. Xu received his bachelor's degree in market management from Beijing University of Technology (北京工業大學) in July 2004.

**Mr. Lin Sen (林森)**, aged 42, is the chief financial officer of our Group and joined our Group in June 2017. He is responsible for providing overall financial and accounting guidance to our Group.

Mr. Lin has over 18 years of experience in financial reporting, accounting and auditing. From February 2001 to November 2006, Mr. Lin served as manager of PricewaterhouseCoopers. From November 2006 to January 2017, Mr. Lin had served as the

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## DIRECTORS AND SENIOR MANAGEMENT

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chief financial officer of Palm Commerce Information Technology (China) Co. Ltd. (掌信彩通信息科技(中國)有限公司), a company primarily engaged in development and operation of lottery software, where Mr. Lin was in charge of its overall financial management and investment management. Mr. Lin has been an independent non-executive director of Loto Interactive Limited since July 10, 2017, a company listed on GEM of the Stock Exchange on May 17, 2002 (HK: 8198).

Mr. Lin has been serving as our chief financial officer since June 2017. As our Chief Financial Officer, Mr. Lin's primarily responsibilities are to provide financial and accounting guidance to our Group.

Mr. Lin received his bachelor's degree in international business management from Central University of Finance and Economics (中央財經大學) in June 1998. In 2010, Mr. Lin became a registered accountant in the PRC.

**Mr. Long Chunyan (龍春燕)**, aged 34, is our chief technology officer. Mr. Long oversees technical matters in the development of our games.

Mr. Long has over 10 years of experiences in the internet and game industry. Mr. Long was one of the co-founder of Shenzhen 7Road and served as the chief technology officer of Shenzhen 7Road from January 2008 to June 2012. He also served as the chief technology officer of 7Road Internet from July 2012 to May 2013. After the departure from 7Road Internet, Mr. Long has been acting as the general manager and executive director of Shenzhen King Joy Internet Technology Co., Ltd. (深圳金卓網絡科技有限公司) since September 2013. Mr. Long returned our Group in April 2018 and has been acting as our chief technology officer since then.

Mr. Long received his bachelor's degree in information and computer science from Chongqing University of Posts and Telecommunications (重慶郵電大學) in July 2006.

**Ms. Guo Hua (郭華)**, aged 35, is our head of the testing department and joined our Group in July 2009. Ms. Guo is responsible for overseeing product testing and managing our Testing Department. Ms. Guo has more than eight years of experience in the game industry. Ms. Guo joined our Group in July 2009 as a testing engineer and has been serving as our head of the testing department since June 2013.

**Mr. Shi Shuanghua (石雙華)**, aged 34, is our head of the arts department and joined our Group in October 2012. Mr. Shi is responsible for overseeing artwork designing and managing our Arts Department.

Mr. Shi has more than eight years of experience in the game industry. Prior to joining our Group, from February 2010 to May 2011, Mr. Shi had worked as an art manager at Hangzhou Lei Tian Technology Co., Ltd. (杭州雷天科技有限公司) and was responsible for the establishment and management of its arts department. Mr. Shi joined our Group in October 2012 as an art designer and has been acting as our head of the arts department of Shenzhen 7Road and then our Group since June 2014.



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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Shi received his bachelor's degree in arts from Guangxi Arts University (廣西藝術學院) Art in June 2006.

**Ms. Xu Jing (許菁)**, aged 34, is our head of the business management department and joined our Group in August 2011. Ms. Xu is responsible for overseeing commercial data analysis and assisting in marketing strategy planning.

Ms. Xu has more than six years of experience in business management. She joined Shenzhen 7Road in August 2011 as a senior data analyst and was in charge of commercial data analysis. Ms. Xu has been acting as our head of the business management department of since March 2014.

Ms. Xu received her bachelor's degree in applied mathematics from Shangrao Normal University (上饒師範學院) in July 2007 and later received a master degree in applied mathematics from Guangzhou University (廣州大學) in 2010.

Save as disclosed in this prospectus, none of our senior management members holds or has held any directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus.

### JOINT COMPANY SECRETARIES

**Ms. Wang Xiaorui (王曉瑞)**, aged 34, has been appointed as one of our joint company secretaries on March 6, 2018. Ms. Wang is in charge of the corporate secretarial and legal affairs of our Group. Ms. Wang joined our Group in February 2011 as a legal supervisor and was in charge of the day-to-day legal affairs. She has been acting as the legal director of Shenzhen 7Road since June 2015. Ms. Wang received her bachelor's degree in law from Hua Zhong University of Science and Technology (華中科技大學) in June 2007.

**Mr. Cheung Kai Cheong (張啟昌)**, aged 43, has been appointed as one of our joint company secretaries on March 6, 2018. Mr. Cheung is a manager of SWCS Corporate Services Group (Hong Kong) Limited and is responsible for assisting listed companies in professional corporate secretarial work. Mr. Cheung has more than 19 years of extensive experience in providing corporate secretarial services to private and listed companies. He is admitted as a certified accountant of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Cheung received his bachelor's degree of Arts (Honors) in Accounting and Finance from the University of Glamorgan in the United Kingdom in June 1996.

### BOARD COMMITTEES

We have established the following committees within our Board of Directors: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board of Directors and Rule 3.21 and Rule 3.25 of the Listing Rules.

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## **DIRECTORS AND SENIOR MANAGEMENT**

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### **Audit Committee**

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the paragraph C.3 of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules. The audit committee consists of three members, namely, Mr. Ho Chit, Mr. Liu Yunli and Mr. Wu Xiaoguang. Mr. Ho Chit, with appropriate accounting and financial management expertise, is the chairman of the committee. The primary duties of the audit committee are to provide oversight of the financial reporting process, the audit process, the mechanism of internal control and compliance with laws and regulations and perform further duties and responsibilities as assigned by our Board from time to time.

### **Remuneration Committee**

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of four members, namely, Mr. Liu Yunli, Mr. Ho Chit, Mr. Wu Xiaoguang and Mr. Meng. Mr. Liu Yunli is the chairman of the committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on the employee benefit arrangement.

### **Nomination Committee**

We have established a nomination committee with written terms of reference in compliance with the paragraph A.5 of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules. The nomination committee consists of four members, namely, Mr. Meng, Mr. Ho Chit, Mr. Wu Xiaoguang and Mr. Liu Yunli. Mr. Meng is the chairman of the committee. The primary duties of the nomination committee are to make recommendations to our Board in relation to the appointment and removal of Directors and senior management and on matters of succession planning.

### **CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE**

Mr. Meng is our chairman of the Board and chief executive officer. With extensive experience in the information technology and game industry, Mr. Meng is responsible for the overall management, strategy planning and decision-making of our Group and is instrumental to our Group's growth and business expansion since the establishment of our Group. Since Mr. Meng is the key person for our Group's establishment and development, our Board considers that vesting the roles of chairman of the Board and chief executive officer in the same person, Mr. Meng, would not create any potential harm to the interest of our Group and it is, on the contrary, beneficial to the management of our Group. In addition, the operation of the senior management and our Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Meng, as both the chairman of the Board and chief executive officer of our Group. Our Board currently comprises three executive Directors (including Mr. Meng), two non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed above, we are in compliance with the requirements under all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

### WAIVERS GRANTED BY THE STOCK EXCHANGE RELATING TO OUR MANAGEMENT

#### Management Continuity

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05(3)(b) of the Listing Rules in relation to management continuity for the three most recent audited financial year. For details of the waiver, see “Waivers from Strict Compliance with the Listing Rules” in this prospectus.

#### Management Presence

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules in relation to management presence in Hong Kong. For details of the waiver, see “Waivers from Strict Compliance with the Listing Rules” in this prospectus.

#### Joint Company Secretaries

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules in relation to the qualifications of one of our joint company secretaries, Ms. Wang Xiaorui. For details of the waiver, see “Waivers from Strict Compliance with the Listing Rules” in this prospectus.

### COMPLIANCE ADVISOR

We have appointed Red Solar Capital Limited as our compliance advisor upon the proposed Listing pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use proceeds of the Global Offering in a manner different from that detailed in this prospectus;
- where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and

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## DIRECTORS AND SENIOR MANAGEMENT

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- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 regarding unusual movements in the price regarding volume of our Shares.

The term of the appointment will commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date, and such appointment may be subject to mutual agreement.

### REMUNERATION AND COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation from our Group in the form of fees, salaries, bonus, contributions to pension schemes, allowances and benefits in kind.

The aggregate remuneration (including salaries, bonuses, share-based compensations, contributions to pension schemes, other social security costs and other employee benefits) received by our Directors were approximately RMB10.7 million, RMB180.1 million and RMB1.3 million for the years ended December 31, 2015, 2016 and 2017, respectively.

The aggregate amount of salaries, bonuses, contribution to pension schemes, other social security costs and other employee benefits and share-based payments paid to our Company's five highest paid individuals were approximately RMB14.56 million, RMB229.98 million (mainly consist of equity-settled share based compensation) and RMB2.93 million for the years ended December 31, 2015, 2016 and 2017, respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable during the Track Record Period by our Group to the Directors.

### RSU SCHEME

In recognition of the contributions of our Directors, senior management and key employees and to provide incentive, we have adopted the RSU Scheme, pursuant to which restricted shares were reserved for the vesting of RSUs granted under the plan. See "Statutory and General Information – RSU Scheme" in Appendix IV of this prospectus for details.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED 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 the completion of the Global Offering:

#### 1. Prior to the Global Offering

|   |  | <u>Nominal Value</u><br>(US\$) |
|---|--|--------------------------------|
| Authorized share capital  |  |                                |
| 10,000,000,000  | ordinary shares of US\$0.000005<br>par value | 50,000                         |
| <i>Issued and to be issued, fully paid or credited to be fully paid</i> |  |                                |
| 2,000,000,000   | ordinary shares of US\$0.000005<br>par value | 10,000                         |

#### 2. Immediately following the completion of the Global Offering

|   |  | <u>Nominal Value</u><br>(US\$) |
|---|--|--------------------------------|
| Authorized share capital  |  |                                |
| 10,000,000,000  | Shares   | 50,000                         |
| <i>Issued and to be issued, fully paid or credited to be fully paid</i> |  |                                |
| 2,000,000,000   | Shares in issue  | 10,000                         |
| 666,680,000   | Shares to be issued pursuant to the<br>Global Offering | 3,333.4                        |
| 2,666,680,000   | Total  | 13,333.4                       |

### ASSUMPTIONS

The above table assumes that the Global Offering become unconditional and is completed in accordance with the relevant terms and conditions and that the Shares are issued pursuant to the Global Offering. The above table does not take into account any Shares to be issued upon the Over-allotment Option, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, at least 25% of the total issued share capital of our Company shall be held by the public (as defined in the Listing Rules).

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## SHARE CAPITAL

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### **RANKING**

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued 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.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of shareholders (1) increase its capital; (2) consolidate and divide its capital into shares of larger amount; (3) divide its shares into several classes; (4) subdivide its shares into shares of smaller amount; and (5) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or share capital redemption reserve by its shareholders passing a special resolution. For details, see “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law — Articles of Association — Alteration of capital”.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the shares or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourth in nominal value of the issued shares of that class or with the sanction of special resolution passed at a separate general meeting of the holders of the shares of that class. For details, see “Appendix III — Summary of the Construction of the Company and Cayman Company Law — Articles of Association — Variation of rights of existing shares or classes of shares”.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law”.

### **RSU SCHEME**

We have adopted the RSU Scheme on March 6, 2018. The principal terms of the RSU Scheme are summarized in the section headed “Statutory and General Information — D. RSU Scheme” in Appendix IV of this prospectus.

### **GENERAL MANDATE TO ISSUE SHARES**

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warranties or similar rights to subscribe for

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## SHARE CAPITAL

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Shares of such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (1) a rights issue;
- (2) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles;
- (3) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (1) 20% of the total nominal value of the share capital of our Company in issue upon completion of the Global Offering; and
- (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed “- General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire at the earliest of:

- (1) the conclusion of our next annual general meeting; or
- (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) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, see “Statutory and General Information — Resolutions in writing of the Shareholders passed on June 23, 2018” in Appendix IV of this prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering”, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase the Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in the 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).

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## SHARE CAPITAL

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This general mandate to repurchase Shares will expire at the earliest of:

- (1) the conclusion of our next annual general meeting; or
- (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) when varied or revoked by any ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, see “Statutory and General Information — Resolutions in writing of the Shareholders passed on June 23, 2018” in Appendix IV of this prospectus.



## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the following persons will have interests or a short positions in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

| Name                                      | Nature of interest  | Shares held as of the Latest Practicable Date <sup>(1)</sup> |                        | Shares held upon the Global Offering <sup>(1)</sup> |                        |
|---|---|--|------------------------|---|------------------------|
|   |   | Number   | Approximate percentage | Number  | Approximate percentage |
| Shanghai Bao Hu Holdings <sup>(2)</sup>   | Interest of a party to an agreement regarding interest in the Company   | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Shanghai Bao Hu <sup>(2)(3)</sup>         | Interest of a party to an agreement regarding interest in the Company<br>Interest in a controlled corporation | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Shanghai Bao Pu Holdings <sup>(2)</sup>   | Interest of a party to an agreement regarding interest in the Company   | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Shanghai Bao Pu <sup>(2)(3)(4)</sup>      | Interest of a party to an agreement regarding interest in the Company<br>Interest in a controlled corporation | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Mr. Li Gang (李剛) <sup>(2)(3)</sup>        | Interest of a party to an agreement regarding interest in the Company<br>Interest in a controlled corporation | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Mr. Zhou Hao (周皓) <sup>(2)(3)</sup>       | Interest of a party to an agreement regarding interest in the Company<br>Interest in a controlled corporation | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Shaoxing Shang Yu Holdings <sup>(2)</sup> | Interest of a party to an agreement regarding interest in the Company   | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Shaoxing Shang Yu <sup>(2)(5)</sup>       | Interest of a party to an agreement regarding interest in the Company<br>Interest in a controlled corporation | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |

## SUBSTANTIAL SHAREHOLDERS

| Name  | Nature of interest  | Shares held as of the Latest Practicable Date <sup>(1)</sup> |                        | Shares held upon the Global Offering <sup>(1)</sup> |                        |
|---|---|--|------------------------|---|------------------------|
|   |   | Number   | Approximate percentage | Number  | Approximate percentage |
| Zhejiang Long Xin Equity Investment Management Co., Ltd. (浙江龍信股權投資管理有限公司) <sup>(2)(5)</sup> | Interest of a party to an agreement regarding interest in the Company |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Wolong Holding Group Co., Ltd. (臥龍控股集團有限公司) <sup>(2)(5)</sup>                               | Interest of a party to an agreement regarding interest in the Company |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Mr. Chen Jiancheng (陳建成) <sup>(2)(5)</sup>  | Interest of a party to an agreement regarding interest in the Company |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Ms. Chen Yanni (陳焉妮) <sup>(2)(5)</sup>  | Interest of a party to an agreement regarding interest in the Company |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Red Shanghai Holdings <sup>(2)</sup>  | Interest of a party to an agreement regarding interest in the Company |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Ms. Wei Hong (韋紅) <sup>(2)(6)</sup>   | Interest in a controlled corporation                                  |  |                        |   |                        |
|   | Interest of a party to an agreement regarding interest in the Company | 30,760,000   | 30.76%                 | 615,200,000   | 23.07%                 |
| Ben Holdings <sup>(7)</sup>   | Beneficial owner  |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 26,442,700   | 26.44%                 | 528,854,000   | 19.83%                 |
| Mr. Meng <sup>(7)(9)</sup>  | Beneficial owner  |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 26,442,700   | 26.44%                 | 528,854,000   | 19.83%                 |
| World Holdings <sup>(8)</sup>   | Beneficial owner  |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 20,557,300   | 20.56%                 | 441,146,000   | 15.42%                 |
| Mr. Hu <sup>(8)(10)</sup>   | Beneficial owner  |  |                        |   |                        |
|   | Interest in a controlled corporation                                  | 20,557,300   | 20.56%                 | 441,146,000   | 15.42%                 |
| Songshuxing Holdings  | Beneficial owner  | 9,496,800  | 9.50%                  | 189,936,000   | 7.12%                  |
|   | Interest in a controlled corporation                                  | 9,496,800  | 9.50%                  | 189,936,000   | 7.12%                  |

(1) All interests stated are long positions.

(2) Pursuant to the Offshore Voting Arrangement, see “History and Reorganization” for details.

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## SUBSTANTIAL SHAREHOLDERS

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- (3) The entire issued share capital of Shanghai Bao Hu Holdings is directly owned by Shanghai Bao Hu. Accordingly, Shanghai Bao Hu is deemed to be interest in such number of Shares held by Shanghai Bao Hu Holdings. In addition, Shanghai Bao Hu is a limited liability partnership organized and existing under the laws of the PRC. The general partner of Shanghai Bao Hu is Shanghai Bao Pu, which is owned directly as to 50% by Mr. Li Gang (李剛) and 50% by Mr. Zhou Hao (周皓). Accordingly, each of Shanghai Bao Pu, Mr. Li Gang and Mr. Zhou Hao is deemed to be interested in such number of Shares held by Shanghai Bao Hu Holdings.
- (4) The entire issued share capital of Shanghai Bao Pu Holdings is directly owned by Shanghai Bao Pu. Accordingly, Shanghai Bao Pu is deemed to be interested in such number of Shares held by Shanghai Bao Pu Holdings.
- (5) The entire issued share capital of Shaoxing Shang Yu Holdings is directly owned by Shaoxing Shang Yu. Accordingly, Shaoxing Shang Yu is deemed to be interested in such number of Shares held by Shaoxing Shang Yu Holdings. In addition, Shaoxing Shang Yu is a limited liability partnership organized and existing under the laws of the PRC. The general partner of Shaoxing Shang Yu is Zhejiang Long Xin Equity Investment Management Co., Ltd. (浙江龍信股權投資管理有限公司), which is directly owned by Wolong Holding Group Co., Ltd. (臥龍控股集團有限公司). Wolong Holding Group Co., Ltd. is owned directly as to 48.93% by Mr. Chen Jiancheng (陳建成), 38.73% by Ms. Chen Yanni (陳焉妮), who is the daughter of Mr. Chen Jiancheng and 12.34% by certain shareholders. Accordingly, each of Zhejiang Long Xin Equity Investment Management Co., Ltd., Wolong Holding Group Co., Ltd., Mr. Chen Jiancheng and Ms. Chen Yanni is deemed to be interested in such number of Shares held by Shaoxing Shang Yu Holdings.
- (6) The entire issued share capital of Red Shanghai Holdings is directly owned by Ms. Wei Hong. Accordingly, Ms. Wei Hong is deemed to be interested in such number of Shares held by Red Shanghai Holdings.
- (7) The entire issued share capital of ESOP 1 Holdings is directly owned by Ben Holdings. Accordingly, Ben Holdings is deemed to be interested in such number of Shares held by ESOP 1 Holdings.
- (8) The entire issued share capital of ESOP 2 Holdings is directly owned by World Holdings. Accordingly, World Holdings is deemed to be interested in such number of Shares held by ESOP 2 Holdings.
- (9) The entire issued share capital of Ben Holdings is directly owned by Mr. Meng. Accordingly, Mr. Meng is deemed to be interested in such number of Shares held by Ben Holdings.
- (10) The entire issued share capital of World Holdings is directly owned by Mr. Hu. Accordingly, Mr. Hu is deemed to be interested in such number of Shares held by World Holdings.
- (11) The entire issued share capital of Songshuxing Holdings is directly owned by Mr. Song Shuxing. Accordingly, Mr. Song Shuxing is deemed to be interested in such number of Shares held by Songshuxing Holdings.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of Global Offering (assuming that the Over-allotment Option is not exercised), have interests or short positions in Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and/or any of our subsidiaries.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our combined financial statements as of and for each of the years ended December 31, 2015, 2016 and 2017 and related notes in the Accountant's Report included in Appendix I to this prospectus which have been prepared in accordance with IFRSs. You should read the entirety of the Accountant's Report included in Appendix I to this prospectus and not rely merely on the information contained in this section.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results and the timing of selected events could differ significantly from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.*

### OVERVIEW

We are a leading online game developer and operator in China with a global reach. We are committed to bringing quality gameplay experience in various game formats to our users. Since our inception in 2008, we have engaged in the development, operation and licensing of a number of popular online games such as *DDTank* (彈彈堂) and *Wartune* (神曲). We are the top web game developer in terms of revenue generated from proprietary web games in 2017 among China-based web games developers, according to the iResearch Report, and derive a significant portion of our revenue from the overseas markets. As of the Latest Practicable Date, our game had been published in more than 100 countries and regions. In recent years, we have strategically expanded our business focuses to develop mobile games and H5 games, which are increasingly popular among the users. Leveraging our strong game development capabilities and our hit game titles, we have assembled valuable IP assets with great monetization potential.

We grew steadily during the Track Record Period, primarily driven by our ability of attracting and retaining paying users. Our average MPUs for online games increased from 342,000 in 2015 to 613,000 in 2017. Our mobile game business grew substantially during the Track Record Period. Our average MAUs for mobile games increased from approximately 826,000 in 2015 to 3,400,000 in 2017. Our revenue was RMB375.6 million, RMB403.2 million and RMB445.3 million in 2015, 2016 and 2017, respectively. Our gross profit was RMB312.7 million, RMB359.6 million and RMB407.4 million, respectively. Our gross profit margin was 83.3%, 89.2% and 91.5% in 2015, 2016 and 2017, respectively. Our adjusted net profit was RMB182.2 million, RMB212.0 million and RMB263.3 million in 2015, 2016 and 2017, respectively. See "Financial Information — Principal Profit or Loss Components — Non-IFRS Measures" for details.

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### 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:

#### Development of the Online Game Industry

Our results of operations are affected by the general conditions affecting the online game industry in China, 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 thus depends on our ability to monetize our users and offer games that meet the changing gameplay preferences. As we generate a substantial majority 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. Since our inception in 2008, we have engaged in the development, operation and licensing of a number of popular web games. In recent years, we have strategically expanded our business focuses to develop mobile games.

#### Continued Success 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 16 popular web games, including the chart-topping titles, *Wartune* and *DDTank*. 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 eight mobile games and one H5 game, including the mobile remake of flagship web title, *DDTank*. We plan to launch an additional 10 games by the end of 2018.

#### Revenue Sharing Arrangements

We have developed a majority of our games in-house and also outsourced viable games licensed to third parties. In the latter case, we generally enter into a license agreement with each game developer and negotiate the revenue sharing arrangements on a case-by-case basis considering the roles and responsibilities of the parties during the development and publishing process of a particular game. In addition, we publish both proprietary and licensed games in collaboration with third-party game publishers or by

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ourselves. In the former case, we enter into a game distribution agreement with each game publisher and negotiate the revenue sharing arrangements on a case-by-case basis. Therefore, our ability to negotiate commercially favorable or acceptable terms of the foregoing revenue sharing arrangements and maintain stable business relationship with our game licensor and game publisher partners would have a significant impact on our results of operations.

### **Competition**

The online game industry is highly competitive. We compete primarily with other online game developers and publishers in China 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 third-party game publishers, 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.

### **BASIS OF PRESENTATION**

Our Company was incorporated in the Cayman Islands on September 6, 2017 as an exempted company with limited liability. Our Company is an investment holding company and its subsidiaries are principally engaged in the development and distribution of web games and mobile games in China and other countries and regions (“Listing Business”).

Prior to the incorporation of our Company and completion of the Reorganization, our Listing Business was carried out by the PRC Operating Entities. Pursuant to the Reorganization, the Listing Business are effectively controlled by our Company through direct equity holding and the Contractual Arrangements. Our Company and those companies newly set up during the Reorganization have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of our Listing Business and does not result in any changes in business substance nor in any management of our Listing Business. Accordingly, the Financial Information of the companies now comprising our Group is presented using the carrying value of our Listing Business for all periods presented. Intercompany transactions, balances and unrealized gains or 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

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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 judgments used in the preparation of our financial statements.

### **Revenue Recognition**

Our revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided, stated net of discounts, returns and value added taxes. We recognize 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 our activities, as described below.

#### ***Online Game Revenue***

We are an online game developer and publisher. Our revenue from games are derived principally from various arrangements, including game publishing by our platforms, game publishing by other publisher under various game distribution arrangements.

#### ***Revenue from Online Games Published by Ourselves***

Our online games are operated under free-to-play model whereby users 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 various mobile carriers and third-party internet payment systems. The payment channels are entitled to a handling fee which are withheld and deducted from the gross proceeds collected from users, with the net amounts remitted to us. The payment received to purchase of game tokens and other virtual items is non-refundable and the related contracts are non-cancellable.

We are obligated to provide on-going services to users and such obligation is not deemed to be inconsequential and perfunctory after users purchase game tokens and virtual items directly through our website for the games. Revenue is recognized ratably over the estimated playing period of paying users ("Player Relationship Period"), given there is an implicit obligation of ourselves to maintain and allow access of the users of the games operated by us.

We estimate the Player Relationship Period and re-assess such periods semi-annually. If there is insufficient data to determine the Player Relationship Period, such as in the case

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of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by us until the new game establishes its own patterns and history. We also consider the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. Adjustments arising from changes in the estimated useful lives of durable virtual items are applied prospectively.

### *Revenue from Online Games Published by Other Publishers under Game Distribution Arrangements*

We also enter into game distribution arrangements with third-party game publishers to distribute online game to users through their own platforms, including web game and mobile game portals, or other distribution platforms, including major social networking websites (such as Facebook), online application stores installed in mobile (such as Apple Inc.'s App Store and Google Play), web-based and mobile game portals.

These games are also under free-to-play model whereby users can play the games free of charge and are charged for the purchase of game tokens or other virtual items. Proceeds earned from selling game tokens and other virtual items are collected by the publishers or its designated payment platform and shared between our Group and the publishers based on a pre-determined rate. We recognize the revenues that we are entitled, i.e., on a net basis.

With respect to the arrangements that we are responsible for providing game product, technical support and upgrades, while the third-party game publishers are responsible for publishing (including determining the platforms), providing payment solution, customer service, promotion activities and other daily game operation, and the right to determine the ultimate pricing of in-game virtual items are shared between and the third-party game publishers and our Group.

Revenue from game published by the publisher under these arrangements are recognized ratably over the Player Relationship Period as we are jointly obligated to provide on-going services to the users.

In certain game distribution arrangements, we grant our online games to the publishers and the publishers pay fees for the exclusive right to operate our games in specified geographic areas, which normally comprise of a fixed lump sum and variable fees calculated based on a predetermined rate on the cash paid by game users collected by the publishers related to such games.

We are responsible for providing game content, and when-and-if-available technical support and upgrades to the publishers during the contract terms for which are not distinct from the grant a game title. The lump sum fees are initially recorded as deferred revenue and then recognized as revenue over contractual periods from the date the game is launched. The variable fees which are contingent upon future events (future cash paid by users collected by the publishers related to such games) are recognized when the contingency is met.



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### *Sales of Online Game Technology and Publishing Solutions Services*

We sell technology development services, games installation services, software copyrights and publishing solutions services to third parties. The revenue is recognized when the services are rendered.

### *IP Licensing*

We also generate revenue from licensing copyrights of game contents to other online game companies for agreed periods. The revenue from licensing agreements is recognized when the content has been delivered and we have no further obligations. Depending on the terms of the respective agreements, revenue is recognized either upfront upon the beginning of the sub-licensing agreement to the extent of the fixed and non-refundable amount received upfront or over the period of the licensing agreement under which we need to provide consistent services. Any amount of revenue which is contingent upon future events (for example future revenue generated by using the copyrights of game contents) is recognized when the contingency is met.

### **Current and Deferred Income Tax**

Our tax expense comprises current and deferred tax. We recognize income tax in the combined statements of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, 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 tax authorities.

### *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 combined 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.

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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.

### **Share-based Payments Arrangements**

#### *Equity-settled Share-based Payment Transactions*

Share-based compensation arrangement represents we receive services from employees as consideration for equity instruments (options) of our Group. The fair value of the employee services received in exchange for the grant of the equity instruments (such as restricted share or options) is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, we revise our estimates of the number of instruments that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

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In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

In case it is an option arrangement, when the options are exercised, we issue new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

### PRINCIPAL PROFIT OR LOSS COMPONENTS

The following table sets forth our summary combined statements of profit or loss for the periods indicated.

|  | Year ended December 31,                   |                 |                 |                 |                |                 |
|--|---|-----------------|-----------------|-----------------|----------------|-----------------|
|  | 2015                                      |                 | 2016            |                 | 2017           |                 |
|  | Amount                                    | % of<br>Revenue | Amount          | % of<br>Revenue | Amount         | % of<br>Revenue |
|  | (RMB in thousands except for percentages) |                 |                 |                 |                |                 |
| <b>Revenue</b>   | <b>375,611</b>                            | <b>100%</b>     | <b>403,151</b>  | <b>100%</b>     | <b>445,295</b> | <b>100%</b>     |
| Cost of revenue  | (62,881)                                  | (16.7%)         | (43,601)        | (10.8%)         | (37,881)       | (8.5%)          |
| <b>Gross profit</b>  | <b>312,730</b>                            | <b>83.3%</b>    | <b>359,550</b>  | <b>89.2%</b>    | <b>407,414</b> | <b>91.5%</b>    |
| Research and development expenses                              | (149,544)                                 | (39.8%)         | (90,667)        | (22.5%)         | (92,518)       | (20.8%)         |
| Selling and marketing expenses                                 | (5,745)                                   | (1.5%)          | (46,237)        | (11.5%)         | (16,156)       | (3.6%)          |
| Administrative expenses  | (16,754)                                  | (4.5%)          | (26,198)        | (6.5%)          | (31,803)       | (7.1%)          |
| Share-based compensation costs                                 | (13,461)                                  | (3.6%)          | (228,840)       | (56.8%)         | –              | –               |
| Other income   | 39,347                                    | 10.5%           | 24,732          | 6.1%            | 21,361         | 4.8%            |
| Other gains, net   | 5,204                                     | 1.4%            | 5,577           | 1.4%            | 5,260          | 1.2%            |
| <b>Operating profit/(loss)</b>                                 | <b>171,777</b>                            | <b>45.8%</b>    | <b>(2,083)</b>  | <b>(0.6%)</b>   | <b>293,558</b> | <b>66.0%</b>    |
| Finance income   | 11,291                                    | 3.0%            | 6,778           | 1.7%            | 6,267          | 1.4%            |
| Finance costs  | (1,243)                                   | (0.3%)          | (5,136)         | (1.3%)          | (7,281)        | (1.6%)          |
| Finance income/(costs) — net                                   | 10,048                                    | 2.7%            | 1,642           | 0.4%            | (1,014)        | (0.2%)          |
| Share of results of associates                                 | 36  | –               | 7,306           | 1.8%            | 313            | 0.1%            |
| Impairment loss and dilution loss on investments in associates | –   | –               | (4,500)         | (1.1%)          | (13,612)       | (3.1%)          |
| <b>Profit before income tax</b>                                | <b>181,861</b>                            | <b>48.5%</b>    | <b>2,365</b>    | <b>0.5%</b>     | <b>279,245</b> | <b>62.8%</b>    |
| Income tax expense   | (13,130)                                  | (3.5%)          | (19,205)        | (4.8%)          | (22,064)       | (5.0%)          |
| <b>Profit/(loss) for the year</b>                              | <b>168,731</b>                            | <b>45.0%</b>    | <b>(16,840)</b> | <b>(4.3%)</b>   | <b>257,181</b> | <b>57.8%</b>    |
| Add:   |   |                 |                 |                 |                |                 |
| Share-based compensation costs                                 | 13,461                                    | 3.6%            | 228,840         | 56.8%           | –              | –               |
| listing-related expenses                                       | –   | –               | –               | –               | 6,116          | 1.4%            |
| <b>Adjusted net profit<sup>(1)</sup></b>                       | <b>182,192</b>                            | <b>48.6%</b>    | <b>212,000</b>  | <b>52.5%</b>    | <b>263,297</b> | <b>59.2%</b>    |

(1) See “— Principal Profit or Loss Components — Non-IFRS Measures” for details.

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### Revenue

We generate our revenue primarily from proprietary games, licensed games, sales of online game technology and publishing solutions services and IP licensing.

The following table sets forth the breakdown of our revenue by for the periods indicated.

|   | Year ended December 31,                   |               |                |               |                |               |
|---|---|---------------|----------------|---------------|----------------|---------------|
|   | 2015                                      |               | 2016           |               | 2017           |               |
|   | Amount                                    | % of Revenue  | Amount         | % of Revenue  | Amount         | % of Revenue  |
|   | (RMB in thousands except for percentages) |               |                |               |                |               |
| Online game revenue   | 344,702                                   | 91.8%         | 345,547        | 85.8%         | 388,929        | 87.3%         |
| – Self-development games  |   |               |                |               |                |               |
| <i>published by us</i>  | 19,140                                    | 5.2%          | 15,237         | 3.8%          | 6,663          | 1.5%          |
| <i>published by other publishers</i>                              | 311,123                                   | 82.8%         | 258,426        | 64.1%         | 371,603        | 83.4%         |
| – Licensed games  |   |               |                |               |                |               |
| <i>published by us</i>  | 1,657                                     | 0.4%          | 378            | 0.1%          | 12             | 0.0%          |
| <i>published by other publishers</i>                              | 12,782                                    | 3.4%          | 71,506         | 17.8%         | 10,651         | 2.4%          |
| Sales of online game technology and publishing solutions services | 9,925                                     | 2.6%          | 43,724         | 10.8%         | 46,577         | 10.5%         |
| Intellectual property licensing                                   | 20,984                                    | 5.6%          | 13,880         | 3.4%          | 9,789          | 2.2%          |
| <b>Total</b>  | <b>375,611</b>                            | <b>100.0%</b> | <b>403,151</b> | <b>100.0%</b> | <b>445,295</b> | <b>100.0%</b> |

The decrease in our revenue generated from proprietary games from 2015 to 2016 was due to the decline in the revenue from web games *DDTank* and *Wartune* as they progressed in their respective lifecycles. The increase in our revenue generated from proprietary games from 2016 to 2017 was due to the launch of *DDTank (mobile)* in April 2017.

The significant increase in our revenue generated from licensed games from 2015 to 2016 was due to the launch of a certain licensed games in 2016. The significant decrease in our revenue generated from licensed games from 2016 to 2017 was due to the withdrawal of these games from the market in 2017.

Online game technology and publishing solutions services primarily represent services we provide to third-party online game companies, covering technology development services, game installation services, software copyrights and publishing solutions services. The increase in our sales of online game technology and publishing consulting during the Track Record Period reflect our efforts to maximize the commercial value of our existing game portfolio and expand our revenue sources.

Intellectual property licensing revenue primarily represents the royalty fees we charge third-party game companies for assigning our IPs or the exclusive right to develop related games. The decrease of licensing revenue during the Track Record Period was primarily due to the existing games subject to such IP licensing arrangements which progressed in their respective lifecycles.

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### *Revenue by Geographical Markets*

We generate revenue from different geographical markets. The following table sets forth the breakdown of our revenue derived from different geographic markets for the periods indicated.

|              | Year ended December 31,                   |                 |                |                 |                |                 |
|--------------|---|-----------------|----------------|-----------------|----------------|-----------------|
|              | 2015                                      |                 | 2016           |                 | 2017           |                 |
|              | Amount                                    | % of<br>Revenue | Amount         | % of<br>Revenue | Amount         | % of<br>Revenue |
|              | (RMB in thousands except for percentages) |                 |                |                 |                |                 |
| China        | 165,020                                   | 43.9%           | 209,822        | 52.0%           | 295,958        | 66.5%           |
| Overseas     | 210,591                                   | 56.1%           | 193,329        | 48.0%           | 149,337        | 33.5%           |
| <b>Total</b> | <b>375,611</b>                            | <b>100.0%</b>   | <b>403,151</b> | <b>100.0%</b>   | <b>445,295</b> | <b>100.0%</b>   |

We generated revenue from users located in over 100 countries and regions during the Track Record Period. Our revenue from China increased during the Track Record Period primarily due to the launch of *DDTank (mobile)* in China market in April 2017. Our revenue from overseas decreased during the Track Record Period primarily due to a decrease in our revenue from web games as they progressed in their respective lifecycles.

### *Online Game Revenue by Game Platforms*

Our online games are offered on web platforms and mobile devices. The following table sets forth the breakdown of our online game revenue by game platforms for the periods indicated.

|              | Year ended December 31,                   |                 |                |                 |                |                 |
|--------------|---|-----------------|----------------|-----------------|----------------|-----------------|
|              | 2015                                      |                 | 2016           |                 | 2017           |                 |
|              | Amount                                    | % of<br>Revenue | Amount         | % of<br>Revenue | Amount         | % of<br>Revenue |
|              | (RMB in thousands except for percentages) |                 |                |                 |                |                 |
| Web games    | 333,768                                   | 88.9%           | 236,477        | 58.8%           | 169,075        | 37.9%           |
| Mobile games | 10,934                                    | 2.9%            | 109,070        | 27.0%           | 219,854        | 49.4%           |
| <b>Total</b> | <b>344,702</b>                            | <b>91.8%</b>    | <b>345,547</b> | <b>85.8%</b>    | <b>388,929</b> | <b>87.3%</b>    |

Our revenue from mobile games increased significantly during the Track Record Period, primarily due to a shift in our strategy to expand mobile game offerings. Our revenue from web games decreased during the Track Record Period, primarily due to our existing web games progressing in their respective lifecycles.

### **Cost of Revenue**

Our cost of revenue consists primarily of employee benefit expenses, outsourced comprehensive service fees, and bandwidth and servers custody fees and depreciation of

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our property, plant and equipment. For 2015, 2016 and 2017, our cost of revenue was RMB62.9 million, RMB43.6 million, and RMB37.9 million, respectively, representing 16.7%, 10.8%, and 8.5% of our revenue for the same periods, respectively. The following table sets forth the breakdown of our cost of revenue for the periods indicated.

|  | Year ended December 31, |                 |               |                 |               |                 |
|--|-------------------------|-----------------|---------------|-----------------|---------------|-----------------|
|  | 2015                    |                 | 2016          |                 | 2017          |                 |
|  | Amount                  | % of<br>Revenue | Amount        | % of<br>Revenue | Amount        | % of<br>Revenue |
| (RMB in thousands except for percentages)                      |                         |                 |               |                 |               |                 |
| Employee benefit expenses                                      | 21,290                  | 5.7%            | 18,355        | 4.6%            | 3,015         | 0.7%            |
| Outsourced comprehensive service fees                          | 7,542                   | 2.0%            | 746           | 0.2%            | 1,645         | 0.4%            |
| Bandwidth and servers custody fees                             | 10,309                  | 2.7%            | 4,896         | 1.2%            | 3,490         | 0.8%            |
| Depreciation of property, plant and equipment and amortization | 12,336                  | 3.3%            | 6,960         | 1.7%            | 3,427         | 0.8%            |
| Others <sup>(1)</sup>  | 11,404                  | 3.0%            | 12,644        | 3.1%            | 26,304        | 5.8%            |
| <b>Total</b>   | <b>62,881</b>           | <b>16.7%</b>    | <b>43,601</b> | <b>10.8%</b>    | <b>37,881</b> | <b>8.5%</b>     |

(1) We incurred related cost from providing consulting services on marketing and promotion to a third-party game publisher in 2017.

### ***Employee Benefit Expenses***

Employee benefit expenses primarily represent the salary and compensation of our game operation team. The decrease in employee benefit expenses during the Track Record Period was primarily because our existing web games progressed in their respective lifecycles and required less staff attending to game operation and maintenance.

### ***Bandwidth and Servers Custody Fees***

Bandwidth and servers custody fees primarily represent fees paid for using bandwidth and servers maintained by third parties to operate our web games. Our bandwidth and servers custody fees decreased significantly during the Track Record Period, primarily due to a reduction in the number of servers we use for existing web games as they progressed in their respective lifecycles.

### **Gross Profit and Gross Profit Margin**

For 2015, 2016 and 2017, our gross profit was RMB312.7 million, RMB359.6 million, and RMB407.4 million, respectively, and our gross profit margin was 83.3%, 89.2% and 91.5%, respectively. The increase in gross profit margin during the Track Record Period was primarily due to the decrease in our cost of revenue resulting from the change in our strategic focus to launch mobile games which require less staff and fewer servers we use for web games as they progressed in their respective lifecycles.

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### 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. The following table sets forth a breakdown of our research and development expenses during the periods indicated.

|                           | Year ended December 31,                   |                         |                      |                         |                      |                         |
|---------------------------|---|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                           | 2015                                      |                         | 2016                 |                         | 2017                 |                         |
|                           | <u>Amount</u>                             | <u>% of<br/>Revenue</u> | <u>Amount</u>        | <u>% of<br/>Revenue</u> | <u>Amount</u>        | <u>% of<br/>Revenue</u> |
|                           | (RMB in thousands except for percentages) |                         |                      |                         |                      |                         |
| Employee benefit expenses | 43,407                                    | 11.6%                   | 63,636               | 15.8%                   | 69,621               | 15.6%                   |
| Outsourcing expenses      | 94,069                                    | 25.0%                   | 6,974                | 1.7%                    | 7,767                | 1.8%                    |
| Others                    | 12,068                                    | 3.2%                    | 20,057               | 5.0%                    | 15,130               | 3.4%                    |
| <b>Total</b>              | <b><u>149,544</u></b>                     | <b><u>39.8%</u></b>     | <b><u>90,667</u></b> | <b><u>22.5%</u></b>     | <b><u>92,518</u></b> | <b><u>20.8%</u></b>     |

Our research and development expenses decreased by 39.4% from 2015 to 2016, primarily due to the significant decrease in our outsourcing expenses, which was primarily due to the discontinuation of us paying a prescribed percentage of our revenue to Changyou as technology development fees for certain outsourced technical services provided by Changyou to us following our spin-off from Changyou in May 2015. After our spin-off from Changyou in 2015, we took over a considerable amount of research and development staff who consistently provided research and development services for our games from Changyou and therefore our total employee benefit expenses associated with research and development increased by 46.6% to RMB63.6 million in 2016.

### Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of advertising expenses and employee benefit expenses incurred by our marketing department. The following table sets forth the breakdown of our selling and marketing expenses for the periods indicated.

|                           | Year ended December 31,                   |                         |                      |                         |                      |                         |
|---------------------------|---|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                           | 2015                                      |                         | 2016                 |                         | 2017                 |                         |
|                           | <u>Amount</u>                             | <u>% of<br/>Revenue</u> | <u>Amount</u>        | <u>% of<br/>Revenue</u> | <u>Amount</u>        | <u>% of<br/>Revenue</u> |
|                           | (RMB in thousands except for percentages) |                         |                      |                         |                      |                         |
| Employee benefit expenses | 968                                       | 0.3%                    | 2,000                | 0.5%                    | 176                  | 0.0%                    |
| Advertising expenses      | 4,633                                     | 1.2%                    | 43,784               | 10.9%                   | 15,323               | 3.4%                    |
| Others                    | 144                                       | 0.0%                    | 453                  | 0.1%                    | 657                  | 0.2%                    |
| <b>Total</b>              | <b><u>5,745</u></b>                       | <b><u>1.5%</u></b>      | <b><u>46,237</u></b> | <b><u>11.5%</u></b>     | <b><u>16,156</u></b> | <b><u>3.6%</u></b>      |

The significant increase in our selling and marketing expenses from 2015 to 2016 was primarily due to the significant increase in advertising and promotion expenses incurred

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primarily for our mobile games launched in 2016.

### Administrative Expenses

Our administrative expenses consist primarily of salaries and benefits. We incurred administrative expenses of RMB16.8 million, RMB26.2 million and RMB31.8 million in 2015, 2016 and 2017, respectively, accounting for 4.5%, 6.5%, and 7.1% of our total revenue for the same periods, respectively.

### Share-based Compensation Costs

We recorded share-based compensation costs arising from the Management Buyout of RMB13.5 million and RMB228.8 million in 2015 and 2016, respectively. See “History and Reorganization” for details.

### Finance Income/(Costs), Net

Our finance income consists primarily of interest income on restricted bank deposits, foreign exchange gains and interest income from balances placed with an entity controlled by Changyou under a cash pooling arrangement before our spin-off from Changyou. Our finance costs primarily represent interest expenses on bank borrowings. The following table sets forth the breakdown of our finance income/(costs) during the periods indicated.

|   | <b>Year ended December 31,</b> |                |                |
|---|--------------------------------|----------------|----------------|
|   | <b>2015</b>                    | <b>2016</b>    | <b>2017</b>    |
|   | <b>(RMB in thousands)</b>      |                |                |
| <b>Finance income</b>                         |                                |                |                |
| Interest income on restricted bank deposits   | 1,994                          | 5,940          | 5,924          |
| Interest income from cash pooling arrangement | 8,691                          | –              | –              |
| Others  | 606                            | 838            | 343            |
|   | <u>11,291</u>                  | <u>6,778</u>   | <u>6,267</u>   |
| <b>Finance costs</b>                          |                                |                |                |
| Interest expenses on bank borrowings          | (885)                          | (4,122)        | (6,401)        |
| Others  | (358)                          | (1,014)        | (880)          |
|   | <u>(1,243)</u>                 | <u>(5,136)</u> | <u>(7,281)</u> |
| <b>Net finance income/(costs), net</b>        | <u>10,048</u>                  | <u>1,642</u>   | <u>(1,014)</u> |

Under the cash pooling arrangement, Shenzhen 7Road, as a previous group member of Changyou, transferred the portion of its daily balances exceeding RMB10.0 million to a



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designated entity within the group for the purpose of centralized cash management and charged an annual interest rate of 3.0%. After our spin-off from Changyou, our net finance income decreased significantly by 83.7% from RMB10.0 million in 2015 to RMB1.6 million in 2016. The overall decrease in our net finance income during the Track Record Period was primarily due to (1) the termination of the aforesaid cash pooling arrangement as a result of our spin-off from Changyou; and (2) the increase in our interest expenses on bank borrowings incurred for the acquisition of office buildings in 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 tax expenses arise from the timing difference between accounting and taxable profits. The following table sets forth our income tax expenses for the periods indicated.

|                     | <u>Year ended December 31,</u> |                      |                      |
|---------------------|--------------------------------|----------------------|----------------------|
|                     | <u>2015</u>                    | <u>2016</u>          | <u>2017</u>          |
|                     | (RMB in thousands)             |                      |                      |
| Current income tax  | 13,197                         | 18,028               | 20,601               |
| Deferred income tax | (67)                           | 1,177                | 1,463                |
| <b>Total</b>        | <b><u>13,130</u></b>           | <b><u>19,205</u></b> | <b><u>22,064</u></b> |

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, with the exception of Shenzhen 7Road, Huoerguosi 7Road and Qianhai Huanjing. Shenzhen 7Road was qualified as “Key Software Enterprise (重點軟件企業)” and subject to an annual assessment, entitled to a preferential income tax rate of 10.0% on its estimated assessable profits during the Track Record Period. Shenzhen 7Road has filed an application to renew the entitlements in April 2018. Qianhai Huanjing is subject to enterprise income tax of 15.0% as it was incorporated at the “Qianhai Free Trading Zone (前海自貿區)” in Shenzhen. Huoerguosi 7Road was exempt from enterprise income tax from March 1, 2016 to December 31, 2020 under the local preferential tax regime.

According to the applicable PRC tax regulations, dividends distributed by a company established in China to a foreign investor are generally subject to a 10.0% withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between China and Hong Kong,

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the relevant withholding tax rate will be reduced to 5.0%. During the Track Record Period, our PRC subsidiaries did not distribute their retained earnings. Accordingly, no deferred income tax liability on PRC withholding tax was accrued.

In 2015, 2016 and 2017, our effective tax rate was 7.2%, 812.1% and 7.9%, respectively. Excluding the impact of the share-based compensation costs, our effective tax rate would have been 8.3% in 2016, and our effective tax rate would have remained stable during the Track Record Period.

### Non-IFRS Measures

To supplement our combined financial information which are presented in accordance with IFRS, we set forth below our adjusted net profit/(loss) as an additional financial measure which is not presented in accordance with IFRS. We believe this is meaningful because potential impacts of certain items which our management does not consider indicative of our operating performance have been eliminated, and this would be useful for investors to compare our financial results directly with those of our peer companies.

Adjusted net profit eliminates the effect of certain non-cash or non-recurring items, namely share-based compensation costs and listing-related 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. 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:

|                                   | <u>Year ended December 31,</u> |                   |                   |
|-----------------------------------|--------------------------------|-------------------|-------------------|
|                                   | <u>2015</u>                    | <u>2016</u>       | <u>2017</u>       |
|                                   | (RMB in thousands)             |                   |                   |
| <b>Profit/(loss) for the year</b> | 168,731                        | (16,840)          | 257,181           |
| Add:                              |                                |                   |                   |
| Share-based compensation costs    | 13,461                         | 228,840           | –                 |
| Listing-related expenses          | –                              | –                 | 6,116             |
|                                   | <u>          </u>              | <u>          </u> | <u>          </u> |
| <b>Adjusted net profit</b>        | <u>182,192</u>                 | <u>212,000</u>    | <u>263,297</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.

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### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

##### *Revenue*

Our total revenue increased by 10.5% from RMB403.2 million in 2016 to RMB445.3 million in 2017, primarily due to a significant increase in our revenue generated from proprietary games from RMB 273.7 million in 2016 to RMB 378.3 million in 2017 as a result of the launch of *DDTank (mobile)* in April 2017.

##### *Cost of Revenue*

Our cost of revenue decreased by 13.1% from RMB43.6 million in 2016 to RMB37.9 million in 2017, primarily due to the decrease in our employee benefit expenses and bandwidth and servers custody fees as a result of the decrease in amount of our rented servers for web games.

##### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, our gross profit increased by 13.3% from RMB359.6 million in 2016 to RMB407.4 million in 2017. Our gross profit margin increased from 89.2% in 2016 to 91.5% in 2017, primarily due to the 13.1% decrease in our cost of revenue.

##### *Other Gains, Net*

We had net other gains of RMB5.6 million in 2016 and RMB5.3 million in 2017, respectively. Our gains in 2016 were primarily consisted of gains on wealth management products of RMB1.2 million and foreign exchange gains of RMB5.3 million. Our gains in 2017 were primarily consisted of gains of RMB11.8 million on partial disposal of an available-for-sales financial asset associated with the partial sale of our equity interest in Chengdu Peng Wan.

##### *Research and Development Expenses*

Our research and development expenses increased by 2.0% from RMB90.7 million in 2016 to RMB92.5 million in 2017, primarily due to the increase in employee benefit expenses incurred for our research and development staff.

##### *Selling and Marketing Expenses*

Our selling and marketing expenses decreased significantly from RMB46.2 million in 2016 to RMB16.2 million in 2017, primarily because we incurred significant advertising expenses for certain mobile games launched in 2016, which was withdrawn from the market in 2017.

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### *Administrative Expenses*

Our administrative expenses increased from RMB26.2 million in 2016 to RMB31.8 million in 2017, primarily due to the listing expenses in preparation of the Global Offering.

### *Finance Income/Costs, Net*

We recorded net finance income of RMB1.6 million and net finance costs of RMB1.0 million in 2016 and 2017, respectively. Our finance income in 2016 was primarily consisted of interest income of RMB5.9 million on restricted bank deposits in the PRC, which were pledged for our bank borrowings overseas and will be released after we repay the bank borrowings in full. Our finance costs in 2017 was primarily consisted of interest expenses of RMB6.4 million on bank borrowings for our acquisition of properties and our investment in Digital Hollywood.

### *Profit before Tax*

As a result of the foregoing, our profit before tax was RMB2.4 million in 2016 and RMB279.2 million in 2017, respectively.

### *Income Tax Expenses*

Our income tax expenses increased by 14.9% from RMB19.2 million in 2016 to RMB22.1 million in 2017 as our profit before tax increased from RMB2.4 million in 2016 to RMB279.2 million in 2017. Our effective tax rate was 812.1% in 2016 and 7.9% in 2017. Excluding the impact of the share-based compensation costs, our effective tax rate would have been 8.3% in 2016.

### *Profit /Loss for the Year*

As a result of the foregoing, we recorded net loss of RMB16.8 million in 2016 and net profit of RMB257.2 million in 2017.

### *Adjusted Net Profit for the Year and Adjusted Net Profit Margin*

Our adjusted net profit was RMB212.0 million and RMB263.3 million in 2016 and 2017, respectively. Our adjusted net profit margin was 52.5% and 59.2% in 2016 and 2017, respectively. See “— Principal Profit or Loss Components — Non-IFRS Measures.”

## **Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

### *Revenue*

Our total revenue increased by 7.3% from RMB375.6 million in 2015 to RMB403.2 million in 2016, primarily due to a significant increase in our revenue generated

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from (1) our revenue from licensed games from RMB14.4 million in 2015 to RMB71.9 million in 2016 as a result of the launch of a certain new game in 2016, and (2) sales of online game technology and publishing solutions services from RMB9.9 million in 2015 to RMB43.7 million in 2016 as a result of our effort to diversify our revenue sources.

### *Cost of Revenue*

Our cost of revenue decreased by 30.7% from RMB62.9 million in 2015 to RMB43.6 million in 2016, primarily due to (1) a 13.8% decrease in employee benefit expenses from RMB21.3 million in 2015 to RMB18.4 million in 2016; and (2) a significant decrease of bandwidth and servers custody fees from RMB10.3 million in 2015 to RMB4.9 million in 2016, primarily due to a reduction in the number of servers we used for existing web games.

### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, our gross profit increased by 15.0% from RMB312.7 million in 2015 to RMB359.6 million in 2016. Our gross profit margin increased from 83.3% in 2015 to 89.2% in 2016, primarily due to the 30.7% decrease in our cost of revenue.

### *Other Gains, Net*

We had net other gains of RMB5.2 million in 2015 and RMB5.6 million in 2016, respectively. Our gains in 2015 were primarily consisted of foreign exchange gains of RMB5.7 million. Our gains in 2016 were primarily consisted of gains on wealth management products of RMB1.2 million and foreign exchange gains of RMB5.3 million.

### *Research and Development Expenses*

Our research and development expenses decreased by 39.4% from RMB149.5 million in 2015 to RMB90.7 million in 2016, primarily due to termination of the provision of technology services from Changyou to Shenzhen 7Road.

### *Selling and Marketing Expenses*

Our selling and marketing expenses increased significantly from RMB5.7 million in 2015 to RMB46.2 million in 2016, primarily due to a significant increase in promotion and advertising expenses from RMB4.6 million in 2015 to RMB43.8 million in 2016 for the promotion of certain mobile games launched in 2016.

### *Administrative Expenses*

Our administrative expenses increased from RMB16.8 million in 2015 to RMB26.2 million in 2016, primarily due to increased salary and benefits associated with our administrative staff and asset impairment of RMB6.3 million associated with trade receivables and other receivables.

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### *Finance Income, Net*

We recorded net finance income of RMB10.0 million and RMB1.6 million in 2015 and 2016, respectively. Our finance income in 2015 was primarily consisted of interest income of RMB2.0 million on restricted bank deposits and interest income of RMB8.7 million from balances placed with an entity controlled by Changyou under a cash pooling arrangement. Our finance income in 2016 was primarily consisted of interest income of RMB5.9 million on restricted bank deposits. Our net finance income decreased significantly primarily due to (1) the termination of the cash pooling arrangement as a result of our spin-off from Changyou; and (2) the increase in our interest expenses on bank borrowings incurred for our investment in Digital Hollywood.

### *Profit before Tax*

As a result of the foregoing, our profit before tax was RMB181.9 million in 2015 and RMB2.4 million in 2016, respectively.

### *Income Tax Expenses*

Our income tax expenses increased by 46.3% from RMB13.1 million in 2015 to RMB19.2 million in 2016 despite our profit before tax decreased from RMB181.9 million in 2015 to RMB2.4 million in 2016, primarily due to the substantial share-based compensation costs incurred in 2016. Our effective tax rate was 7.2% in 2015 and 812.1% in 2016. Excluding the impact of the share-based compensation costs, our effective tax rate would have been 8.3% in 2016.

### *Profit /Loss for the Year*

As a result of the foregoing, we recorded net profit of RMB168.7 million in 2015 and net loss of RMB16.8 million in 2016.

### *Adjusted Net Profit for the Year and Adjusted Net Profit Margin*

Our adjusted net profit was RMB182.2 million and RMB212.0 million in 2015 and 2016, respectively. Our adjusted net profit margin was 48.6% and 52.5% in 2015 and 2016, respectively. See “— Principal Profit or Loss Components — Non-IFRS Measures.”

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### DISCUSSION OF CERTAIN ITEMS FROM THE COMBINED BALANCE SHEET

The following table sets forth our summary combined balance sheet as of the dates indicated.

|   | As of December 31,    |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | 2015                  | 2016                  | 2017                  |
|   | (RMB in thousands)    |                       |                       |
| <b>Assets</b>   |                       |                       |                       |
| <b>Non-current assets</b>                             |                       |                       |                       |
| Property, plant and equipment                         | 22,327                | 22,592                | 19,895                |
| Land use right  | –                     | 74,339                | 73,056                |
| Intangible assets                                     | 31,267                | 32,851                | 30,907                |
| Investments in associates                             | 186,644               | 201,090               | 175,268               |
| Available-for-sale financial assets                   | 3,521                 | 10,339                | 41,979                |
| Financial assets at fair value through profit or loss | –                     | –                     | 80,000                |
| Prepayment and other receivables                      | 19,601                | 10,600                | 7,848                 |
| Restricted cash                                       | 170,380               | 169,694               | 2,728                 |
| Deferred income tax assets                            | 8,966                 | 7,789                 | 6,326                 |
|   | <u>442,706</u>        | <u>529,294</u>        | <u>438,007</u>        |
| <b>Current assets</b>                                 |                       |                       |                       |
| Trade receivables                                     | 123,136               | 149,768               | 101,367               |
| Prepayment and other receivables                      | 86,561                | 46,718                | 42,114                |
| Income tax recoverable                                | 3,328                 | 7,730                 | 458                   |
| Financial assets at fair value through profit or loss | –                     | 123,587               | 43,000                |
| Restricted cash                                       | –                     | –                     | 162,330               |
| Cash and cash equivalents                             | 51,794                | 47,854                | 130,186               |
|   | <u>264,819</u>        | <u>375,657</u>        | <u>479,455</u>        |
| <b>Total assets</b>                                   | <u><u>707,525</u></u> | <u><u>904,951</u></u> | <u><u>917,462</u></u> |
| <b>Equity and liabilities</b>                         |                       |                       |                       |
| <b>Equity attributable to owners of the Company</b>   |                       |                       |                       |
| Combined capital                                      | 10,000                | 10,000                | 10,042                |
| Other reserves  | 34,759                | 26,752                | 29,774                |
| Retained earnings                                     | 233,387               | 458,848               | 516,029               |
| <b>Total equity</b>                                   | <u><u>278,146</u></u> | <u><u>495,600</u></u> | <u><u>555,845</u></u> |
| <b>Liabilities</b>                                    |                       |                       |                       |
| <b>Non-current liabilities</b>                        |                       |                       |                       |
| Borrowings  | 145,885               | 182,114               | 47,573                |
| Deferred revenue                                      | 4,116                 | 1,494                 | 5,592                 |
| Deferred income tax liabilities                       | –                     | 995                   | 2,785                 |
|   | <u>150,001</u>        | <u>184,603</u>        | <u>55,950</u>         |
| <b>Current liabilities</b>                            |                       |                       |                       |
| Trade payables, other payables and receipt in advance | 205,692               | 127,787               | 137,348               |
| Current income tax liabilities                        | –                     | –                     | 2,835                 |
| Borrowings  | –                     | 6,138                 | 112,178               |
| Deferred revenue                                      | 73,686                | 90,823                | 53,306                |
|   | <u>279,378</u>        | <u>224,748</u>        | <u>305,667</u>        |
| <b>Total liabilities</b>                              | <u>429,379</u>        | <u>409,351</u>        | <u>361,617</u>        |
| <b>Total equity and liabilities</b>                   | <u><u>707,525</u></u> | <u><u>904,951</u></u> | <u><u>917,462</u></u> |

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### Property, Plant and Equipment

Our property, plant and equipment primarily consist of an office building, computers, motor vehicles and leasehold improvement. We had property, plant and equipment of RMB22.3 million, RMB22.6 million, and RMB19.9 million as of December 31, 2015, 2016 and 2017, respectively.

### Land Use Right

Our land use right as of December 31, 2016 and 2017 primarily represents the value of land use right for the property we acquired in 2016.

### Intangible Assets, Net

Our intangible assets primarily consist of the copyright of a proprietary, computer software, domain names and goodwill. We had intangible assets of RMB31.3 million, RMB32.9 million and RMB30.9 million as of December 31, 2015, 2016, and 2017, respectively. The following table sets forth the details of our intangible assets as of the dates indicated.

|                            | As of December 31, |               |               |
|----------------------------|--------------------|---------------|---------------|
|                            | 2015               | 2016          | 2017          |
|                            | (RMB in thousands) |               |               |
| Game copyrights            | 1,911              | 273           | –             |
| Computer software licenses | 195                | 3,742         | 2,396         |
| Domain name                | 3,130              | 2,805         | 2,480         |
| Goodwill                   | 26,031             | 26,031        | 26,031        |
| <b>Total</b>               | <b>31,267</b>      | <b>32,851</b> | <b>30,907</b> |

Goodwill represents the excess of the consideration paid by us for the acquisition of the entire equity interest in Shenzhen Qianqi in August 2015 over the fair value of its identified net assets.

Computer software represents the costs we incurred to acquire software. The significant increase in computer software in 2016 was primarily due to the acquisition of the source code for developing our new games.

Our game copyrights decreased from RMB1.9 million in 2015 to nil in 2017, primarily due to the amortization of the copyright of our proprietary title, *DDTank*.

### Available-for-sale Financial Assets

Available-for-sale financial assets represent the equity investments held by our Group in private companies, where our shareholding is less than 20% and we do not have control



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or significant influence over their operations. Our available-for-sale financial assets increased significantly from RMB3.5 million as of December 31, 2015 to RMB42.0 million as of December 31, 2017, primarily due to (1) our new investments in third-party game companies and (2) the fair value change of our equity interest in Chengdu Peng Wan as a result of its listing on the National Equities Exchange and Quotations in 2016. We recorded impairment of RMB0.7 million and RMB1.0 million for our available-for-sale financial assets in 2016 and 2017 respectively.

### *Our Treasury and Investment Policy*

We have the following measures in place for our investments in financial assets such as wealth management products and equities:

- the Board is responsible for the overall planning, coordination, analysis and research of investment projects;
- we also implemented a management system including joint control, budget management, and personnel management for investment projects;
- we assign certain personnel to conduct long-term routine management of investment projects, including supervising the results of operation and financial status of the investee, monitoring the investee's profit distribution and dividend payment, and providing regular investment analysis reports; and
- our chief executive officer is responsible for the overall implementation of equity investments, and the accounting department shall report the progress of the investment to the chief executive officer in a timely manner; when major changes of investment conditions may affect our return on investments, the chief executive officer shall promptly report such changes to the Board and propose adjustment suggestions in order to facilitate timely revision of investment decisions by the Board.

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### Trade Receivables

Our trade receivables primarily represent amounts arising from the development and operation of online games and provision of online technology services, including sales proceeds collected from our users by third-party game publishers, third-party distribution platforms and payment channels which were not yet paid to us. We had trade receivables of RMB123.1 million, RMB149.8 million and RMB101.4 million as of December 31, 2015, 2016, and 2017, respectively. The increase in our trade receivables from 2015 to 2016 was generally consistent with the growth of our business. The decrease in our trade receivables from 2016 to 2017 was primarily due to our enhanced efforts in collecting trade receivables. The following table sets forth the details of our trade receivables as of the dates indicated.

|   | As of December 31, |                |                |
|---|--------------------|----------------|----------------|
|   | 2015               | 2016           | 2017           |
|   | (RMB in thousands) |                |                |
| Trade receivables                                   | 123,525            | 151,027        | 102,626        |
| Less: allowance for impairment of trade receivables | (389)              | (1,259)        | (1,259)        |
| <b>Trade receivables – net</b>                      | <b>123,136</b>     | <b>149,768</b> | <b>101,367</b> |

We made provisions for impairment of RMB0.4 million, RMB1.3 million and RMB1.3 million as of December 31, 2015, 2016 and 2017, respectively, on receivables from certain third party-game publishers, third-party platforms and payment channels which we then believed could not be collected. The increase in our impairment provision as of December 31, 2016 as compared to December 31, 2015 was primarily due to the accumulation of impairment provision associated with a game publisher partner.

We grant credit terms to third-party platforms and payment channels up to 120 days; however, we granted longer settlement terms to a handful of game distribution partners. The following table sets forth the aging analysis of our trade receivables based on the invoice date as of the dates indicated.

|                    | As of December 31, |                |                |
|--------------------|--------------------|----------------|----------------|
|                    | 2015               | 2016           | 2017           |
|                    | (RMB in thousands) |                |                |
| Up to 3 months     | 77,142             | 93,358         | 57,799         |
| 3 to 6 months      | 31,608             | 35,990         | 30,215         |
| 6 months to 1 year | 12,025             | 15,486         | 10,790         |
| 1-2 years          | 2,750              | 5,746          | 2,390          |
| Over 2 years       | –                  | 447            | 1,432          |
| <b>Total</b>       | <b>123,525</b>     | <b>151,027</b> | <b>102,626</b> |

As of April 30, 2018, we had settled RMB75.9 million, 74.0% of our trade receivables outstanding as of December 31, 2017.

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As of December 31, 2015, 2016 and 2017, our trade receivables past due but not impaired were RMB62.9 million, RMB73.8 million and RMB49.1 million, respectively. These overdue amounts were receivables related to certain third-party game publishers that 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.

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 were generally stable for 2015, 2016 and 2017. We do not consider that the fluctuation in the average trade receivables turnover days during the Track Record Period had a material adverse effect on our cash generated from our operating activities. The following table sets forth our average trade receivables turnover days for the periods indicated.

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2015</b>                    | <b>2016</b> | <b>2017</b> |
| Trade receivables turnover days <sup>(1)</sup> | 121                            | 124         | 103         |

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by revenue for the relevant year multiplied by 365 days.

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### Prepayments and Other Receivables

We had prepayments and other receivables of RMB106.2 million, RMB57.3 million and RMB50.0 million as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the details of our prepayments and other receivables as of the dates indicated.

|  | As of December 31, |                |               |
|--|--------------------|----------------|---------------|
|  | 2015               | 2016           | 2017          |
|  | (RMB in thousands) |                |               |
| <b>Included in non-current assets</b>      |                    |                |               |
| Rented deposits                            | 3,175              | 2,358          | 1,554         |
| Prepayment for technology services         | 5,041              | 8,242          | 6,294         |
| Prepayment for copyright loyalty           | 4,174              | –              | –             |
| Prepayment for investment                  | 7,211              | –              | –             |
| <b>Included in current assets</b>          |                    |                |               |
| Housing loans to employee                  | 18,659             | 6,128          | 5,349         |
| Loans granted to third parties             | –                  | 15,837         | 800           |
| Recoverable value-added tax                | 8,716              | 6,817          | 6,376         |
| Interest receivables                       | 1,989              | 7,929          | 13,852        |
| Prepayment for advertisement and marketing | 11,746             | 4,861          | 3,116         |
| Other prepayments                          | 3,309              | 2,131          | 9,058         |
| Deposit for investments                    | 30,000             | –              | –             |
| Down payment to game developer             | 5,517              | –              | –             |
| Others                                     | 6,625              | 3,015          | 3,563         |
|  | <b>Total</b>       | <b>106,162</b> | <b>57,318</b> |
|  |                    | <b>49,962</b>  |               |

### *Housing Loans to Employee*

The decrease of housing loans to employee during the Track Record Period was primarily due to the repayment of housing loans by certain employees.

### *Loans Granted to Third Parties*

Loans granted to third parties primarily represent (1) a one-off loan with a principal amount of RMB15,837,000 granted to a game publisher partner, which is an Independent Third Party, in March 2016 at an interest rate of 1% per annum for a maturity period of 15 months and (2) a one-off loan with a principal amount of RMB800,000 granted to a game developer, which is an Independent Third Party, in December 2017 at an interest rate of 1% per annum for a maturity period of 12 months. The terms of the loans were determined on an arm's length negotiation considering our business relationship with the borrowers. The borrower of the loan granted in March 2016 fully repaid such loan and accrued interests in July 2017. Except for the aforesaid loans, we did not grant any other loan to third parties during the Track Record Period.

### *Interest Receivables*

Interest receivables increased significantly during the Track Record Period, primarily due to accrued interest on our restricted bank deposits.

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### *Prepayment for Advertisement and Marketing*

Prepayment for advertisement and marketing decreased by 58.6% from RMB11.7 million in 2015 to RMB4.9 million in 2016, primarily because we prepaid an advertising fee of RMB10.0 million in 2015 in relation to advertising and marketing campaigns for a certain game.

### *Deposit and prepayment for Investments*

Deposit and prepayment for investments in 2015 represents prepaid expenses for our investments in third parties for certain game development projects. As a result of the underperformance of these game projects, we terminated our investments and withdrew the deposit and prepayment.

### **Financial Assets at Fair Value through Profit or Loss**

Financial assets at fair value through profit or loss represent our investments in an unlisted fund and wealth management products issued by major commercial banks in China.

As at December 31, 2016 and 2017, our wealth management products were principal-secured with an expected annualized rate of return not more than 3.6% and 4.1%, respectively. During the Track Record Period, none of our wealth management products were impaired or liquidated.

### **Restricted Cash**

Restricted cash primarily represents our deposits placed at banks to secure their loans granted to us.

### **Cash and Cash Equivalents**

Our cash and cash equivalents consist primarily of our cash at bank and on hand. We had cash and cash equivalents of RMB51.8 million, RMB47.9 million and RMB130.2 million as of December 31, 2015, 2016 and 2017, respectively. Our cash and cash equivalents increased significantly from December 31, 2016 to December 31, 2017, primarily due to an increase in advance from a game publisher partner. During the Track Record Period, our cash and cash equivalents were primarily denominated in RMB.

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### Trade and Other Payables

We had trade and other payables of RMB205.7 million, RMB127.8 million and RMB137.3 million as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the details of our trade and other payables as of the dates indicated.

|                                     | As of December 31, |                |                |
|-------------------------------------|--------------------|----------------|----------------|
|                                     | 2015               | 2016           | 2017           |
|                                     | (RMB in thousands) |                |                |
| Trade payables                      | 1,418              | 3,112          | 7,384          |
| Payroll liabilities                 | 8,367              | 13,279         | 6,505          |
| Advance from customers              | 30,254             | 3,118          | 74,809         |
| Other tax payables                  | 6,512              | 4,601          | 5,424          |
| Interest payables                   | 89                 | 86             | 85             |
| Dividend payables                   | 66,524             | 56,524         | 38,616         |
| Government grants                   | 8,050              | 7,364          | 2,728          |
| Payable to investee company         | –                  | 1,000          | –              |
| Payable to then holding company     | 68,000             | 34,000         | –              |
| Accrued expenses                    | 1,518              | 493            | 84             |
| Payable of investment in associates | 7,500              | 3,000          | –              |
| Others                              | 7,460              | 1,210          | 1,713          |
|                                     | <b>205,692</b>     | <b>127,787</b> | <b>137,348</b> |

### *Trade payables*

Our trade payables primarily represent server rental fees, licensing fees to game developers and marketing fees that we have incurred but not yet paid. Our trade payables increased from RMB1.4 million as of December 31, 2015 to RMB7.4 million as of December 31, 2017, primarily due to certain marketing fees we incurred from an advertising agency in 2017.

Our suppliers grant us credit terms up to 60 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, |              |              |
|--------------|--------------------|--------------|--------------|
|              | 2015               | 2016         | 2017         |
|              | (RMB in thousands) |              |              |
| 0-30 days    | 521                | 2,924        | 3,109        |
| 31-60 days   | 392                | 71           | 4,117        |
| 61-90 days   | 26                 | 20           | 61           |
| 91-180 days  | 220                | 97           | 97           |
| 181-365 days | 259                | –            | –            |
|              | <b>1,418</b>       | <b>3,112</b> | <b>7,384</b> |

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During the Track Record Period, our trade payables were mainly denominated in RMB. The following table sets forth our average trade payables turnover days for the periods indicated.

|   | <u>Year ended December 31,</u> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <u>2015</u>                    | <u>2016</u> | <u>2017</u> |
| Trade payables turnover days <sup>(1)</sup> | 31                             | 19          | 51          |

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by cost of sales for the relevant year multiplied by 365 days.

The increase in trade payables turnover days in 2017 was primarily due to the prolonged settlement of marketing fees owed to an advertising agency.

During the Track Record Period, we did not default on any trade payables that would have a material adverse effect on our financial position. As of April 30, 2018, we had settled RMB7.3 million, 98.5% of our trade payables outstanding as of December 31, 2017.

### ***Payroll Liabilities***

Payroll liabilities represent salaries and the annual bonus accrued but not yet paid to our employees. The increase in payroll liabilities as of December 31, 2016 was primarily due to an increase of accrued annual bonus.

### ***Advance from Customers***

Advance from customers primarily represents the licensing fees prepaid by game publisher partners to us for the exclusive right to operate our games in specified geographic areas. Advance from customers decreased significantly in 2016, primarily due to the return of prepaid licensing fee of RMB22.0 million in 2016 as a result of the termination of a game distribution agreement we entered into with a third-party publisher. Advance from customers increased significantly in 2017, primarily due advance from a game publisher partner for the rights to publish *DDTank (mobile)* in certain Southeast Asian countries and regions.

### ***Payable to then holding company***

Payable to parent company reflects the remaining balance of RMB68.0 million arising from an interest-free loan of RMB128.0 million we borrowed from an entity controlled by our then holding company, Changyou, in August 2015 which our Group repaid RMB60.0 million in December 2015. We repaid RMB34.0 million and RMB34.0 million in 2016 and 2017, respectively.

During the Track Record Period, our other payables were mainly denominated in RMB. We did not default on any other payables that would have a material adverse effect on our financial position.

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### Deferred Revenue

Deferred revenue consists primarily of unamortized virtual items in our games, which we continued to have obligations as at the reporting date. We had deferred revenue of RMB77.8 million, RMB92.3 million and RMB58.9 million as of December 31, 2015, 2016 and 2017, respectively.

### SHAREHOLDERS' EQUITY

Our total equity was RMB278.1 million, RMB495.6 million and RMB555.8 million as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth details of our equity as of the dates indicated.

|                   | As of December 31, |                |                |
|-------------------|--------------------|----------------|----------------|
|                   | 2015               | 2016           | 2017           |
|                   | (RMB in thousands) |                |                |
| Combined capital  | 10,000             | 10,000         | 10,042         |
| Other reserves    | 34,759             | 26,752         | 29,774         |
| Retained earnings | 233,387            | 458,848        | 516,029        |
| <b>Total</b>      | <b>278,146</b>     | <b>495,600</b> | <b>555,845</b> |

Our reserves consist of (1) share-based compensation, (2) share of other comprehensive income of associates, (3) currency translation differences and (4) fair value reserve for available-for-sale financial assets. See Note 25 to the Accountant's Report in Appendix I to this prospectus.

### LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our capital expenditures and working capital requirements mainly through cash generated from our operating activities. 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, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2015                    | 2016           | 2017           |
|   | (RMB in thousands)      |                |                |
| Net cash generated from operating activities                | 78,583                  | 206,269        | 373,072        |
| Net cash generated from/(used in) investing activities      | 393,292                 | (197,766)      | (366)          |
| Net cash used in financing activities                       | (438,483)               | (16,543)       | (287,247)      |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>33,392</b>           | <b>(8,040)</b> | <b>85,459</b>  |
| Cash and cash equivalents at beginning of the year          | 18,402                  | 51,794         | 47,854         |
| Exchange losses/(gains) on cash and cash equivalents        | –                       | 4,100          | (3,127)        |
| <b>Cash and cash equivalents at end of the year</b>         | <b>51,794</b>           | <b>47,854</b>  | <b>130,186</b> |

### *Net Cash Generated from Operating Activities*

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.

For 2017, we had net cash generated from operating activities of RMB373.1 million. This amount represents our profit before income tax of RMB279.2 million, adjusted primarily by (1) share of results from and dilution loss of investments in associates of RMB13.3 million, (2) gain on partial disposal on an available-for-sales financial asset of RMB11.8 million, and (3) changes in working capital items that positively affected operating cash flow, including an increase in trade and other payable of RMB72.7 million and decrease in trade receivables prepayments and other receivables of RMB14.2 million.

For 2016, we had net cash generated from operating activities of RMB206.3 million. This amount represents our profit before income tax of RMB2.4 million, adjusted primarily by (1) share-based compensation of RMB228.8 million, (2) depreciation of property, plant and equipment of RMB13.6 million, (3) share of results from investments in associates of RMB7.3 million and (4) changes in working capital items that negatively affected operating cash flow, including a decrease in trade and other payables of RMB29.3 million and offsetted by a decrease in trade receivables, prepayments and other receivables of RMB18.2 million.

For 2015, we had net cash generated from operating activities of RMB78.6 million. This amount represents our profit before income tax of RMB181.9 million, adjusted primarily by (1) depreciation of property, plant and equipment of RMB17.6 million, (2) share-based compensation of RMB13.5 million and (3) changes in working capital items that negatively affected operating cash flow, including an increase in trade receivable, prepayments and other receivables of RMB35.5 million, and a decrease in trade and other payables of RMB71.9 million.

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### *Net Cash Generated from/(Used in) Investing Activities*

For 2017, we had net cash used in investing activities of RMB0.4 million, primarily attributable to proceeds from maturity of wealth management products of RMB250.5 million, repayments of loans to third parties of RMB15.8 million and proceeds from disposal of available-for-sale financial assets of RMB12.5 million, partially offset by payments for purchase of wealth management products of RMB167.3 million, payment for an investment fund of RMB80.0 million and purchase of available-for-sale financial assets of RMB27.2 million.

For 2016, we had net cash used in investing activities of RMB197.8 million, primarily attributable to payments for purchases of wealth management products of RMB316.6 million, payments for purchase of land use rights of RMB74.7 million, payments for loans to third parties of RMB15.8 million, payments for purchases of property, plant and equipment purchases of RMB14.0 million partially offset by proceeds from maturity of wealth management products of RMB194.2 million and return of prepayment for long-term investments of RMB37.2 million.

For 2015, we had net cash generated from investing activities of RMB393.3 million, primarily attributable to proceeds from cash pooling arrangement with an entity controlled by then holding company of RMB629.5 million, proceeds from maturity of wealth management products of RMB290.1 million, partially offset by payments for purchases of wealth management products of RMB290.0 million, payments for investments in associates of RMB175.9 million, prepayments for long-term investments of RMB37.2 million and payments for purchases of property, plant and equipment of RMB16.0 million.

### *Net Cash used in Financing Activities*

For 2017, our net cash used in financing activities was RMB287.2 million, primarily representing repayments of bank borrowings and loans from Changyou, and dividends paid to Changyou and the then shareholders of Shenzhen 7Road.

For 2016, our net cash used in financing activities was RMB16.5 million, primarily representing repayments of bank borrowings and loans from Changyou, and dividends paid to Changyou.

For 2015, our net cash used in financing activities was RMB438.5 million, primarily representing repayments of loans from Changyou and a shareholder, and dividends paid to Changyou.

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### Working Capital

The following table sets forth our current assets and current liabilities as of the dates indicated.

|   | <u>As of December 31,</u> |                |                | <u>As of</u>     |
|---|---------------------------|----------------|----------------|------------------|
|   | <u>2015</u>               | <u>2016</u>    | <u>2017</u>    | <u>April 30,</u> |
|   | <u>(RMB in thousands)</u> |                |                |                  |
| <b>Current assets</b>                                 |                           |                |                |                  |
| Trade receivables                                     | 123,136                   | 149,768        | 101,367        | 170,770          |
| Prepayment and other receivables                      | 86,561                    | 46,718         | 42,114         | 85,203           |
| Income tax recoverable                                | 3,328                     | 7,730          | 458            | 1,431            |
| Financial assets at fair value through profit or loss | –                         | 123,587        | 43,000         | –                |
| Restricted cash                                       | –                         | –              | 162,330        | 162,330          |
| Cash and cash equivalents                             | 51,794                    | 47,854         | 130,186        | 71,207           |
| <b>Total current assets</b>                           | <u>264,819</u>            | <u>375,657</u> | <u>479,455</u> | <u>490,941</u>   |
| <b>Current liabilities</b>                            |                           |                |                |                  |
| Trade payables, other payables and receipt in advance | 205,692                   | 127,787        | 137,348        | 128,375          |
| Borrowings  | –                         | 6,138          | 112,178        | 105,876          |
| Deferred revenue                                      | 73,686                    | 90,823         | 53,306         | 64,881           |
| Current income tax liabilities                        | –                         | –              | 2,835          | 10,366           |
| <b>Total current liabilities</b>                      | <u>279,378</u>            | <u>224,748</u> | <u>305,667</u> | <u>309,498</u>   |
| <b>Net current (liabilities)/assets</b>               | <u>(14,559)</u>           | <u>150,909</u> | <u>173,788</u> | <u>181,443</u>   |

Our net current assets as of April 30, 2018 was RMB181.4 million, primarily due to our profit generated from operations.

We had net current assets of RMB173.8 million as of December 31, 2017, primarily due to our profit generated from operations and an increase in restricted cash reclassified from non-current assets as it became due within one year.

We had net current assets of RMB150.9 million as of December 31, 2016, primarily due to our profit generated from operations, which we placed in wealth management products issued by commercial banks in China.

We had net current liabilities of RMB14.6 million as of December 31, 2015, primarily due to dividend of RMB66.5 million payable to its then holding company by Shenzhen 7Road.

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents at bank or on hand and cash generated from operations. We manage our cash flow and working capital by closely monitoring and managing our

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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.

### Working Capital Statement

Taking into consideration of the financial resources presently available to us, including the available banking facilities, 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 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 and purchase of land use rights. Our capital expenditures were RMB19.2 million, RMB92.9 million and RMB2.9 million as of December 31, 2015, 2016 and 2017, respectively.

#### Capital Commitments

We had capital expenditure in relation to property, plant and equipment contracted for but not recognized as liabilities of nil, nil and RMB3.0 million as of December 31, 2015, 2016 and 2017, respectively.

#### Operating Lease Commitments

We lease office buildings under non-cancellable operating lease agreements with leases terms between three 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, |               |               |
|---|--------------------|---------------|---------------|
|   | 2015               | 2016          | 2017          |
|   | (RMB in thousands) |               |               |
| No later than one year                            | 10,116             | 7,280         | 7,341         |
| Later than one year and no later than two years   | –                  | 7,341         | 7,659         |
| Later than two years and no later than five years | –                  | 15,359        | 7,700         |
| <b>Total</b>                                      | <b>10,116</b>      | <b>29,980</b> | <b>22,700</b> |

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### OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

### INDEBTEDNESS

#### Bank Borrowings

As of April 30, 2018, being the latest practicable date for our statement of indebtedness, we had secured bank borrowings of RMB151.4 million. The bank borrowings were secured by our building of RMB12.5 million, land use rights of RMB72.6 million and restricted cash of RMB162.3 million. As of April 30, 2018, the Group had no unutilized banking facilities.

#### Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities.

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 April 30, 2018. Our Directors confirm that there has not been any material change in our indebtedness since April 30, 2018.

### KEY FINANCIAL RATIOS

|  | Year ended December 31, |              |              |
|--|-------------------------|--------------|--------------|
|  | 2015                    | 2016         | 2017         |
| <b>Profitability ratios</b>                    |                         |              |              |
| Gross profit margin <sup>(1)</sup>             | 83.3%                   | 89.2%        | 91.5%        |
| Adjusted net profit margin <sup>(2)</sup>      | 48.6%                   | 52.5%        | 59.2%        |
| Adjusted return on equity <sup>(3)</sup>       | 65.5%                   | 42.8%        | 47.4%        |
| Adjusted return on total assets <sup>(4)</sup> | 25.8%                   | 23.4%        | 28.7%        |
| <b>Liquidity ratios</b>                        |                         |              |              |
| Current ratio <sup>(5)</sup>                   | 0.9                     | 1.7          | 1.6          |
| <b>Gearing ratio<sup>(6)</sup></b>             | <b>76.9%</b>            | <b>44.8%</b> | <b>28.7%</b> |

- (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 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 Profit or Loss Components — Non-IFRS Measures” for details.
- (3) The calculation of return on equity is based on the adjusted profit for the year divided by year-end equity attributable to equity holders of our Company and multiplied by 100.0%.

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- (4) The calculation of return on total assets is based on the adjusted profit for the year divided by year-end total assets and multiplied by 100.0%.
- (5) The calculation of current ratio is based on current assets divided by current liabilities.
- (6) Gearing ratio is calculated as total debt, which includes payables incurred not in the ordinary course of business, divided by total equity and multiplied by 100%

### **Gross Profit Margin and Adjust Net Profit Margin**

See “— Period to Period Comparison of Results of Operations” for a discussion of the factors affecting our gross profit margin and adjusted net profit margin during the Track Record Period.

### **Adjusted Return on Equity**

Our adjusted return on equity decreased from 65.5% for 2015 to 42.8% for 2016, primarily because we recorded share-based compensation costs of RMB228.8 million in 2016 arising from the Management Buyout of our business from Changyou. Our adjusted return on equity increased slightly from 42.8% for 2016 to 47.4% for 2017, primarily due to (1) an increase in our adjusted net profit from 2016 to 2017; and (2) the declaration of dividends of RMB100 million and RMB100 million in April 2017 and October 2017 respectively, which reduced our equity attributable to equity holders of our Company as at December 31, 2017.

### **Adjusted Return on Total Assets**

Our adjusted return on total assets remained stable during the Track Record Period.

### **Current Ratio**

Our current ratio increased from 0.9 as of December 31, 2015 to 1.7 as of December 31, 2016, primarily due to an increase in financial assets at fair value through profit or loss of RMB123.6 million as a result of our investments in wealth management products issued by commercial banks, and a decrease in trade and other payables of RMB77.9 million.

## **RELATED PARTY TRANSACTIONS AND BALANCES**

During the Track Record Period, we licensed our games to Digital Hollywood, our related party for publishing and operation in certain geographical areas. The revenue generated from the transactions with Digital Hollywood was RMB10.0 million, RMB45.3 million and RMB26.4 million, respectively, in 2015, 2016 and 2017.

Digital Hollywood is a global online game publisher for China-based game developers. We collaborate with Digital Hollywood to publish our web games, such as *Wartune* and *DDTank* in certain overseas markets. To strengthen our business cooperation, we acquired 23% equity interest in Digital Hollywood in 2015 and had regarded it as our related party since October 2015. Our shareholding was diluted to 15.52% following its listing and public offering on the Stock Exchange in December 2017.

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The balances of trade receivables to Digital Hollywood as of December 31, 2015, 2016 and 2017 was RMB36.1 million, RMB26.4 million and RMB20.2 million, respectively. The balances primarily represent receivables due to revenue sharing between us and Digital Hollywood for our games distributed by Digital Hollywood. Such balances were unsecured, interest-free and repayable according to our agreed credit terms.

In addition to trade receivables to Digital Hollywood, we also granted loans to our key management with a total amount of RMB1.9 million, RMB0.8 million and RMB5.0 million in 2015, 2016 and 2017, respectively. 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 33 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 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.

### FINANCIAL RISKS

We are exposed to various types of financial risks in the ordinary course of business, primarily including market 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 through overseas publishers and are exposed to foreign exchange risk arising from various currency exposures. 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 2015, 2016 and 2017, if U.S. dollar had strengthened or weakened by 5% against RMB with all other variables held constant, our profit/loss for the year would have been RMB3.2 million higher/lower, RMB3.5 million lower/higher and RMB6.3 million higher/lower, mainly as a result of foreign exchange gains or losses on translation of net monetary assets denominated in US\$.

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### *Price Risk*

We are exposed to price risk in respect of our investments that are classified on the combined balance sheet either as available-for-sale or at fair value through profit or loss. We are not exposed to commodity price risk. To manage its price risk arising from the investments, we diversify our portfolio. Each investment is managed by our senior management on a case by case basis.

Our available-for-sale financial assets are held for capital appreciation and business strategic purposes. The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments had been 5% higher/lower, our other comprehensive income for 2015, 2016 and 2017 would have been RMB0.1 million, RMB0.4 million, and RMB1.8 million higher/lower, respectively.

In respect of our financial assets at fair value through profit or loss, the sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments had been 5% higher/lower, our profit/loss for 2015, 2016 and 2017 would have been nil, RMB5.6 million lower/higher, and RMB5.5 million higher/lower, respectively.

### *Cash Flow and Fair Value Interest Rate Risk*

Our interest rate risk arises from bank borrowings. All borrowings obtained at variable rates expose us to cash flow interest rate risk which is partially offset by cash held at variable rates.

We analyze our interest rate exposure on a regular basis to consider the options available for refinancing, renewal of existing positions, and alternative financing.

As of December 31, 2015, 2016 and 2017, if interest rate has increased/decreased by 100 basis points with all other variables held constant, our profit/loss for 2015, 2016 and 2017 would have been RMB0.5 million lower/higher, RMB1.6 million higher/lower and RMB1.8 million lower/higher, mainly as a result of increase/decrease in interest expense on borrowings.

### **Credit Risk**

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions (including restricted cash), as well as credit exposures to customers, including outstanding receivables and committed transactions. We assess the credit quality of our customers by taking into account various factors including their financial position, past experience and other factors. Our management do not expect any losses from non-performance by these counterparties except for those recognized.



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### 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.

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<br>3 months | Between<br>3 months<br>and 1 year | Between<br>1 and 2<br>years | Between<br>2 and 5<br>years | Over<br>5 years |
|---|-----------------------|-----------------------------------|-----------------------------|-----------------------------|-----------------|
|   | (RMB in thousands)    |                                   |                             |                             |                 |
| <b>As of December 31, 2015</b>  |                       |                                   |                             |                             |                 |
| Borrowings  | –                     | –                                 | –                           | 145,885                     | –               |
| Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables)  | 9,437                 | 49,943                            | 93,129                      | –                           | –               |
|   | 9,437                 | 49,943                            | 93,129                      | 145,885                     | –               |
| <b>As of December 31, 2016</b>  |                       |                                   |                             |                             |                 |
| Borrowings  | 1,535                 | 4,603                             | 134,541                     | 18,415                      | 29,158          |
| Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables)) | 6,034                 | 58,897                            | 34,494                      | –                           | –               |
|   | 7,569                 | 63,500                            | 169,035                     | 18,415                      | 29,158          |
| <b>As of December 31, 2017</b>  |                       |                                   |                             |                             |                 |
| Borrowings  | 1,535                 | 110,643                           | 6,138                       | 18,415                      | 23,020          |
| Trade and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payables)  | 8,732                 | 38,780                            | 342                         | 28                          | –               |
|   | 10,267                | 149,423                           | 6,480                       | 18,443                      | 23,020          |

### LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be RMB74.9 million comprising RMB30.4 million underwriting commission and RMB44.5 million other expenses assuming an Offer Price of HK\$1.86 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of RMB7.3 million, of which RMB6.1 million was charged to our combined statements of comprehensive income during the Track Record Period, while the remaining amount of RMB1.2 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

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further incur underwriting commission and other listing expenses of RMB67.6 million (including the underwriting commission of RMB30.4 million) upon the completion of the Global Offering, out of which RMB28.2 million will be charged to the combined statements of comprehensive income, and RMB39.4 million will be deducted from the share premium.

### **DIVIDEND**

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. In addition, PRC laws and regulations require that dividends of a PRC enterprise be paid only out of accumulated profits, if any, as determined in accordance with PRC accounting standards, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws and regulations also require a PRC enterprise to set aside at least 10% of its after-tax profits calculated based on PRC accounting standards each year, if any, to fund certain statutory reserves, which may not be distributed as cash dividends.

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 Company does not have a fixed dividend policy. Our Board has the absolute discretion to recommend any dividends.

In April 2015, Shenzhen 7Road declared dividends of RMB536.3 million to its then holding company. In April 2017 and October 2017, Shenzhen 7Road declared dividends of RMB100.0 million and RMB100.0 million respectively to its owners. In March 2018, Shenzhen 7Road declared dividends of RMB68.0 million to its owners. As of the Latest Practicable Date, we had dividend payable of RMB38.6 million which will be settled before the Listing. Other than the foregoing, we did not pay or declare dividends to our Shareholders during the Track Record Period. We will continue to re-evaluate the payment and amount of our future dividends in light of our financial conditions and the prevailing economic climate. However, there can be no assurance that dividends of any amount will be declared or distributed in any year.

### **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 December 31, 2017, our Company did not have any distributable reserves.

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### 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 December 31, 2017 or at any future date.

|  | <b>Audited<br/>combined<br/>net tangible<br/>assets of the<br/>Group<br/>attributable<br/>to the<br/>owners<br/>of the<br/>Company as<br/>of December 31,<br/>2017<sup>(1)</sup></b> | <b>Estimated net<br/>proceeds from<br/>the Global<br/>Offering<sup>(2)</sup></b> | <b>Unaudited<br/>pro forma<br/>adjusted<br/>net tangible<br/>assets<br/>attributable<br/>to the owners<br/>of the<br/>Company as<br/>of December 31,<br/>2017</b> | <b>Unaudited<br/>pro forma<br/>adjusted net<br/>tangible<br/>assets per<br/>Share<sup>(3)(4)</sup></b> | <b>Unaudited<br/>pro forma<br/>adjusted<br/>net tangible<br/>assets per Share<sup>(5)</sup></b> |
|--|--|--|---|--|---|
|  | <b>RMB'000</b>   | <b>RMB'000</b>   | <b>RMB'000</b>  | <b>RMB</b>   | <b>HK\$</b>   |
| Based on an Offer<br>Price of<br>HK\$1.50 per<br>Offer Share | 524,938  | 754,878  | 1,279,816   | 0.48   | 0.59  |
| Based on an Offer<br>Price of<br>HK\$2.22 per<br>Offer Share | 524,938  | 1,135,104  | 1,660,042   | 0.62   | 0.76  |

(1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at December 31, 2017 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the owners of the Company as at December 31, 2017 of RMB555,845,000 with an adjustment for the intangible assets as at December 31, 2017 of RMB30,907,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.50 (equivalent to RMB1.23) and HK\$2.22 (equivalent to RMB1.81) per Share, respectively, after deduction of estimated underwriting fees and other related expenses payable by the Group (excluding approximately RMB6,116,000 listing expenses which have been charged to our combined statements of comprehensive income up to December 31, 2017) and takes no account of any Shares which may be granted and issued by the Company pursuant to the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue shares and the general mandate to repurchase shares.

(3) The unaudited pro forma net tangible assets per Share are determined after the adjustments as described in the paragraph above and on the basis that 2,666,680,000 Shares are in issue (assuming that the Global Offering has been completed on December 31, 2017), without taking into account of any Shares which may be granted and issued by the Company pursuant to the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue shares and the general mandate to repurchase shares.

(4) Save as disclosed in Note (3) above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2017. In particular, the unaudited pro forma adjusted net tangible assets of our Group has not taken into account the dividends of RMB68.0 million declared by Shenzhen 7Road to its then Shareholders in March 2018. The unaudited pro forma adjusted net tangible assets per Share would have been HK\$0.55 (equivalent to RMB0.45) per Share based on the Offer Price of HK\$1.50 and HK\$0.73 (equivalent to RMB0.60) per Share based on the Offer Price of HK\$2.22, respectively, if the dividend of RMB68.0 million had been accounted for.

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## FINANCIAL INFORMATION

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- (5) In connection with the preparation of this unaudited pro forma statement of adjusted net tangible assets, the translation of Renminbi to Hong Kong dollars has been made at a rate of RMB1.00 to HK\$1.22.

### **POST-BALANCE SHEET EVENTS**

On March 5, 2018, dividends of RMB68,000,000 were approved by the board of directors of Shenzhen 7Road.

On March 31, 2018, 5,040,000 RSUs have been granted to certain employees of the Group.

See “Accountant’s Report” in Appendix I to this prospectus for details.

### **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 December 31, 2017.

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## CORNERSTONE INVESTORS

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### CORNERSTONE INVESTMENTS

As part of the International Offering, the Company has entered into cornerstone investment agreements with two cornerstone investors, details of which are set out below (together, the “**Cornerstone Investors**”).

The Cornerstone Investors have agreed to subscribe, or cause their respective designated entities to subscribe, at the Offer Price, for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be subscribed for with an aggregate amount of approximately US\$40,000,000.

Assuming an Offer Price of HK\$1.50 (being the low end of the Offer Price range set out in this prospectus), the Cornerstone Investors have agreed to subscribe for an aggregate of 209,066,000 Offer Shares, representing (a) approximately 7.84% of the total Shares in issue and approximately 31.36% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and (b) approximately 7.56% of the total number of Shares in issue and approximately 27.27% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$1.86, (being the mid-point of the Offer Price range set out in this prospectus), the Cornerstone Investors have agreed to subscribe for an aggregate of 168,600,000 Offer Shares, representing (a) approximately 6.32% of the total Shares in issue and approximately 25.29% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and (b) approximately 6.09% of the total number of Shares in issue and approximately 21.99% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$2.22 (being the high end of the Offer Price range set out in this prospectus), the Cornerstone Investors have agreed to subscribe for an aggregate of 141,258,000 Offer Shares, representing (a) approximately 5.30% of the total Shares in issue and approximately 21.19% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and (b) approximately 5.11% of the total number of Shares in issue and approximately 18.42% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is exercised in full.

The Offer Shares to be delivered to each of the Cornerstone Investors pursuant to the relevant cornerstone investment agreements will rank *pari passu* with all other Shares then in issue and to be listed on the Stock Exchange and will count towards the public float of the Shares.

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## CORNERSTONE INVESTORS

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The Offer Shares to be delivered to the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering or any exercise of the Over-allotment Option, as further described in “Structure of the Global Offering”.

To the best knowledge of our Company, each Cornerstone Investor is an Independent Third Party, is not a connected person of the Company and is not an existing Shareholder or a close associate (as defined in the Listing Rules). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will become a substantial Shareholder of the Company. In addition, to the best knowledge of our Company, each of the Cornerstone Investors is independent of each other and makes independent investment decisions.

The Cornerstone Investors (a) will not have any representation on the Board immediately following the completion of the Global Offering, (b) will not subscribe for any Offer Shares pursuant to the Global Offering, other than pursuant to the relevant cornerstone investment agreements; and (c) do not have any preferential rights compared with other public Shareholders in their respective cornerstone investment agreements.

### DETAILS OF THE CORNERSTONE INVESTORS

| Cornerstone Investor                | Investment Amount     | Number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) | Based on the Offer Price of HK\$1.50 (being the low end of the Offer Price range) |   |  |   |
|-------------------------------------|-----------------------|--|---|---|--|---|
|                                     |                       |  | Approximate % of total number of Offer Shares                                     |   | Approximate % of total Shares in issue immediately following the completion of the Global Offering |   |
|                                     |                       |  | Assuming the Over-allotment Option is not exercised                               | Assuming the Over-allotment Option is exercised in full | Assuming the Over-allotment Option is not exercised  | Assuming the Over-allotment Option is exercised in full |
| ZhongHua Financial Holdings Limited | US\$30,000,000        | 156,800,000  | 23.52%  | 20.45%  | 5.88%  | 5.67%   |
| Shengqu Technology Korean Limited   | US\$10,000,000        | 52,266,000   | 7.84%   | 6.82%   | 1.96%  | 1.89%   |
| <b>Total</b>                        | <b>US\$40,000,000</b> | <b>209,066,000</b>   | <b>31.36%</b>   | <b>27.27%</b>   | <b>7.84%</b>   | <b>7.56%</b>  |

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## CORNERSTONE INVESTORS

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|                                     |                       | Based on the Offer Price of HK\$2.22<br>(being the high end of the Offer Price range)                        |   |   |  |   |
|-------------------------------------|-----------------------|--|---|---|--|---|
|                                     |                       |  |   | Approximate % of total<br>number of Offer Shares                        | Approximate % of total<br>Shares in issue<br>immediately following the<br>completion of<br>the Global Offering |   |
| Cornerstone<br>Investor             | Investment<br>Amount  | Number of<br>Offer<br>Shares<br>(rounded<br>down to the<br>nearest<br>whole board<br>lot of 2,000<br>Shares) | Assuming<br>the Over-<br>allotment<br>Option is<br>not<br>exercised | Assuming<br>the Over-<br>allotment<br>Option is<br>exercised in<br>full | Assuming<br>the Over-<br>allotment<br>Option is<br>not<br>exercised  | Assuming<br>the Over-<br>allotment<br>Option is<br>exercised in<br>full |
| ZhongHua Financial Holdings Limited | US\$30,000,000        | 105,944,000  | 15.89%  | 13.82%  | 3.98%  | 3.83%   |
| Shengqu Technology Korean Limited   | US\$10,000,000        | 35,314,000   | 5.30%   | 4.60%   | 1.32%  | 1.28%   |
| <b>Total</b>                        | <b>US\$40,000,000</b> | <b>141,258,000</b>   | <b>21.19%</b>   | <b>18.42%</b>   | <b>5.30%</b>   | <b>5.11%</b>  |

The following information on the Cornerstone Investors was provided to the Company by the Cornerstone Investors.

### Information about ZhongHua Financial Holdings Limited

ZhongHua Financial Holdings Limited (“ZhongHua Financial”) was incorporated in Hong Kong. It is principally engaged in providing cross-border financial services, including securities transaction, enterprise merger & acquisition, offshore initial public offering, cross-border trade investment, financial asset management, investment management and relevant consulting services.

The subsidiaries of Zhonghua Financial include Chung Lee Securities Company Limited (眾利股票有限公司) (SFC CE No.AGR826), ZhongHua Finance Asset Management Co., Limited (SFC CE No.AWD972), Zhonghua Finance Capital Co., Limited (SFC CE No.AEM480) and ZhongHua Finance Group Limited (中華財務集團有限公司) (MLR No. 1763/2017).

### Information about Shengqu Technology Korean Limited

Shengqu Technology Korean Limited (“Shengqu”) is a limited liability company that was incorporated in the BVI in April 2009. It is a wholly owned subsidiary of Shengyue Network Technology (Shanghai) Co., Ltd (盛躍網絡科技(上海)有限公司) (“Shengyue Shanghai”), a company with limited liability established in the PRC in November 2016, whose principal business is the development and distribution of online games. Shengqu is a subsidiary through which Shengyue Shanghai invests in online games companies outside of the PRC.

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## **CORNERSTONE INVESTORS**

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### **CONDITIONS PRECEDENT**

The obligation of each Cornerstone Investor to subscribe, and the obligation of the Company to issue and deliver, the Offer Shares pursuant to the relevant cornerstone investment agreement is conditional upon the following:

- (a) the Hong Kong Underwriting Agreement and International Underwriting Agreement having been entered into and become effective and all of the conditions precedent to complete set forth therein shall have been satisfied and have become unconditional (or waived by the relevant parties thereto);
- (b) neither of the Hong Kong Underwriting Agreement and International Underwriting Agreement having been terminated;
- (c) the Offer Price having been agreed between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);
- (d) no laws having been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or the subscription of the Offer Shares under the relevant cornerstone investment agreement and there being no order or injunction of a court of competent jurisdiction in effect which precludes or prohibits the consummation of such transactions;
- (e) the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and
- (f) the representations, warranties, undertakings, acknowledgements and confirmations of the relevant Cornerstone Investor in the relevant cornerstone investment agreement remaining true and accurate in all material respects and not misleading and there being no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

### **RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS**

Each Cornerstone Investor has agreed that without the prior written consent of the Company, it will not, whether directly or indirectly, at any time during the period of six months from and inclusive of the Listing Date, dispose of (as defined in the relevant



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## CORNERSTONE INVESTORS

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cornerstone investment agreement) any of the Shares subscribed for by it pursuant to the relevant cornerstone investment agreement and any other securities of the Company which are derived therefrom (the “**Relevant Shares**”) or any interest in any company or entity holding any of the Relevant Shares.

Each Cornerstone Investor may transfer the Relevant Shares in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as a transfer to a wholly-owned subsidiary of such Cornerstone Investor or of such Cornerstone Investor’s parent company, provided that prior to such transfer, such wholly-owned subsidiary undertakes to be bound by such Cornerstone Investor’s obligations under the relevant cornerstone investment agreement and be subject to the restrictions on disposal of Relevant Shares imposed on such Cornerstone Investor.

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## FUTURE PLANS AND USE OF PROCEEDS

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### 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\$915.9 million, if the Over-allotment Option is not exercised, or approximately HK\$1,061.2 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$1.50 per Offer Share, being the low-end of the proposed Offer Price range;
- approximately HK\$1,148.4 million, if the Over-allotment Option is not exercised, or approximately HK\$1,328.7 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$1.86 per Offer Share, being the mid-point of the proposed Offer Price range; or
- approximately HK\$1,381.0 million, if the Over-allotment Option is not exercised, or approximately HK\$1,596.1 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$2.22 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\$1.86 per Share (being the mid-point of the indicative range of the Offer Price of HK\$1.50 to HK\$2.22 per Share):

- approximately HK\$344.5 million (equivalent to approximately RMB282.4 million, or approximately 30% of our total estimated net proceeds) to fund our research and development efforts in respect of developing proprietary online games and other IPs. In particular, we intend to use approximately HK\$103.4 million to recruit more research and development talents and to retain our existing talents with competitive compensation, approximately HK\$137.7 million for third-party development and approximately HK\$103.4 million for enhancing our data analysis capabilities;
- approximately HK\$344.5 million (equivalent to approximately RMB282.4 million, or approximately 30% of our total estimated net proceeds) to acquire popular IPs or other related assets from, or invest in or acquire, overseas or China-based popular IP providers. In particular, we intend to invest in popular IPs with an estimated lifecycle of longer than five years. We estimate the average return on investment would be above 20%, and the investment payback period would be approximately five years. The profitability of such acquired IPs may

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## FUTURE PLANS AND USE OF PROCEEDS

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vary depending on how we decide to monetize them through launching games, IP licensing or collaboration with third parties such as moviemakers in light of the nature of such IPs. 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\$229.8 million (equivalent to approximately RMB188.4 million, or approximately 20% of our total estimated net proceeds) to be used for potential investment in game developers and publishers with an expected average return on investment of above 20% and an investment payback period of approximately five years, depending on the market conditions and the size of the investment;
- approximately HK\$114.8 million (equivalent to approximately RMB94.1 million, or approximately 10% of our total estimated net proceeds) to fund our game publishing business, which includes payments for royalties and commissions in respect of licensed games, as game publishers are usually required to pay a fixed payment for the authorization for publishing before they start operating the games, the amount of which may vary depending on the popularity of the online games; and
- the balance of the net proceeds, which is HK\$114.8 million (equivalent to approximately RMB94.1 million, or approximately 10% of our total estimated net proceeds) to be used for working capital and other general corporate purposes.

The following table sets forth the timeline, estimated expenditures and funding sources by our use of net proceeds from the Global Offering:

|   | <u>Use of Proceeds</u>                       | <u>Estimated Expenditures</u><br>(RMB in millions) | <u>Funding Sources</u>                              |
|---|--|--|---|
| <b>From January 1, 2018 to June 30, 2018</b>  | Proprietary online games and other IPs       | 20.7<br>(expenditures already made)                | 100% from our cash generated from our operations    |
|   | Funding our game publishing business         | 71.5<br>(expenditures already made)                | 100% from our cash generated from our operations    |
| <b>From July 1, 2018 to December 31, 2018</b> | Proprietary online games and other IPs       | 19.3   | 100% from the net proceeds from the Global Offering |
|   | Acquisition of popular IPs                   | 20.0   | 100% from the net proceeds from the Global Offering |
|   | Investment in game developers and publishers | 20.0   | 100% from the net proceeds from the Global Offering |

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## FUTURE PLANS AND USE OF PROCEEDS

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|   | <u>Use of Proceeds</u>                       | <u>Estimated Expenditures</u><br>(RMB in millions) | <u>Funding Sources</u>                              |
|---|--|--|---|
| <b>From January 1, 2019 to June 30, 2019</b>  | Proprietary online games and other IPs       | 15.5   | 100% from the net proceeds from the Global Offering |
|   | Acquisition of popular IPs                   | 100.0  | 100% from the net proceeds from the Global Offering |
|   | Fund our game publishing business            | 20.0   | 100% from the net proceeds from the Global Offering |
| <b>From July 1, 2019 to December 31, 2019</b> | Proprietary online games and other IPs       | 35.5   | 100% from the net proceeds from the Global Offering |
|   | Investment in game developers and publishers | 100.0  | 100% from the net proceeds from the Global Offering |

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed below or above the midpoint of the indicative price range. Any additional proceeds received from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis. In the event that the Over-allotment Option is exercised in full, we will receive net proceeds of HK\$1,328.7 million (assuming an Offer Price of HK\$1.86 per Share, the midpoint of our indicative Offer Price range).

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.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### 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 66,668,000 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 600,012,000 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 666,680,000 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 Joint Global Coordinators, 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 66,668,000 Shares at the Offer Price (representing 10.0% 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.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### **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 33,334,000 and 33,334,000, 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 33,334,000 Hong Kong Public Offer Shares (being 50% of the 66,668,000 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 133,336,000 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 200,004,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering prior to the exercise of the Over-allotment Option;

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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- 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 200,004,000 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 266,672,000 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 266,672,000 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 333,340,000 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 Joint Global Coordinators deems appropriate. In addition, the Joint Global Coordinators 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 under the condition that (1) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed; or (2) the International Offering fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering. In such event, the Joint Global Coordinators have the authority to re-allocate International Offer Shares originally allocated in the International Offering to the Hong Kong Public Offering in such number as it deems appropriate, provided that in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, (1) the number of International Offer Shares re-allocated to the Hong Kong Public Offering should not exceed 66,668,000 Shares, such that the total number of Hong Kong Public Offer Shares will not exceed 133,336,000 Shares, representing 20% of the Offer Shares initially available under the Global Offering; and (2) the final Offer Price should be fixed at the bottom end of the indicative Offer Price range (i.e. HK\$1.50 per Offer Share) stated in this prospectus.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering in such proportions as the Joint Global Coordinators deems appropriate.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### **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.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.22 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\$2.22 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 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 600,012,000 Shares offered by the Company, representing 90.0% 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,



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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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.

The Joint Global Coordinators (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 Joint Global Coordinators 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 Joint Global Coordinators (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 100,002,000 Shares, representing no more than 15.0% 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 Joint Global Coordinators have 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 100,002,000 additional Offer Shares, representing 15.0% 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 Joint Global Coordinators 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 Joint Global Coordinators exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 3.6% 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 100,002,000 shares from

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Ben Holdings 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.

### 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 Global Coordinators on the Price Determination Date, which is expected to be on or about Wednesday, July 11, 2018 and in any event no later than Monday, July 16, 2018.

The Offer Price will not be more than HK\$2.22 per Offer Share and is expected to be not less than HK\$1.50 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 Joint Global Coordinators (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 Journal (in Chinese) and on the website of our Company ([www.7road.com](http://www.7road.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://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 Global Coordinators, 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 Global Coordinators, will under no circumstances be set outside the Offer Price range stated in this prospectus.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators 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 Joint Global Coordinators.

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 Tuesday, July 17, 2018 in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) and on the website of our Company ([www.7road.com](http://www.7road.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://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. GF Securities 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 after the last date for lodging application under the Hong Kong Public Offering which is expected to be on or around Wednesday, July 11, 2018. 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 100,002,000 Shares, which is 15% of the Shares initially available under the Global Offering.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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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 (1) purchases of Shares, (2) establishing, hedging and liquidating positions in Shares, (3) exercising the Over-allotment Option in whole or in part, (4) stock borrowing and/or (5) offering or attempting to do any of (1), (2), (3) or (4) 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 Friday, August 10, 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.

### OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Joint Global Coordinators, 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

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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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 15% Shares, representing no more than 100,002,000 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 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 Underwriters 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.

**If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators on or before Monday, July 16, 2018, 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.

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## **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

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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 Journal (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 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 bank 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 Tuesday, July 17, 2018. 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 (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 — 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).

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.

### **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 Wednesday, July 18, 2018, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, July 18, 2018. The Shares will be traded in board lots of 2,000 Shares each.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

GF Securities  
CCB International  
Haitong International Securities Company Limited  
AMTD Global Markets Limited  
CMB International Capital Limited  
First Shanghai Securities Limited  
Zhongtai International Securities Limited  
Head & Shoulders Securities Limited  
Futu Securities International (Hong Kong) Limited  
Valuable 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 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 Joint Global Coordinators 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:
  - (1) 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, or any member of the European Union or any other relevant jurisdiction (each a “Relevant Jurisdiction”); or

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## UNDERWRITING

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- (2) any change or development involving a prospective change or development, or any event or series of events resulting in or representing a change or development, or prospective change or development concerning or relating to 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 any foreign currencies) in or affecting any Relevant Jurisdiction; or
- (3) 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, any outbreak or escalation of hostilities (whether or not war is or has been declared) involving or affecting any of the Relevant Jurisdiction; or
- (4) (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, Shanghai Stock Exchange or Shenzhen Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Cayman Islands, Hong Kong 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
- (5) any adverse change or 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
- (6) any Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (7) 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



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## UNDERWRITING

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- (8) any materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus (as defined in the Hong Kong Underwriting Agreement) or the occurrence of any such events therein; or
- (9) a petition is presented for the winding up or liquidation of any member of our Group or any member of our 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 our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (10) any material litigation or claim being threatened or instigated against any member of our Group; or
- (11) the chairman and chief executive officer of our Company vacating his or her office for any reason,

which in any such case, whether individually or in aggregate and in the sole opinion of the Joint Global Coordinators (for itself and on behalf of the Hong Kong Underwriters),

- (A) is or is likely to or will be materially adverse to, or materially affect, the business or financial or trading or other condition or performance of our 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
  - (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 in this prospectus; or
- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:
- (1) that any statement contained in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement), the Formal Notice (as defined in the Hong Kong Underwriting Agreement) and any notices, announcements, advertisements, communications, or other

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## UNDERWRITING

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documents in the agreed form issued by our 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

- (2) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
- (3) any of the warranties given by our Company or the warrantors in the Hong Kong Underwriting Agreement is (or might when repeated be) being untrue or misleading or inaccurate in any respect; or
- (4) any event, act or omission which gives or is likely to give rise to any material liability of our Company pursuant to the indemnities given by our Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (5) any breach of any of the obligations or undertakings of our Company or the warrantors under the Hong Kong Underwriting Agreement or the International Underwriting Agreement which has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the business or financial conditions or prospects of our Group; or
- (6) 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 our Company and its subsidiaries taken as a whole; or
- (7) any of the experts named in the section headed “Statutory and General Information — Other Information — Consent of Experts” in Appendix IV to this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (8) our Company withdraws the Hong Kong Public Offering Documents (as defined under the Hong Kong Underwriting Agreement) or the Global Offering;

then the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) may in its sole discretion and upon giving notice to our Company on or prior to 8:00 a.m. on the Listing Date, terminate the Hong Kong Underwriting Agreement with immediate effect.

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## UNDERWRITING

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### **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 in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he or it is shown by this prospectus to be the beneficial owner (whether direct or indirect).

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 six 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.

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## UNDERWRITING

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### 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 Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that:

- (A) except pursuant to the Global Offering (including pursuant to the Over-allotment Option), it will not, without the prior written consent of the Joint Global Coordinators (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”):
- (1) 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, 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, 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
  - (2) enter into any swap, derivative, 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
  - (3) enter into any transaction with the same economic effect as any transaction described in paragraphs (1) or (2) above; or
  - (4) agree or contract to, or publicly announce any intention to enter into, any transaction described in (1), (2) or (3) above,

whether any of the foregoing transactions described in (1) to (3) 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 First Six-Month Period).

If the Company enters into any of the foregoing transactions described in (1) to (4) above or agrees or contracts to, or publicly announces any intention to enter into any such

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## UNDERWRITING

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transactions 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 reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

***Undertakings by Ben Holdings, World Holdings, Mr. Meng and Mr. Hu***

Pursuant to the Hong Kong Underwriting Agreement, each of Ben Holdings, World Holdings, Mr. Meng and Mr. Hu (collectively, “**Warrantors**”) has undertaken to the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that:

- (A) except pursuant to the Global Offering, the Over-allotment Option or if applicable, the Stock Borrowing Agreement, none of the Warrantors will, without the prior written consent of the Joint Global Coordinators, at any time during the First Six-Month Period:
- (1) 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 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), owned directly by the Warrantors (including holding as a custodian) or with respect to which any of the Warrantors has beneficial ownership (collectively, the “Lock-up Shares”) (the foregoing restriction is expressly agreed to preclude the Warrantors 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 Warrantors, respectively. Such prohibited hedging or other transactions would include without limitation any short sale or any 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
  - (2) 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 of our Company or any interest therein; or
  - (3) enter into any transaction with the same economic effect as any transaction described in (1) or (2) above; or

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## UNDERWRITING

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- (4) agree or contract to, or publicly announce any intention to enter into, any transaction described in (1) to (3) above,

whether any such transaction described in (1), (2) or (3) 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 First Six-Month Period).

During the Second Six-Month Period, the Warrantors will not enter into any of the foregoing transactions in (1), (2) or (3) 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, the Warrantors in aggregate would cease to be interested in 30% of the issued share capital of the Company.

Until the expiry of the Second Six-Month period, in the event that any of the Warrantors 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 Joint Global Coordinators 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 100,002,000 additional Shares representing 15.0% 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 fixed rate of 2% of the aggregate Offer Price payable for the Offer Shares (including the Shares to be issued pursuant to the Over-allotment Option). The Joint Sponsors are entitled to sponsors fee in the amount of HK\$9.41 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 1%. The aggregate underwriting commissions, incentive fee (if any), documentation fee,

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## UNDERWRITING

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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 HK\$91.6 million in total (based on the Offer Price of HK\$1.86 per Share, being the mid-point of the indicative Offer Price range of HK\$1.50 to HK\$2.22 per Share and assuming the Over-allotment Option is not exercised), and are payable by our Company.

### 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

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## UNDERWRITING

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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.

### **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.

### **JOINT SPONSORS' INDEPENDENCE**

Each of GF Capital and CCB International satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 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 **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.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 Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for 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 **White Form eIPO** service, in addition to the above, you must also: (1) have a valid Hong Kong identity card number and (2) 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 Joint Global Coordinators may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** 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 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.eipo.com.hk](http://www.eipo.com.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.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 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 Friday, June 29, 2018 until 12:00 noon on Wednesday, July 11, 2018 from:

any of the following offices of the Hong Kong Underwriters:

**GF Securities (Hong Kong) Brokerage Limited**

29-30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

**CCB International Capital Limited**

12/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong

**Haitong International Securities Company Limited**

22/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

**AMTD Global Markets Limited**

23-25/F Nexxus Building, 41 Connaught Road Central, Hong Kong

**CMB International Capital Limited**

45/F, Champion Tower, 3 Garden Road, Central, Hong Kong

**First Shanghai Securities Limited**

19/F, Wing On House, 71 Des Voeux Road Central, Hong Kong

**Zhongtai International Securities Limited**

7/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

**Head & Shoulders Securities Limited**

Room 2511, 25/F, Cosco Tower, 183 Queen's Road Central, Hong Kong

**Futu Securities International (Hong Kong) Limited**

11/F, Bangkok Bank Building, 18 Bonham Strand West, Sheung Wan, Hong Kong

**Valuable Capital Limited**

Room 2815, 28/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

| District                    | Branch Name   | Address   |
|-----------------------------|---|---|
| Hong Kong Island<br>Kowloon | Bank of China Tower Branch<br>194 Cheung Sha Wan Road<br>Branch | 3/F, 1 Garden Road<br>194-196 Cheung Sha Wan<br>Road, Sham Shui Po, Kowloon |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, June 29, 2018 until 12:00 noon on Wednesday, July 11, 2018 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 check or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — 7ROAD PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Friday, June 29, 2018 — 9:00 a.m. to 5:00 p.m.
- Saturday, June 30, 2018 — 9:00 a.m. to 1:00 p.m.
- Tuesday, July 3, 2018 — 9:00 a.m. to 5:00 p.m.
- Wednesday, July 4, 2018 — 9:00 a.m. to 5:00 p.m.
- Thursday, July 5, 2018 — 9:00 a.m. to 5:00 p.m.
- Friday, July 6, 2018 — 9:00 a.m. to 5:00 p.m.
- Saturday, July 7, 2018 — 9:00 a.m. to 1:00 p.m.
- Monday, July 9, 2018 — 9:00 a.m. to 5:00 p.m.
- Tuesday, July 10, 2018 — 9:00 a.m. to 5:00 p.m.
- Wednesday, July 11, 2018 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, July 11, 2018, 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.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (1) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (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;
- (2) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (3) 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;
- (4) 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;
- (5) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (6) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (7) 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;
- (8) agree to disclose to the Company, our Hong Kong Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (9) 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 Joint Global Coordinators and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (10) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (11) agree that your application will be governed by the laws of Hong Kong;
- (12) represent, warrant and undertake that (1) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (2) 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;
- (13) warrant that the information you have provided is true and accurate;
- (14) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (15) 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-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund check(s) in person;
- (16) 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;
- (17) understand that the Company and the Joint Global Coordinators 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;
- (18) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (19) (if you are making the application as an agent for the benefit of another person) warrant that (1) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (2) 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 WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, June 29, 2018 until 11:30 a.m. on Wednesday, July 11, 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, July 11, 2018 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 **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** 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.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### **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).

### **Environmental Protection**

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “7Road Holdings Limited” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

## **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.



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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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 Joint Global Coordinators and our Hong Kong Share Registrar.

### **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:

- (1) 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;
- (2) 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 Joint Global Coordinators 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;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- 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;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/or its respective advisors 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;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- 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.

### 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 2,000 Hong Kong Public Offer Shares. Instructions for more than 2,000 Hong

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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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:

- Friday, June 29, 2018 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Saturday, June 30, 2018 — 8:00 a.m. to 1:00 p.m.<sup>(1)</sup>
- Tuesday, July 3, 2018 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, July 4, 2018 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Thursday, July 5, 2018 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Friday, July 6, 2018 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Saturday, July 7, 2018 — 8:00 a.m. to 1:00 p.m.<sup>(1)</sup>
- Monday, July 9, 2018 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Tuesday, July 10, 2018 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, July 11, 2018 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, June 29, 2018 until 12:00 noon on Wednesday, July 11, 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, July 11, 2018, 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

<sup>(1)</sup> These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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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 bank, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **7. WARNING FOR ELECTRONIC APPLICATIONS**

The subscription of the Hong Kong 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 **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors and the Joint Global Coordinators and Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong 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 (1) submit a **WHITE** or **YELLOW** Application Form, or (2) go to HKSCC’s Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, July 11, 2018.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 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 **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 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.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see 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 Wednesday, July 11, 2018. 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 Wednesday, July 11, 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

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 Tuesday, July 17, 2018 in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on the Company’s website at **www.7road.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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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.7road.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Tuesday, July 17, 2018;
- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function on a 24-hour basis from 8:00 am on Tuesday, July 17, 2018 to 12:00 midnight on Monday, July 23, 2018;
- by telephone enquiry line by calling 2862-8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, July 17, 2018 to Friday, July 20, 2018;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, July 17, 2018 to Thursday, July 19, 2018 at all the designated 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.

### **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:

#### **(1) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.



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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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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.

**(2) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(3) 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
- 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.

**(4) 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;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the check 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 Joint Global Coordinators 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\$2.22 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 check or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, July 17, 2018.

### 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

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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(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 check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (1) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (2) 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 check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund checks and share certificates are expected to be posted on or before Tuesday, July 17, 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, July 18, 2018 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(1) 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 check(s) and/or Share certificate(s) from the Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 17, 2018 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

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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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 check(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 check(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, July 17, 2018, by ordinary post and at your own risk.

***(2) 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 check(s) will be sent to the address on the relevant Application Form on or before Tuesday, July 17, 2018, 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 Tuesday, July 17, 2018, 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.

- *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 Tuesday, July 17, 2018 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.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### *(3) If you apply through the White Form eIPO 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, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 17, 2018, or such other date as notified by the Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund checks.

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 or before Tuesday, July 17, 2018 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-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 check(s) by ordinary post at your own risk.

### *(4) 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 Tuesday, July 17, 2018, 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

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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in the manner specified in “Publication of Results” above on Tuesday, July 17, 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 17, 2018 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 Tuesday, July 17, 2018. 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.
- 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 Tuesday, July 17, 2018.

### 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 advisor 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 Joint Sponsors 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 7ROAD HOLDINGS LIMITED AND GF CAPITAL (HONG KONG) LIMITED AND CCB INTERNATIONAL CAPITAL LIMITED**

***Introduction***

We report on the historical financial information of 7Road Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-82, which comprises the combined balance sheets as at December 31, 2015, 2016 and 2017, the balance sheet of the Company as at December 31, 2017 and the combined statements of profit or loss, the combined statements of comprehensive income/(loss), the combined statements of changes in equity and the combined statements of cash flows for each of the years 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-82 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 29, 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

***Directors' responsibility for the Historical Financial Information***

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

***Reporting accountant's responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants. 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.

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 judgment, 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, 2017 and the combined financial position of the Group as at December 31, 2015, 2016 and 2017 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

### *Adjustments*

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.



***Dividends***

We refer to note 13 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period. No dividends have been paid by 7Road Holdings 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  
June 29, 2018

## I HISTORICAL FINANCIAL INFORMATION

*Preparation of Historical Financial Information*

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The 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 International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousands ("RMB'000") except when otherwise indicated.

**Combined statements of profit or loss**

|  | Note   | Year ended December 31, |                |                |
|--|--------|-------------------------|----------------|----------------|
|  |        | 2015                    | 2016           | 2017           |
|  |        | RMB'000                 | RMB'000        | RMB'000        |
| <b>Revenue</b>   | 5      | 375,611                 | 403,151        | 445,295        |
| Cost of revenue  | 8      | (62,881)                | (43,601)       | (37,881)       |
| <b>Gross profit</b>  |        | 312,730                 | 359,550        | 407,414        |
| Research and development expenses                              | 8      | (149,544)               | (90,667)       | (92,518)       |
| Selling and marketing expenses                                 | 8      | (5,745)                 | (46,237)       | (16,156)       |
| Administrative expenses  | 8      | (16,754)                | (26,198)       | (31,803)       |
| Share-based compensation costs arising from Management Buyout  | 8,9(c) | (13,461)                | (228,840)      | –              |
| Other income   | 6      | 39,347                  | 24,732         | 21,361         |
| Other gains, net   | 7      | 5,204                   | 5,577          | 5,260          |
| <b>Operating profit/(loss)</b>                                 |        | 171,777                 | (2,083)        | 293,558        |
| Finance income   | 10     | 11,291                  | 6,778          | 6,267          |
| Finance costs  | 10     | (1,243)                 | (5,136)        | (7,281)        |
| Finance income/(costs), net                                    | 10     | 10,048                  | 1,642          | (1,014)        |
| Share of results of associates                                 | 17     | 36                      | 7,306          | 313            |
| Impairment loss and dilution loss on investments in associates | 17     | –                       | (4,500)        | (13,612)       |
| <b>Profit before income tax</b>                                |        | 181,861                 | 2,365          | 279,245        |
| Income tax expense   | 11     | (13,130)                | (19,205)       | (22,064)       |
| <b>Profit/(loss) for the year</b>                              |        | 168,731                 | (16,840)       | 257,181        |
| <b>Profit/(loss) attributable to owners of the Company</b>     |        | 168,731                 | (16,840)       | 257,181        |
| <b>Earnings per share</b>                                      | 12     | Not applicable          | Not applicable | Not applicable |

**Combined statements of comprehensive income/(loss)**

|  | Note | Year ended December 31, |                 |                |
|--|------|-------------------------|-----------------|----------------|
|  |      | 2015                    | 2016            | 2017           |
|  |      | RMB'000                 | RMB'000         | RMB'000        |
| <b>Profit/(loss) for the year</b>  |      | 168,731                 | (16,840)        | 257,181        |
| <b>Other comprehensive income:</b>   |      |                         |                 |                |
| <i>Items that may be reclassified to profit or loss</i>                        |      |                         |                 |                |
| Fair value changes on available-for-sale financial assets, net of tax          |      | –                       | 2,986           | 5,373          |
| Currency translation differences   |      | 710                     | 3,351           | (3,217)        |
| Share of other comprehensive (loss)/ income of associates                      | 17   | (112)                   | (883)           | 866            |
| Other comprehensive income, net of tax   |      | 598                     | 5,454           | 3,022          |
| <b>Total comprehensive income/(loss) for the year</b>                          |      | <u>169,329</u>          | <u>(11,386)</u> | <u>260,203</u> |
| <b>Total comprehensive income/(loss) attributable to owners of the Company</b> |      | <u>169,329</u>          | <u>(11,386)</u> | <u>260,203</u> |

## Combined balance sheets

|   | Note | As at December 31,    |                       |                       |
|---|------|-----------------------|-----------------------|-----------------------|
|   |      | 2015                  | 2016                  | 2017                  |
|   |      | RMB'000               | RMB'000               | RMB'000               |
| <b>Assets</b>   |      |                       |                       |                       |
| <b>Non-current assets</b>                             |      |                       |                       |                       |
| Property, plant and equipment                         | 14   | 22,327                | 22,592                | 19,895                |
| Land use rights                                       | 15   | –                     | 74,339                | 73,056                |
| Intangible assets                                     | 16   | 31,267                | 32,851                | 30,907                |
| Investments in associates                             | 17   | 186,644               | 201,090               | 175,268               |
| Available-for-sale financial assets                   | 19   | 3,521                 | 10,339                | 41,979                |
| Financial assets at fair value through profit or loss | 22   | –                     | –                     | 80,000                |
| Prepayment and other receivables                      | 21   | 19,601                | 10,600                | 7,848                 |
| Restricted cash                                       | 23   | 170,380               | 169,694               | 2,728                 |
| Deferred income tax assets                            | 28   | 8,966                 | 7,789                 | 6,326                 |
|   |      | <u>442,706</u>        | <u>529,294</u>        | <u>438,007</u>        |
| <b>Current assets</b>                                 |      |                       |                       |                       |
| Trade receivables                                     | 20   | 123,136               | 149,768               | 101,367               |
| Prepayment and other receivables                      | 21   | 86,561                | 46,718                | 42,114                |
| Income tax recoverable                                |      | 3,328                 | 7,730                 | 458                   |
| Financial assets at fair value through profit or loss | 22   | –                     | 123,587               | 43,000                |
| Restricted cash                                       | 23   | –                     | –                     | 162,330               |
| Cash and cash equivalents                             | 23   | 51,794                | 47,854                | 130,186               |
|   |      | <u>264,819</u>        | <u>375,657</u>        | <u>479,455</u>        |
| <b>Total assets</b>                                   |      | <u><u>707,525</u></u> | <u><u>904,951</u></u> | <u><u>917,462</u></u> |
| <b>Equity and liabilities</b>                         |      |                       |                       |                       |
| <b>Equity attributable to owners of the Company</b>   |      |                       |                       |                       |
| Combined capital                                      | 24   | 10,000                | 10,000                | 10,042                |
| Other reserves  | 25   | 34,759                | 26,752                | 29,774                |
| Retained earnings                                     |      | 233,387               | 458,848               | 516,029               |
| <b>Total equity</b>                                   |      | <u><u>278,146</u></u> | <u><u>495,600</u></u> | <u><u>555,845</u></u> |
| <b>Liabilities</b>                                    |      |                       |                       |                       |
| <b>Non-current liabilities</b>                        |      |                       |                       |                       |
| Borrowings  | 26   | 145,885               | 182,114               | 47,573                |
| Deferred revenue                                      | 27   | 4,116                 | 1,494                 | 5,592                 |
| Deferred income tax liabilities                       | 28   | –                     | 995                   | 2,785                 |
|   |      | <u>150,001</u>        | <u>184,603</u>        | <u>55,950</u>         |
| <b>Current liabilities</b>                            |      |                       |                       |                       |
| Trade payables, other payables and receipt in advance | 29   | 205,692               | 127,787               | 137,348               |
| Borrowings  | 26   | –                     | 6,138                 | 112,178               |
| Current income tax liabilities                        |      | –                     | –                     | 2,835                 |
| Deferred revenue                                      | 27   | 73,686                | 90,823                | 53,306                |
|   |      | <u>279,378</u>        | <u>224,748</u>        | <u>305,667</u>        |
| <b>Total liabilities</b>                              |      | <u><u>429,379</u></u> | <u><u>409,351</u></u> | <u><u>361,617</u></u> |
| <b>Total equity and liabilities</b>                   |      | <u><u>707,525</u></u> | <u><u>904,951</u></u> | <u><u>917,462</u></u> |

**Balance sheet of the Company**

|                               | <b>As at<br/>December 31,<br/>2017</b> |
|-------------------------------|--|
| <i>Note</i>                   | <b>RMB'000</b>                         |
| <b>Assets</b>                 |  |
| <b>Non-current assets</b>     |  |
| Investment in a subsidiary    | —                                      |
|                               | <hr/>                                  |
|                               | —                                      |
|                               | <hr/>                                  |
| <b>Current assets</b>         |  |
| Receivables from shareholders | 42                                     |
|                               | <hr/>                                  |
|                               | 42                                     |
|                               | <hr/>                                  |
| <b>Total assets</b>           | <b>42</b>                              |
|                               | <hr/> <hr/>                            |
| <b>Equity</b>                 |  |
| <b>Capital and reserves</b>   |  |
| Share capital                 | 24 42                                  |
|                               | <hr/>                                  |
| <b>Total equity</b>           | <b>42</b>                              |
|                               | <hr/> <hr/>                            |

## Combined statements of changes in equity

|   | Note | Attributable to owners of the Company |                |                   |                |
|---|------|---------------------------------------|----------------|-------------------|----------------|
|   |      | Combined capital                      | Other reserves | Retained earnings | Total equity   |
|   |      | RMB'000                               | RMB'000        | RMB'000           | RMB'000        |
| <b>Balance at January 1, 2015</b>                                 |      | 10,000                                | 20,700         | 601,005           | 631,705        |
| <b>Comprehensive income</b>                                       |      |                                       |                |                   |                |
| Profit for the year   |      | –                                     | –              | 168,731           | 168,731        |
| Other comprehensive income  |      |                                       |                |                   |                |
| Currency translation differences                                  |      | –                                     | 710            | –                 | 710            |
| Share of other comprehensive loss of associates                   |      | –                                     | (112)          | –                 | (112)          |
| <b>Total comprehensive income</b>                                 |      | –                                     | 598            | 168,731           | 169,329        |
| <b>Transactions with owners in their capacity as owners</b>       |      |                                       |                |                   |                |
| Share-based compensations – value of services                     |      | –                                     | 13,461         | –                 | 13,461         |
| Dividends   | 13   | –                                     | –              | (536,349)         | (536,349)      |
| <b>Total transactions with owners in their capacity as owners</b> |      | –                                     | 13,461         | (536,349)         | (522,888)      |
| <b>Balance at December 31, 2015</b>                               |      | <u>10,000</u>                         | <u>34,759</u>  | <u>233,387</u>    | <u>278,146</u> |
| <b>Balance at January 1, 2016</b>                                 |      | <u>10,000</u>                         | <u>34,759</u>  | <u>233,387</u>    | <u>278,146</u> |
| <b>Comprehensive income</b>                                       |      |                                       |                |                   |                |
| Loss for the year   |      | –                                     | –              | (16,840)          | (16,840)       |
| Other comprehensive income  |      |                                       |                |                   |                |
| Currency translation differences                                  |      | –                                     | 3,351          | –                 | 3,351          |
| Share of other comprehensive loss of associates                   |      | –                                     | (883)          | –                 | (883)          |
| Fair value change in available-for-sale financial assets          |      | –                                     | 2,986          | –                 | 2,986          |
| <b>Total comprehensive income/(loss)</b>                          |      | –                                     | 5,454          | (16,840)          | (11,386)       |
| <b>Transactions with owners in their capacity as owners</b>       |      |                                       |                |                   |                |
| Share-based compensations   |      |                                       |                |                   |                |
| – value of services   |      | –                                     | 228,840        | –                 | 228,840        |
| – vesting of shares   |      | –                                     | (242,301)      | 242,301           | –              |
| <b>Total transactions with owners in their capacity as owners</b> |      | –                                     | (13,461)       | 242,301           | 228,840        |
| <b>Balance at December 31, 2016</b>                               |      | <u>10,000</u>                         | <u>26,752</u>  | <u>458,848</u>    | <u>495,600</u> |

|   | Attributable to owners of the Company |               |               |                |                |
|---|---------------------------------------|---------------|---------------|----------------|----------------|
|   | Combined                              | Other         | Retained      | Total          |                |
|   | capital                               | reserves      | earnings      | equity         |                |
| Note  | RMB'000                               | RMB'000       | RMB'000       | RMB'000        |                |
| <b>Balance at January 1, 2017</b>                                 |                                       | 10,000        | 26,752        | 458,848        | 495,600        |
| <b>Comprehensive income</b>                                       |                                       |               |               |                |                |
| Profit for the year   |                                       | –             | –             | 257,181        | 257,181        |
| Other comprehensive income  |                                       |               |               |                |                |
| Currency translation differences                                  |                                       | –             | (3,217)       | –              | (3,217)        |
| Share of other comprehensive income of associates                 |                                       | –             | 866           | –              | 866            |
| Fair value change on available-for-sale financial assets          |                                       | –             | 5,373         | –              | 5,373          |
| <b>Total comprehensive income</b>                                 |                                       | –             | 3,022         | 257,181        | 260,203        |
| <b>Transactions with owners in their capacity as owners</b>       |                                       |               |               |                |                |
| Issuance of shares  |                                       | 42            | –             | –              | 42             |
| Dividends   | 13                                    | –             | –             | (200,000)      | (200,000)      |
| <b>Total transactions with owners in their capacity as owners</b> |                                       | 42            | –             | (200,000)      | (199,958)      |
| <b>Balance at December 31, 2017</b>                               |                                       | <u>10,042</u> | <u>29,774</u> | <u>516,029</u> | <u>555,845</u> |

## Combined statements of cash flows

|  | Note  | Year ended December 31, |                  |                  |
|--|-------|-------------------------|------------------|------------------|
|  |       | 2015                    | 2016             | 2017             |
|  |       | RMB'000                 | RMB'000          | RMB'000          |
| <b>Cash flows from operating activities</b>  |       |                         |                  |                  |
| Cash generated from operations   | 30    | 98,501                  | 228,406          | 383,666          |
| Interest received  |       | 612                     | 839              | 348              |
| Interest paid  |       | (201)                   | (545)            | (448)            |
| Income tax paid  |       | (20,329)                | (22,431)         | (10,494)         |
| <b>Net cash generated from operating activities</b>  |       | <b>78,583</b>           | <b>206,269</b>   | <b>373,072</b>   |
| <b>Cash flows from investing activities</b>  |       |                         |                  |                  |
| Payments for investments in associates   |       | (175,939)               | (4,500)          | (999)            |
| Purchases of available-for-sale financial assets   |       | (2,113)                 | (1,500)          | (27,200)         |
| Disposal of available-for-sale financial assets  |       | –                       | –                | 12,500           |
| Deposit and prepayment for long-term investments   |       | (37,211)                | –                | –                |
| Return of prepayments for long-term investments  |       | –                       | 37,211           | –                |
| Acquisition of subsidiaries, net of cash acquired  | 31    | (846)                   | –                | –                |
| Payments for purchases of property, plant and equipment  |       | (15,988)                | (13,957)         | (2,767)          |
| Payments for purchases of land use rights  |       | –                       | (74,660)         | –                |
| Proceeds from disposal of property, plant and equipment  |       | 910                     | 54               | 35               |
| Payments for purchases of intangible assets  |       | (3,253)                 | (4,245)          | (163)            |
| Proceeds from cash pooling arrangement with an entity controlled by then holding company                                 |       | 629,546                 | –                | –                |
| Payment for an investment fund designated as financial assets at fair value through profit or loss                       |       | –                       | –                | (80,000)         |
| Payments for purchases of wealth management products designated as financial assets at fair value through profit or loss |       | (290,000)               | (316,600)        | (167,292)        |
| Proceeds from maturity of wealth management products designated as financial assets at fair value through profit or loss |       | 290,062                 | 194,191          | 250,455          |
| Loans granted to related parties   |       | (1,911)                 | (791)            | (5,000)          |
| Repayments of loans granted to related parties   |       | 35                      | 2,868            | 5,028            |
| Payments for loans to third parties  |       | –                       | (15,837)         | (800)            |
| Repayments of loans to third parties   |       | –                       | –                | 15,837           |
| <b>Net cash generated from/(used in) investing activities</b>  |       | <b>393,292</b>          | <b>(197,766)</b> | <b>(366)</b>     |
| <b>Cash flows from financing activities</b>  |       |                         |                  |                  |
| Proceeds from bank borrowings  |       | 145,885                 | 61,600           | –                |
| Repayments of bank borrowings  |       | –                       | (29,549)         | (28,503)         |
| Proceeds from loan from an entity controlled by then holding company   |       | 128,000                 | –                | –                |
| Repayments of loan from an entity controlled by then holding company   |       | (60,000)                | (34,000)         | (34,000)         |
| Loan from shareholders   |       | –                       | 35,200           | –                |
| Repayments of a loan from a shareholder  |       | (19,258)                | (35,200)         | –                |
| Dividends paid to then holding company   |       | (469,826)               | (10,000)         | (17,908)         |
| Dividends paid to the owners   |       | –                       | –                | (200,000)        |
| Interest paid  |       | (954)                   | (4,594)          | (6,836)          |
| Placement of restricted bank deposits  |       | (162,330)               | –                | –                |
| <b>Net cash used in financing activities</b>   |       | <b>(438,483)</b>        | <b>(16,543)</b>  | <b>(287,247)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>  |       |                         |                  |                  |
| Cash and cash equivalents at beginning of the year   | 23(a) | 18,402                  | 51,794           | 47,854           |
| Exchange gains/(losses) on cash and cash equivalents   |       | –                       | 4,100            | (3,127)          |
| <b>Cash and cash equivalents at end of the year</b>  | 23(a) | <b>51,794</b>           | <b>47,854</b>    | <b>130,186</b>   |



**II NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1 General information, reorganization and basis of presentation*****1.1 General information***

7Road Holdings Limited (the “Company”) was incorporated in the Cayman Islands on September 6, 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Sertus Chambers, Governors Square, Suite #5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the development and distribution of web games and mobile games in the People’s Republic of China (the “PRC”) and other countries and regions (the “Listing Business”).

***1.2 History of the Group***

Prior to the incorporation of the Company and completion of the Group reorganization as described in Note 1.3 below (“Reorganization”), the Listing Business was carried out through Shenzhen 7Road Technology Co., Ltd. (深圳第七大道科技有限公司, “Shenzhen 7Road”), a limited liability company established in the PRC on January 22, 2008, and its subsidiaries, including Shenzhen Qianqi Network Technology Co., Ltd. (深圳市千奇網絡科技有限公司) (“Shenzhen Qianqi”), Huoerguosi 7th Road Network Technology Co., Ltd (霍爾果斯第七大道網絡科技有限公司) (“Huoerguosi 7Road”) and 7Road International HK Limited (第七大道國際(香港)有限公司) (“7Road International HK”) (collectively, the “Operating Entities”), throughout the Track Record Period.

Shenzhen 7Road was established in the PRC on January 22, 2008 and then became a wholly-owned subsidiary of Beijing Gamease Age Digital Technology Co., Ltd. (“Beijing Changyou”) on May 1, 2013. On August 4, 2015, Beijing Changyou transferred all of its equity interest in Shenzhen 7Road and two overseas entities to Shanghai Yong Chong Investment Center (Limited liability partnership) (“Yong Chong”) at an aggregate consideration of United States Dollar (“US\$”) 205 million.

In November 2015, Mr. Meng Shuqi, Mr. Hu Min and Mr. Liu Jing acquired 23.50%, 16.56% and 10.95% equity interest in Shenzhen 7Road from Yong Chong at cash considerations of RMB 157,142,000, RMB 110,735,000 and RMB 73,211,000, respectively (“Management Buyout”) and Wuxi Yi Yao Investment Center (Limited liability partnership) (“Wuxi Yi Yao”) also acquired 17.5% equity interest in Shenzhen 7Road from Yong Chong at cash consideration of RMB118,000,000.

On November 23, 2016, Yong Chong transferred 0.74% and 30.76% equity interests in Shenzhen 7Road to Shanghai Ting Can Investment Center (Limited

liability partnership) (“Shanghai Ting Can”) and Ningbo Bao Pu Xin Sheng Asset Management (Limited liability partnership) (“Ningbo Bao Pu”) at considerations of RMB31,080,000 and RMB1,292,000,000, respectively. On the same day, Wuxi Yi Yao and Mr. Meng Shuqi transferred 17.50% and 2.00% equity interest in Shenzhen 7Road to Shanghai Ting Can at considerations of RMB735,000,000 and RMB84,000,000, respectively. Mr. Meng Shuqi, Mr. Hu Min and Mr. Liu Jing entered into performance compensation agreements (the “Performance Compensation Agreements”) with Ningbo Bao Pu and Shanghai Ting Can. Mr. Meng Shuqi, Mr. Hu Min and Mr. Liu Jing entered into suspension agreements with Ningbo Bao Pu and Shanghai Ting Can in April 2018 to terminate the Performance Compensation Agreements upon completion of the listing of the Company’s shares.

### *1.3 Reorganization of the Group*

In preparing for listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization. Details of the Reorganization are set out below:

- (1) On August 31, 2017, Ben 7Road Holdings Limited (“Ben Holdings”), World 7Road Holdings Limited (“World Holdings”) and Zing 7Road Holdings Limited (“Zing Holdings”) was incorporated in the British Virgin Islands (“BVI”) and wholly owned by Mr. Meng Shuqi, Mr. Hu Min and Mr. Liu Jing, respectively.
- (2) On September 6, 2017, the Company was incorporated in the Cayman Islands with limited liability and authorized share capital of US\$50,000, divided into 500,000,000 shares of a par value of US\$0.0001 each. One ordinary share was allotted and issued for cash at par to the initial subscriber and was subsequently transferred from the initial subscriber to Ben Holdings on the same day. The Company further allotted and issued 9,999 ordinary shares for cash at par to Ben Holdings on the same day.
- (3) All of the other ultimate beneficial investors of Shenzhen 7Road had each incorporated a wholly-owned investment holding company in the BVI (the “Offshore Holding Companies”). Furthermore, ESOP 1 Holdings Limited and ESOP 2 Holdings Limited, limited liability companies incorporated in the BVI, were established by Ben Holdings and World Holdings, respectively to be nominees to hold the shares of the Company pursuant to the Restricted Share Unit Plan adopted by the Company on March 6, 2018 (“RSU Plan”).

- (4) On November 17, 2017, February 28, 2018, March 12, 2018 and May 4, 2018, the Company allotted and issued an aggregate of 99,990,000 ordinary shares for cash at par to the offshore investment holding companies pursuant to the Offshore Shareholding Agreement. Up to December 31, 2017, 63,729,400 ordinary shares were allotted and issued for cash at par to the offshore investment holding companies. Immediately after this shares issuance, the shareholding structure of the Company is as follows:

| Name of Company                | Number of Shares | Percentage of Shareholding |
|--------------------------------|------------------|----------------------------|
| Ben Holdings                   | 21,496,100       | 21.4961%                   |
| World Holdings                 | 16,557,300       | 16.5573%                   |
| Zing Holdings <sup>(i)</sup>   | 2,000,000        | 2.0000%                    |
| Offshore Holding Companies     | 51,000,000       | 51.00%                     |
| ESOP 1 Holdings <sup>(i)</sup> | 4,946,600        | 4.9466%                    |
| ESOP 2 Holdings <sup>(i)</sup> | 4,000,000        | 4.0000%                    |

*Note:*

- (i) Ordinary shares of the Company were allotted and issued to the Offshore Holding Companies in the same proportions as their percentage of equity interest in the Shenzhen 7Road immediately prior to the signing of the Offshore Shareholding Agreement except that an aggregate of 8,946,600 ordinary shares allotted and issued to ESOP 1 Holdings and ESOP 2 Holdings are ordinary shares originally planned to be allotted to Mr. Liu Jing in accordance with his shareholding percentage in Shenzhen 7Road. Mr. Liu Jing resigned as the director of the subsidiaries of the Group with effect from November 7, 2017 and Mr. Liu Jing agreed to contribute these shares to ESOP 1 Holdings and ESOP 2 Holdings for the purpose of establishment of the RSU Plan.
- (5) On September 15, 2017, 7Road Fun Limited (“7Road BVI”) was incorporated in the BVI as a wholly-owned subsidiary of the Company.
- (6) On October 9, 2017, 7Road HK Digital Limited. (“7Road Hong Kong”) was incorporated in Hong Kong as a wholly-owned subsidiary of 7Road BVI.
- (7) On December 15, 2017, an equity transfer agreement was entered into by Shenzhen 7Road and Ms. Bao Wei, an independent third party, pursuant to which Shenzhen 7Road agreed to transfer and Ms. Bao Wei agreed to purchase 5% of the equity interest of Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳前海幻境網絡科技有限公司) (“Qianhai Huanjing”) at a consideration of RMB250,000. On February 10, 2018, Shenzhen 7Road and Ms. Bao Wei agreed to transfer 95% and 5% of the equity interests in Qianhai Huanjing to 7Road Hong Kong at considerations of approximately RMB2,970,000 and RMB156,000, respectively pursuant to an equity transfer agreement dated February 10, 2018. Upon the completion of the transfers, Qianhai Huanjing became an indirectly wholly-owned subsidiary of the Company and was then converted into a wholly foreign-owned enterprise.

- (8) On March 1, 2018, the Company entered into a share transfer agreement with Shenzhen 7Road, pursuant to which Shenzhen 7Road transferred the entire issued shares of 7Road International to the Company. Since then the Company held entire equity interest in 7Road International and its subsidiaries including 7Road International HK, 7Road (UK) Company Limited (“7Road UK”) and 7Road International Pte. Ltd. (“7Road Singapore”).
- (9) Pursuant to a series of contractual agreements dated April 13, 2018 (collectively, the “Contractual Arrangements”) between Qianhai Huanjing, Shenzhen 7Road and their respective equity holders, Qianhai Huanjing is able to exercise and maintain control over the operation and to obtain economic benefit of the business and operations of Shenzhen 7Road and its subsidiaries including Shenzhen Qianqi and Huoerguosi 7Road. Accordingly, Shenzhen 7Road, Shenzhen Qianqi and Huoerguosi 7Road are treated as controlled structured entities of Qianhai Huanjing and ultimately controlled and consolidated by the Company. Further details of the Contractual Arrangements are set out in Note 2.2(a)(i) below.
- (10) Pursuant to the shareholder voting agreement dated April 13, 2018, the three limited partners of Ningbo Bao Pu, namely Shaoxing Shang Yu Long Cheng Equity Investment Partnership Enterprise (紹興上虞龍誠股權投資合夥企業(有限合夥)) (“Shaoxing Shang Yu”), Shanghai Bao Hu Investment Management Centre (上海鈞虎投資管理中心(有限合夥)) (“Shanghai Bao Hu”) and Ms. Wei Hong, would unconditionally and irrevocably entrust and authorize Shanghai Bao Pu Investment Management Co., Ltd. (上海鈞樸投資管理有限公司) (“Shanghai Bao Pu”), the sole general partner of Ningbo Bao Pu, to be their proxy in exercise their shareholders’ voting rights in the Company (the “Offshore Voting Arrangement”). Shanghai Bao Pu, Shaoxing Shang Yu, Shanghai Bao Hu and Ms. Wei Hong are collectively referred to as the controlling shareholders of the Company (the “Controlling Shareholders”), with respective interests in the Company in the same proportions as their interests in Ningbo Bao Pu.
- (11) On June 23, 2018, the shareholders resolved, among other things subject to the Global Offering becoming unconditional, that all the issued and unissued ordinary share of US\$0.0001 par value each of our Company will be subdivided into 20 Shares of US\$0.000005 par value each such that the authorized share capital of our Company shall be US\$50,000 divided into 10,000,000,000 Shares of par value US\$0.000005 each and the issued share capital shall be US\$10,000 divided into 2,000,000,000 Shares of US\$0.000005 par value each.

Upon the completion of the Reorganization on March 1, 2018, the Company became the holding company of the other companies comprising the Group. As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

| Name of subsidiaries                  | Place and date of incorporation/ establishment | Particulars of issued and paid-in capital | Equity interest held as at |      |      |      | Date of this report   | Principal activities | Note |
|---------------------------------------|--|---|----------------------------|------|------|------|---|----------------------|------|
|                                       |  |   | December 31,               |      |      |      |   |                      |      |
|                                       |  |   | 2015                       | 2016 | 2017 |      |   |                      |      |
| <b>Directly held by the Company</b>   |  |   |                            |      |      |      |   |                      |      |
| 7Road BVI                             | BVI / September 15, 2017                       | US\$1                                     | N/A                        | N/A  | N/A  | 100% | Investment holdings   | (a)                  |      |
| <b>Indirectly held by the Company</b> |  |   |                            |      |      |      |   |                      |      |
| 7Road Hong Kong (香港第七大道數位有限公司)        | Hong Kong/ October 9, 2017                     | Hong Kong Dollar (“HK\$”) 1               | N/A                        | N/A  | N/A  | 100% | Investment holdings   | (f)                  |      |
| Qianhai Huanjing*                     | PRC/July 12, 2015                              | RMB 5,000,000                             | 100%                       | 100% | 100% | 100% | Online game development, promotion and management                             | (b)                  |      |
| Shenzhen 7Road*                       | PRC/January 22, 2008                           | RMB 10,000,000                            | 100%                       | 100% | 100% | 100% | Online game development, promotion, management and publishing of online games | (c), (g)             |      |
| Shenzhen Qianqi*                      | PRC/November 28, 2013                          | RMB 26,000,000                            | 100%                       | 100% | 100% | 100% | Online game development, promotion and management                             | (d), (g)             |      |
| Huoerguosi 7Road*                     | PRC/November 27, 2015                          | RMB 10,000,000                            | 100%                       | 100% | 100% | 100% | Online game development, promotion and management                             | (f), (g)             |      |
| 7Road International Group Limited     | BVI/May 12, 2015                               | US\$1                                     | 100%                       | 100% | 100% | 100% | Publication of online games   | (a)                  |      |
| 7Road UK                              | UK/July 3, 2009                                | British Pound 100                         | –                          | 100% | 100% | 100% | Publication of online games   | (e)                  |      |
| 7Road International HK                | Hong Kong/June 3, 2015                         | HK\$1                                     | 100%                       | 100% | 100% | 100% | Publication of online games   | (f)                  |      |
| 7Road Singapore                       | Singapore/ September 28, 2015                  | Singaporean Dollar 1                      | 100%                       | 100% | 100% | 100% | Publication of online games   | (a)                  |      |

*Notes:*

- (a) No audited financial statements were issued for these subsidiaries now comprising the Group as there is no statutory requirement in its place of incorporation.
- (b) No audited financial statements for the year ended December 31, 2015 was prepared since it is newly incorporated in 2015. The statutory auditor of this subsidiary for the year ended December 31, 2016 and period ended October 31, 2017 was Shenzhen Zhuxin CPAs (General Partnership).
- (c) The statutory auditor of this subsidiary for year ended December 31, 2015 was Shenzhen Hengchen CPAs (General Partnership), and for the year ended December 31, 2016 was Shenzhen Huaruizhi CPAs (General Partnership).

- (d) The statutory auditor of this subsidiary for the year ended December 31, 2015 was Shenzhen Hengchen CPAs (General Partnership), and for the year ended December 31, 2016 was Shenzhen Rihao CPAs (General Partnership).
  - (e) The statutory auditor of this subsidiary for the year ended December 31, 2016 was RSM UK Audit LLP.
  - (f) No audited financial statements have been prepared for these subsidiaries since incorporation.
  - (g) The Group does not have legal ownership in equity of these subsidiaries, as the PRC regulations restrict foreign ownership of companies that provide value-added technology services, which include activities and services operated by the Group. In order to enable certain foreign companies to make investments into the business of the Group, the wholly-owned subsidiary of the Company, 7Road Fun Limited has entered the Contractual Agreements with Shenzhen 7th Road Technology Co., Ltd and its equity holders, then the foreign investors of the Company subscribed to additional equity interest in the Company.
- \* The English names of the subsidiaries referred in the above represent management's best effort in translating the Chinese names of these subsidiaries as they do not have official English names.

All companies comprising the Group have adopted December 31 as their financial year-end date.

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As at December 31, 2015, 2016 and 2017, other than the restrictions from exchange control regulations, there is no significant restriction on the Group's ability to access or use the assets and settle the liabilities of the Group.

#### ***1.4 Basis of presentation***

Immediately prior to and after the Reorganization, the Listing Business was carried out by Shenzhen 7Road and its subsidiaries. Pursuant to the Reorganization, the Listing Business are effectively controlled by Qianhai Huanjing, and ultimately controlled by the Company, through direct equity holding and the Contractual Arrangements. The Company and those companies newly set up during the Reorganization have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of the Listing Business and does not result in any changes in business substance nor in any management of the Listing Business. Accordingly, the Historical Financial Information of the companies now comprising the Group is presented using the carrying value of the Listing Business for all periods presented.

Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

## 2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the International Financial Reporting Standards (“IFRSs”). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 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 future reporting periods and have not been early adopted by the Group.

|  |   | <u>Effective for annual periods<br/>beginning on or after</u> |
|--|---|---|
| IFRS 2 (amendments)                            | Classification and measurement of share-based payment transactions                                  | January 1, 2018   |
| IFRS 9 (2014)                                  | Financial instruments   | January 1, 2018   |
| IFRS 15  | Revenue from contracts with customers   | January 1, 2018   |
| IFRS 15 (amendments)                           | Clarifications to IFRS 15   | January 1, 2018   |
| IFRS 16  | Leases  | January 1, 2019   |
| IFRS 17  | Insurance contracts   | January 1, 2021   |
| IFRS 10 and IAS 28<br>(amendments)             | Sale or contribution of assets between an investor and its associates or joint venture              | to be<br>determined   |
| Annual Improvements to IFRS<br>2014-2016 Cycle | Retirement of short-term exemptions in IFRS 1<br>Clarifying measurement of investments under IAS 28 | January 1, 2018   |
| Amendment to IAS 28                            | Investments in associates and joint ventures  | January 1, 2018   |
| Amendment to IAS 40                            | Investment property — transfer of property  | January 1, 2018   |
| IFRIC — Int 22                                 | Foreign currency transactions and advance consideration   | January 1, 2018   |
| IFRIC — Int 23                                 | Uncertainty over income tax treatments  | January 1, 2018   |

### IFRS 9

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities.

- 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 other comprehensive income and 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 other comprehensive income not recycling.

- There is now a new expected credit losses (“ECL”) 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 also 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.

The standard is effective for accounting periods beginning on or after January 1, 2018.

#### Effect of the adoption of IFRS 9

The Group will adopt IFRS 9 on January 1, 2018, which will result in a change in accounting policies and adjustments to the amounts recognized in the combined financial statements. In accordance with the transitional provision under IFRS 9, comparative figures are not required to be restated.

Management has assessed the classification and measurement of the financial assets held by the Group at the date of initial application of IFRS 9 and has classified its financial assets into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss). The main effects resulting from this reclassification are as follows:

|   | <b>Before<br/>adoption<br/>of IFRS 9</b> | <b>Effect of<br/>adoption<br/>of IFRS 9</b> | <b>After<br/>adoption<br/>of IFRS 9</b> |
|---|--|---|---|
|   | <b>RMB'000</b>                           | <b>RMB'000</b>                              | <b>RMB'000</b>                          |
| <b>As at January 1, 2018</b>  |  |   |   |
| Available-for-sale financial assets                                 | 41,979                                   | (41,979)                                    | –                                       |
| Financial assets at fair value through profit or loss (non-current) | 80,000                                   | 11,829                                      | 91,829                                  |
| Financial assets at fair value through profit or loss (current)     | 43,000                                   | –   | 43,000                                  |
| Financial assets at fair value through other comprehensive income   | –  | 30,150                                      | 30,150                                  |
| Equity — available-for-sale financial assets fair value reserve     | 8,359                                    | (8,359)                                     | –                                       |
| Equity — retained earnings  | 516,029                                  | 8,359                                       | 524,388                                 |



The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken, the Group expects changes in the loss allowance for account receivables to be insignificant.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, while the Group does not have any such liabilities. Furthermore, the impact for hedging accounting is not applicable to the Group as the Group has not entered into any hedging instruments.

### **IFRS 15**

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a five step approach:

- (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: Recognize revenue when each performance obligation is satisfied

The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which that 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 capitalization 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 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.

#### Effect of the adoption of IFRS 15

The Group will adopt IFRS 15 on January 1, 2018 and will elect to apply the modified retrospective approach which means the cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated. The main impact of IFRS 15 that may impact on the Group's consolidated financial statements is identified as related to the upfront revenue recognition of the Group's license arrangements while the impact assessed by the management is immaterial to the Group, therefore, management considered that the adoption of IFRS 15 is not expected to have any impact on the combined financial statements of the Group.

#### **IFRS 16**

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 "Leases", and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted subject to the entity adopting IFRS 15 "Revenue from contracts with customers" at the same time. At this stage, the Group does not intend to adopt the standard before its effective date.

As at December 31, 2015, 2016 and 2017, the operating lease commitments of the Group amounted to RMB10,116,000, RMB29,980,000 and RMB22,700,000, respectively (Note 32), 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**

### **(a) Consolidation**

A subsidiary is an entity (including a structured entity) 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.

#### *(i) Subsidiaries controlled through Contractual Agreements*

As described in note 1.2, the wholly-owned subsidiary of the Company, Shenzhen Qianhai Huanjing Network Technology Co., Ltd. ("Qianhai

Huanjing”), has entered into the Contractual Agreements, including Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Share Pledge Agreement, and Powers of Attorney Agreement, with Shenzhen 7Road and its equity holders, which enable Qianhai Huanjing and the Group to:

- governing the financial and operating policies of Shenzhen 7Road;
- exercise equity holders’ voting rights of Shenzhen 7Road;
- receive substantially all of the economic interest returns generated by Shenzhen 7Road in consideration for the business support, technical and consulting services provided by Qianhai Huanjing;
- obtain an irrevocable and exclusive right with an initial period of 10 years to purchase all or part of the equity interests in Shenzhen 7Road from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Qianhai Huanjing may exercise such options at any time until it has acquired all equity interests of Shenzhen 7Road;
- obtain a pledge over the entire equity interests of Shenzhen 7Road from its respective equity holders as collateral security for all of Shenzhen 7Road’s payments due to Qianhai Huanjing and to secure performance of Shenzhen 7Road’s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Shenzhen 7Road and its subsidiaries, receive variable returns from its involvement with Shenzhen 7Road and its subsidiaries, has the ability to affect those returns through its power over Shenzhen 7Road and its subsidiaries and is considered to control Shenzhen 7Road and its subsidiaries. Consequently, the Company regards Shenzhen 7Road and its subsidiaries as the controlled entities and consolidated the financial position and results of operations of these entities in the consolidated financial statements of the Group during the Track Record Period (Refer to Note 1.3 of Section II above for details of the related presentation basis).

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shenzhen 7Road and its subsidiaries and such uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of the Shenzhen 7Road and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Qianhai Huanjing, Shenzhen 7Road and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

*(ii) Business combination*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of profit or loss.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also

eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

*(iii) 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.

*(iv) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

**(b) Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

**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. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost,

and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates 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 recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized 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 recognize 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 recognizes 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 recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized 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.

Gain or losses on dilution of equity interest in associates are recognized 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 of the Company.

## 2.5 Foreign currency translation

### (a) Functional and presentation currency

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its overseas subsidiaries are US\$, while the functional currencies of the Company's subsidiaries in the PRC are RMB. As the major operations of the Group during the Track Record Period are within the PRC, the Group determined to present its Financial Information in RMB (unless otherwise stated).

### (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 recognized in the statement of profit or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

### (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 statement of profit or loss 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 currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

### **2.6 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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation on Property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

|                               |   |
|-------------------------------|---|
| — Buildings                   | 30 years  |
| — Servers and other equipment | 3 years   |
| — Vehicles                    | 4 years   |
| — Furniture                   | 5 years   |
| — Leasehold improvements      | Estimated useful lives or remaining lease terms, whichever is shorter |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other gains/ (losses), net' in the statement of profit or loss.

### **2.7 Land use rights**

Land use rights represent prepayment for land and are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use rights.



## 2.8 *Intangible assets*

### (a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

### (b) *Computer software licenses*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of one to three years, and recorded in amortization within operating expenses in the statement of profit or loss.

### (c) *Game copyrights*

Game copyrights are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives of five to ten years.

### (d) *Domain names*

Domain names are initially recognized and measured at costs incurred to acquire and bring to use them. The costs are amortized on a straight-line basis over domain names' estimated useful lives of ten years and recorded in amortization within operating expenses in the statement of profit or loss.

## 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 amortization and are tested annually for impairment. Assets

that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash 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**

#### *(a) Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. The Company designated the whole instruments as financial assets at fair value through profit or loss instead of bifurcating the embedded derivatives from the host contract. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

##### *(ii) 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", "prepayment and other receivables", "cash and cash equivalents" and "restricted cash" in the balance sheet.

##### *(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

*(b) Recognition and measurement*

Regular way purchases and sales of financial assets are recognized on the trade-date—the date on which the Group commits to purchase or sell the asset. Investments are initially recognized 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 recognized at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognized 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized 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 statement of profit or loss 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 recognized in the statement of profit or loss as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of financial assets classified as available-for-sale are recognized in other comprehensive income.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of profit or loss as “gains and losses from financial assets”.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognized in the statement of profit or loss as part of other income when the Group’s right to receive payments is established.

*(c) Impairment of financial assets*

*(i) Assets carried at amortized 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 reorganization, 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 recognized in the consolidated statement of profit or loss. If a loan or held- to-maturity investment 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 recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of profit or loss.

*(ii) Assets classified as available-for-sale financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the financial assets below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is reclassified from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

### ***2.11 Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle

the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### ***2.12 Trade and other receivables***

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

### ***2.13 Cash and cash equivalents***

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### ***2.14 Share capital***

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### ***2.15 Trade payables***

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### ***2.16 Borrowings and borrowing costs***

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### ***2.17 Current and deferred income tax***

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

#### *(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 recognized, 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 recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

*(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.

**2.18 Employee benefits***(a) Pension and social obligations*

The Group companies operate various defined contribution plan in accordance with the local conditions and practices in which they operate. Defined contribution plans are pensions and the other social benefit plans under which the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as labor costs when they are due.

*(b) Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

*(c) Bonus plans*

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

***2.19 Equity-settled share-based payments arrangements***

Share-based compensation arrangement represents the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments (such as restricted share or options) is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of instruments that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

In case it is an option arrangement, when the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.



### ***2.20 Provisions***

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### ***2.21 Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided, stated net of discounts, returns and value added taxes. The Group recognizes 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) Online game revenue**

The Group is a web-based and mobile online game developer and distributor. Revenue from self-development games of the Group are derived principally from various arrangements, including game publishing by the Group's platforms, game publishing by other publisher under various game distribution arrangements.

#### ***Revenue from online game published by the Group***

The Group's online games are operated under free-to-play model whereby game players can play the games free of charge and are charged for the purchase of game tokens or other virtual items via payment channels, such as various mobile carriers and third-party internet payment systems. The payment channels are entitled to a handling fees which are withheld and deducted from the gross proceeds collected from the game players, with the net amounts remitted to the Group. The payment received to purchase of game tokens and other virtual items is non-refundable and the related contracts are non-cancellable.

The Group is obligated to provide on-going services to the game players and such obligation is not deemed to be inconsequential and perfunctory after game

players purchase game tokens and other virtual items directly through the Group's website for the games. Revenue is recognized ratably over the estimated playing period of paying players ("Player Relationship Period"), given there is an implicit obligation of the Group to maintain and allow access of the users of the games operated by the Group.

The Group estimates the Player Relationship Period 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 until the new game establishes its own patterns and history. The Group also considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. Adjustments arising from changes in the estimated useful lives of durable virtual items are applied prospectively.

*Revenue from online game published by other publisher under game distribution arrangements*

The Group also grants its online games to third party game publishers ("Publishers") and publishing the game to game players through their own platforms, including web-based and mobile game portals, or other distribution platforms, including major social networking websites (such as Facebook), online application stores installed in mobile (such as Apple Inc.'s App Store ("Apple App") and Google Play), web-based and mobile game portals.

These games are also under free-to-play model whereby game players can play the games free of charge and are charged for the purchase of game tokens or other virtual items. Proceeds earned from selling game tokens and other virtual items are collected by the Publishers or its designated payment platform and shared between the Group and the Publishers based on a pre-determined rate.

With respect to the arrangement that the Group are responsible for providing game product, technical support and upgrades, while the Publishers are responsible for publishing (including determining the platforms), providing payment solution, customer service, promotion activities and other daily game operation, and the right to determine the ultimate pricing of in-game virtual items are shared among the Group and the Publishers.

The Group recognizes the revenues that the Group is entitled, i.e. on a net basis. Revenue from game published by the Publisher under these arrangements are recognized ratably over the Player Relationship Period as the Group is jointly obligated to provide on-going services to the game players.

In some distribution arrangements, the Group grants its online games to the Publishers and the Publishers pay license fees for the exclusive right to operate the Group's games in specified geographic areas. The license fees normally

comprise of a fixed lump sum and variable fees calculated based on a predetermined rate on the cash paid by game users collected by the Publishers related to the licensed games.

The Group are responsible for providing game content, and when-and-if-available technical support and upgrades to the Publishers during the contract terms for which are not distinct from the grant a game title license, such lump sum license fees are initially recorded as deferred revenue and then recognized as revenue ratably over contractual periods from the date the game is launched. The variable license fees which are contingent upon future events (future cash paid by game players collected by the Publishers related to the licensed game title) are recognized when the contingency is met.

(b) Sales of online game technology and publishing solutions services

The Group sells technology development services, games installation services, software copyrights and publishing solutions services to third parties. The revenue is recognized when the services are rendered.

(c) Revenue from intellectual property licensing

The Group also generates revenue from licensing copyrights of game contents to other online game companies for agreed periods. The revenue from licensing agreements is recognized when the content has been delivered and the Group has no further obligations. Depending on the terms of the respective agreements, revenue is recognized either upfront upon the beginning of the sub-licensing agreement to the extent of the fixed and non-refundable amount received upfront or over the period of the licensing agreement under which the Group need to provide consistent services. Any amount of revenue which is contingent upon future events (for example future revenue generated by using the copyrights of game contents) is recognized when the contingency is met.

### ***2.22 Interest income***

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

### ***2.23 Research and development costs***

The expenditure on an internal research and development project is classified into research cost and development cost based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Research cost is recognized in profit or loss in the period in which it is incurred. Development cost is capitalized only if all of the following conditions are satisfied:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset, and use or sell it;
- Management ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate economic benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development phase can be reliably measured.

The development cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The development costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over their estimated useful lives.

Development costs not satisfying the above criteria are recognized in the profit or loss as incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

During the years ended December 31, 2015, 2016 and 2017, the Group did not capitalize any development costs.

#### ***2.24 Government Grants***

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

### ***2.25 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 statement of profit or loss on a straight-line basis over the period of the lease.

### ***2.26 Dividend distribution***

Dividend distribution to the Company's shareholders is recognized as a liability in the Group'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, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### *(a) Market risk*

##### *(i) Foreign exchange risk*

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US\$. Foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. The Group does not hedge against any fluctuation in foreign currency during the Track Record Period.

For the Group's PRC subsidiaries whose functional currency is RMB, if US\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income/loss would have been approximately RMB 3,202,000 higher/lower, RMB 3,505,000 lower/higher and RMB 6,319,000 higher/lower for the years ended December 31, 2015, 2016 and 2017, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US\$.

##### *(ii) Price risk*

The Group is exposed to price risk in respect of investments held by the Group that are classified on the combined balance sheet either as

available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis.

The Group's available-for-sale financial assets are held for capital appreciation and business strategic purposes. The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% higher/lower, the other comprehensive income for the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB148,000, RMB425,000, and RMB1,800,000 higher/lower, respectively.

In respect of the Group's financial assets at fair value through profit or loss, the sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by the Group had been 5% higher/lower, the post-tax profit/loss for the years ended December 31, 2015, 2016 and 2017 would have been approximately nil, RMB5,561,000 lower/higher, and RMB5,535,000 higher/lower, respectively.

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings. All borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group analyzes its interest rate exposure on a regular basis to consider the options available for refinancing, renewal of existing positions, and alternative financing.

As at December 31, 2015, 2016 and 2017, if interest rate has increased/decreased by 100 basis points with all other variables held constant, post-tax profit/loss for the years ended December 31, 2015, 2016 and 2017 would have been RMB480,000 lower/higher, RMB1,618,000 higher/lower and RMB1,789,000 lower/higher, mainly as a result of increase/decrease in interest expense on borrowings.

(b) *Credit risk*

Credit risk is managed on group basis, except for credit risk relating to trade receivables balances. Each local entity is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions (including

restricted cash), as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. Management does not expect any losses from non-performance by these counterparties except for those recognized.

*(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 analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

|   | <b>Less than<br/>3 months</b> | <b>Between<br/>3 months and<br/>1 year</b> | <b>Between<br/>1 and 2 years</b> | <b>Between<br/>2 and 5 years</b> | <b>Over<br/>5 years</b> |
|---|-------------------------------|--|----------------------------------|----------------------------------|-------------------------|
|   | <b>RMB'000</b>                | <b>RMB'000</b>                             | <b>RMB'000</b>                   | <b>RMB'000</b>                   | <b>RMB'000</b>          |
| <b>Group</b>  |                               |  |                                  |                                  |                         |
| <b>At December 31, 2015</b>   |                               |  |                                  |                                  |                         |
| Borrowings  | –                             | –  | –                                | 145,885                          | –                       |
| Trade and other payables<br>(excluding advance, staff<br>payroll and welfare<br>payables, government<br>grants and other taxes<br>payables) (Note 29) | 9,437                         | 49,943                                     | 93,129                           | –                                | –                       |
|   | <u>9,437</u>                  | <u>49,943</u>                              | <u>93,129</u>                    | <u>145,885</u>                   | <u>–</u>                |
| <b>At December 31, 2016</b>   |                               |  |                                  |                                  |                         |
| Borrowings  | 1,535                         | 4,603                                      | 134,541                          | 18,415                           | 29,158                  |
| Trade and other payables<br>(excluding advance, staff<br>payroll and welfare<br>payables, government<br>grants and other taxes<br>payables) (Note 29) | 6,034                         | 58,897                                     | 34,494                           | –                                | –                       |
|   | <u>7,569</u>                  | <u>63,500</u>                              | <u>169,035</u>                   | <u>18,415</u>                    | <u>29,158</u>           |
| <b>At December 31, 2017</b>   |                               |  |                                  |                                  |                         |
| Borrowings  | 1,535                         | 110,643                                    | 6,138                            | 18,415                           | 23,020                  |
| Trade and other payables<br>(excluding advance, staff<br>payroll and welfare<br>payables, government<br>grants and other taxes<br>payables) (Note 29) | 8,732                         | 38,780                                     | 342                              | 28                               | –                       |
|   | <u>10,267</u>                 | <u>149,423</u>                             | <u>6,480</u>                     | <u>18,443</u>                    | <u>23,020</u>           |

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of



dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

### 3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2015, 2016 and 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at December 31, 2015, 2016 and 2017, none of the Group's financial liabilities are measured at fair value, and none of the Group's financial assets are measured at fair value using level 1 or level 2 inputs. The following table presents the Group's financial assets that are measured at fair value using level 3 inputs:

|   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---|----------------|----------------|----------------|
|   | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| <b>Assets</b>   |                |                |                |
| – Available-for-sale financial assets (Note 19)                   | 3,521          | 10,339         | 41,979         |
| – Financial assets at fair value through profit or loss (Note 22) | –              | 123,587        | 123,000        |
|   | <u>3,521</u>   | <u>133,926</u> | <u>164,979</u> |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. 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 (for example, over-the-counter derivatives) 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 to fair value an 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:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

The changes in level 3 instruments of available-for-sale financial assets and financial assets at fair value through profit or loss for the years ended December 31, 2015, 2016 and 2017 have been disclosed in Notes 19 and 22, respectively.

The components of the level 3 instruments include investments in bank wealth management products, private investment fund and unlisted investments. As these instruments are not traded in an active market, their fair values have been determined using various applicable methodologies.

|                            | <u>Valuation technique</u>        | <u>Significant unobservable inputs</u> | <u>Percentage or ratio range</u> | <u>Sensitivity of fair value to the input</u>  |
|----------------------------|-----------------------------------|--|----------------------------------|--|
| Wealth management products | Discounted cash flow model        | Expected rate of return                | 2.6% to 4.1%                     | Decreased expected rate of return by 50 basis points would decrease fair value by nil, RMB 143,000, and RMB6,000 as at December 31, 2015, 2016 and 2017. |
| Unlisted equity securities | Recent transaction price (note i) | N/A                                    | N/A                              | N/A  |
| Unlisted investment fund   | Net asset value (note ii)         | N/A                                    | N/A                              | N/A  |

*Notes:*

- (i) The unlisted equity investments mainly comprise of equity investments in private game companies at start-up stage and management considered that the recent transaction price is the appropriate valuation method for this type of investment.
- (ii) The fair value is determined based on net assets value of the fund, consisting the fair values of the underlying investments of the fund.

#### 4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(a) Estimates of Player Relationship Period in the Group's online game services*

As described in Note 2.21, the Group recognizes certain revenue from sale of virtual items in online game services ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

*(b) Fair value of financial assets*

The fair value of financial assets that are not traded in an active market (for example, investments in private companies) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could material affect the respective fair value of these investments.

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

*(c) Impairment provision for trade and other receivable*

Management assesses the impairment of trade and other receivables according to the trade and other receivable's aging, management's prior experience and customers' conditions as well as applying management's judgments and estimates when determining the impairment to be recognized. Based on management's best estimates, there was no material impairment noted for the trade and other receivables as at December 31, 2015, 2016 and 2017. Where the basis of judgments and estimates is different from the initial assessment, such differences will impact the provision for impairment and the carrying values of the trade and other receivables in the year.

## **5 Segment information and revenue**

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of

this evaluation, the directors of the Company consider that the Group's operations are operated and managed as a single segment and no segment information is presented, accordingly.

As at December 31, 2015, 2016 and 2017, substantially all of the non-current assets of the Group other than certain long-term receivables were located in the PRC.

Revenue for the years ended December 31, 2015, 2016 and 2017 are as follows:

|   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---|----------------|----------------|----------------|
|   | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Online Game Revenue   | 344,702        | 345,547        | 388,929        |
| – Self-development games  |                |                |                |
| <i>published by the Group</i>                                     | 19,140         | 15,237         | 6,663          |
| <i>published by other publishers</i>                              | 311,123        | 258,426        | 371,603        |
| – Licensed games  |                |                |                |
| <i>published by the Group</i>                                     | 1,657          | 378            | 12             |
| <i>published by other publishers</i>                              | 12,782         | 71,506         | 10,651         |
| Sales of online game technology and publishing solutions services | 9,925          | 43,724         | 46,577         |
| Intellectual property licensing                                   | 20,984         | 13,880         | 9,789          |
|   | <u>375,611</u> | <u>403,151</u> | <u>445,295</u> |

Revenues of approximately RMB210,176,000, RMB235,112,000 and RMB224,770,000 for the years ended December 31, 2015, 2016 and 2017, respective were derived from five largest single external customers.

During the year ended December 31, 2015, revenues of approximately RMB71,464,000, RMB63,460,000 and RMB38,610,000 were derived from respective single external customers each accounted for more than 10% of total revenue.

During the year ended December 31, 2016, revenue of approximately RMB105,030,000, RMB45,889,000 and RMB45,345,000 were derived from respective single external customers each accounted for more than 10% of total revenue.

During the year ended December 31, 2017, revenue of approximately RMB126,014,000 was derived from a single external customer accounted for more than 10% of the total revenue.

## 6 Other income

|                   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|-------------------|----------------|----------------|----------------|
|                   | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Government grants | 16,968         | 13,251         | 14,491         |
| VAT refunds       | 22,379         | 11,481         | 6,870          |
|                   | <u>39,347</u>  | <u>24,732</u>  | <u>21,361</u>  |

There are no unfulfilled conditions or contingencies related to the above government grants and VAT refunds.

## 7 Other gains, net

|  | <u>2015</u>  | <u>2016</u>  | <u>2017</u>  |
|--|--------------|--------------|--------------|
|  | RMB'000      | RMB'000      | RMB'000      |
| Gains on financial assets at fair value through profit or loss (Note 22)     | 62           | 1,178        | 2,576        |
| Impairment loss on available-for-sales financial assets (Note 19)            | –            | (713)        | (1,000)      |
| Gain on partial disposal of an available-for-sales financial asset (Note 19) | –            | –            | 11,777       |
| Losses on disposal of property, plant and equipment                          | (1,434)      | (36)         | (112)        |
| Foreign exchange gains/(losses), net   | 5,697        | 5,273        | (8,151)      |
| Others   | 879          | (125)        | 170          |
|  | <u>5,204</u> | <u>5,577</u> | <u>5,260</u> |

## 8 Expenses by nature

|   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---|----------------|----------------|----------------|
|   | RMB'000        | RMB'000        | RMB'000        |
| Employee benefit expense (Note 9)   | 71,043         | 92,202         | 83,233         |
| Share-based compensation costs arising from Management Buyout (Note 9(c)) | 13,461         | 228,840        | –              |
| Promotion and advertising expenses  | 4,633          | 43,784         | 35,658         |
| Utilities and office expenses   | 13,347         | 14,712         | 12,654         |
| Outsourced technical services   | 101,611        | 7,873          | 10,028         |
| Depreciation of property, plant and equipment (Note 14)                   | 17,570         | 13,602         | 5,317          |
| Amortization of intangible assets (Note 16)                               | 2,070          | 2,661          | 2,107          |
| Amortization of land use rights (Note 15)                                 | –              | 321            | 1,283          |
| Bandwidth and servers custody fee   | 11,155         | 6,003          | 4,499          |
| Auditors' remuneration  | 50             | 125            | 49             |
| Listing expenses  | –              | –              | 6,116          |
| Other professional consulting fees  | 2,310          | 7,052          | 3,161          |
| Traveling and entertainment expenses                                      | 2,073          | 4,165          | 5,867          |
| Tax and levies  | 4,353          | 2,568          | 1,676          |
| Impairment of the trade receivables and other receivables                 | 382            | 6,326          | 2,646          |
| Others  | 4,327          | 5,309          | 4,064          |
|   | <u>248,385</u> | <u>435,543</u> | <u>178,358</u> |

## 9 Employee benefit expense

|  | <u>2015</u>   | <u>2016</u>   | <u>2017</u>   |
|--|---------------|---------------|---------------|
|  | RMB'000       | RMB'000       | RMB'000       |
| Wages, salaries and bonuses                      | 61,003        | 79,153        | 72,296        |
| Other social security costs and housing benefits | 4,865         | 6,343         | 5,240         |
| Pension costs – defined contribution plans       | 5,175         | 6,706         | 5,697         |
|  | <u>71,043</u> | <u>92,202</u> | <u>83,233</u> |

**(a) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2015, 2016 and 2017 include 2, 2 and 1 directors whose emoluments are reflected in analysis shown in not (b) below. The emoluments payable to the remaining 3, 3 and 4 individuals for each of the years ended December 31, 2015, 2016 and 2017 are as follows:

|  | 2015         | 2016          | 2017         |
|--|--------------|---------------|--------------|
|  | RMB'000      | RMB'000       | RMB'000      |
| Basic salaries   | 772          | 737           | 2,168        |
| Bonus  | 80           | 150           | –            |
| Pension costs — defined contribution plans                                   | 48           | 61            | 80           |
| Other social security costs and housing benefits and other employee benefits | 51           | 61            | 74           |
| Share-based compensation   | 2,889        | 49,118        | –            |
| <b>Total</b>   | <b>3,840</b> | <b>50,127</b> | <b>2,322</b> |

The emoluments fell within the following band:

|                                  | Number of individuals |          |          |
|----------------------------------|-----------------------|----------|----------|
|                                  | 2015                  | 2016     | 2017     |
| HK\$500,001 to HK\$1,000,000     | 2                     | 2        | 4        |
| HK\$3,500,001 to HK\$4,000,000   | 1                     | –        | –        |
| HK\$57,000,001 to HK\$57,500,000 | –                     | 1        | –        |
|                                  | <b>3</b>              | <b>3</b> | <b>4</b> |

**(b) Benefits and interests of directors**

The remuneration of each director for the year ended December 31, 2015 is set out as below:

| Name                       | Salary     | Bonuses  | Share-based compensations | Pension costs — defined contribution cost | Other social security costs and housing benefits and other employee benefits | Total         |
|----------------------------|------------|----------|---------------------------|---|--|---------------|
|                            | RMB'000    | RMB'000  | RMB'000                   | RMB'000                                   | RMB'000  | RMB'000       |
| <i>Executive directors</i> |            |          |                           |   |  |               |
| Meng Shuqi <sup>(1)</sup>  | 85         | –        | 6,202                     | 9   | 9  | 6,305         |
| Hu Min                     | 38         | –        | 4,370                     | 4   | 3  | 4,415         |
| <b>Total</b>               | <b>123</b> | <b>–</b> | <b>10,572</b>             | <b>13</b>                                 | <b>12</b>  | <b>10,720</b> |

The remuneration of each director for the year ended December 31, 2016 is set out as below:

| <u>Name</u>                | <u>Salary</u>  | <u>Bonuses</u> | <u>Share-based<br/>compensations</u> | <u>Pension<br/>costs —<br/>defined<br/>contribution<br/>cost</u> | <u>Other social<br/>security costs<br/>and housing<br/>benefits and<br/>other employee<br/>benefits</u> | <u>Total</u>   |
|----------------------------|----------------|----------------|--------------------------------------|--|---|----------------|
|                            | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u>                       | <u>RMB'000</u>   | <u>RMB'000</u>  | <u>RMB'000</u> |
| <i>Executive directors</i> |                |                |                                      |  |   |                |
| Meng Shuqi <sup>(1)</sup>  | 60             | —              | 105,428                              | 8  | 7   | 105,503        |
| Hu Min                     | 35             | —              | 74,294                               | 10   | 8   | 74,347         |
| Wang Chendong              | 156            | 52             | —                                    | 9  | 9   | 226            |
| <b>Total</b>               | <b>251</b>     | <b>52</b>      | <b>179,722</b>                       | <b>27</b>  | <b>24</b>   | <b>180,076</b> |

The remuneration of each director for the year ended December 31, 2017 is set out as below:

| <u>Name</u>                | <u>Salary</u>  | <u>Bonuses</u> | <u>Share-based<br/>compensations</u> | <u>Pension<br/>costs —<br/>defined<br/>contribution<br/>cost</u> | <u>Other social<br/>security costs<br/>and housing</u> | <u>Total</u>   |
|----------------------------|----------------|----------------|--------------------------------------|--|--|----------------|
|                            | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u>                       | <u>RMB'000</u>   | <u>RMB'000</u>   | <u>RMB'000</u> |
| <i>Executive directors</i> |                |                |                                      |  |  |                |
| Meng Shuqi <sup>(1)</sup>  | 416            | —              | —                                    | 17   | 14   | 447            |
| Hu Min                     | 233            | —              | —                                    | 17   | 14   | 264            |
| Wang Chendong              | 540            | —              | —                                    | 34   | 37   | 611            |
| <b>Total</b>               | <b>1,189</b>   | <b>—</b>       | <b>—</b>                             | <b>68</b>  | <b>65</b>  | <b>1,322</b>   |

Notes:

(1) Mr. Meng Shuqi is the chief executive of the Group.

Mr. Meng Shuqi, Mr. Hu Min and Mr. Wang Chendong were appointed as the Company's executive directors on September 6, 2017, March 6, 2018 and March 6, 2018, respectively.

Mr. Li Shimeng and Mr. Yan Kaidan were appointed as the Company's non-executive director on March 6, 2018. Mr. Ho Chit, Mr. Liu Yunli and Mr. Wu Xiaoguang were appointed as the Company's independent non-executive director on June 23, 2018. During the Track Record Period, the non-executive directors and independent non-executive directors have not yet been appointed and did not receive any directors' remuneration in the capacity of non-executive directors or independent non-executive directors.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the companies comprising the Group.

No directors waived any emolument during the Track Record Period.

No director fee were paid to these directors in their capacity as directors of the Company or the companies comprising the Group.

No emoluments were paid by the Company or the companies comprising the Group as an inducement to join the Company or the companies comprising the Group, or as compensation for loss of office during the Track Record Period.

**(i) Director's retirement benefits and termination benefits**

None of the directors received or will receive any retirement benefits or termination benefits during the Track Record Period.

**(ii) Consideration provided to third parties for making available director's services**

During the Track Record Period, the Company did not pay consideration to any third parties for making available directors' services.

**(iii) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporates by and controlled entities with such directors**

Save as disclosed in Note 33(d), there is no loans, quasi-loans and other dealing arrangement in favor of directors, or controlled body corporates and connected entities of such directors during the Track Record Period.

**(iv) Directors' material interest in transactions, arrangements or contracts**

Save as elsewhere disclosed in the notes to the historical financial information, there is no significant transactions, arrangements and contracts in relation to the Group's business in which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the Track Record Period.

**(c) Share-based compensation arrangements**

As detailed in Note 1.2, Mr. Meng Shuqi, Mr. Hu Min and Mr. Liu Jing acquired 23.50%, 16.56% and 10.95% equity interest in Shenzhen 7Road ("Transferred Equity") from Yong Chong at a cash consideration of RMB157,142,000,



RMB110,735,000 and RMB73,211,000, respectively, and pursuant to the share transfer agreement, Mr. Meng Shuqi, Mr. Hu Min and Mr. Liu Jing were required to be employed by Shenzhen 7Road for a period of three years (“Lock-up”) and committed to compensate to Yong Chong if the financial performance of Shenzhen 7Road is not fulfilled (“Performance Guarantee”).

For the accounting purpose, the Lock-up was deemed as share-based compensation arrangements under IFRS 2 “Share-based Payment”. The fair value deemed attributable to the Lock-up will be accounted for as share-based compensation expenses and charged to the statements of profit or loss according to the vesting condition, i.e. over the Lock-up period.

The fair value of the Lock-up was calculated using the following key inputs, the price of the Transferred Equity as stated in previous paragraphs, equity value of approximately US\$205 million implied by a recent transaction, and discount of control premium of 10%. The aggregate expenses expected to be charged to the combined statements of profit or loss for the years ended December 31, 2015, 2016 and 2017 and the year ending December 31, 2018, on a straight-line basis, were RMB13,461,000, RMB80,767,000, RMB80,767,000 and RMB67,306,000, respectively according to the vesting period.

The Lock-up together with Performance Guarantee were terminated when Shanghai Yong Chong sold all its equity interest in Shenzhen 7Road in November 2016, accordingly, this share-based compensation arrangements was considered as immediately vested and the remaining unrecognized share-based compensation expenses of RMB228,840,000 was charged to the combined statements of profit or loss for the year ended December 31, 2016. Upon the immediately vested of the share-based compensation in 2016, the related amounts of RMB242,301,000 recognized in the share-based compensation reserve were transfer to retained earnings under equity. As at December 31, 2016 and 2017, there are no outstanding share-based compensation arrangements.

**10 Finance income and costs**

|   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---|----------------|----------------|----------------|
|   | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| <b>Finance income</b>   |                |                |                |
| Interest income on restricted bank deposits   | 1,994          | 5,940          | 5,924          |
| Interest income from balances placed with an entity controlled by then holding company under cash pooling arrangement | 8,691          | –              | –              |
| Others  | 606            | 838            | 343            |
|   | <u>11,291</u>  | <u>6,778</u>   | <u>6,267</u>   |
| <b>Finance costs</b>  |                |                |                |
| Interest expenses on bank borrowings  | (885)          | (4,122)        | (6,401)        |
| Others  | (358)          | (1,014)        | (880)          |
|   | <u>(1,243)</u> | <u>(5,136)</u> | <u>(7,281)</u> |
| <b>Net finance income/(costs), net</b>  | <u>10,048</u>  | <u>1,642</u>   | <u>(1,014)</u> |

**11 Income tax expense**

The income tax expense of the Group for the years ended December 31, 2015, 2016 and 2017 is analyzed as follows:

|                               | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|-------------------------------|----------------|----------------|----------------|
|                               | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Current tax                   |                |                |                |
| — PRC and overseas income tax | 13,197         | 18,028         | 20,601         |
| Deferred income tax           | (67)           | 1,177          | 1,463          |
|                               | <u>13,130</u>  | <u>19,205</u>  | <u>22,064</u>  |

**(a) Cayman Islands and BVI Income Tax**

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

**(b) Hong Kong Income Tax**

No Hong Kong profits tax was provided for as there was no estimated assessable profits that was subject to Hong Kong profits tax for the years ended December 31, 2015 and 2016. For the year ended December 31, 2017, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits.

(c) PRC Enterprise Income Tax (“EIT”)

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits, except for stated below, for the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen 7Road was qualified as “High and New Technology Enterprises” (“HNTEs”) for a 3-year period under the EIT Law in 2014 and renewed the qualification to another 3-year period in October 31, 2017. In addition, Shenzhen 7Road considered it fulfilled the criteria and filed with tax authorities the relevant record as a “Key Software Enterprise” for the years ended December 31, 2015, 2016 and 2017 according to the relevant announcement and circular issued by relevant government authorities, therefore, the directors of the Company considered that Shenzhen 7Road is entitled to a preferential income tax rate of 10% and PRC EIT for Shenzhen 7Road has been provided for at a tax rate of 10% for the years ended December 31, 2015, 2016 and 2017.

Huoguoosi 7Road was accredited as a “software enterprise” in a special economic development zone under relevant PRC laws and regulations in 2016 and is entitled to a tax concession of exemption from EIT for five years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses generating from prior years, whichever is later.

(d) PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 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%.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the PRC statutory income tax rate as follows:

|   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---|----------------|----------------|----------------|
|   | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| <b>Profit before tax</b>                              | 181,861        | 2,365          | 279,245        |
| Tax calculated at PRC statutory tax rate of 25%       | 45,465         | 591            | 69,811         |
| Tax effects of:                                       |                |                |                |
| Preferential income tax rates                         | (28,593)       | 148            | (40,814)       |
| Difference in overseas tax                            | –              | –              | (1,214)        |
| Super deduction for research and development expenses | (6,635)        | (4,041)        | (3,334)        |
| Expenses not deductible for tax purposes              | 1,716          | 23,760         | 170            |
| Utilization of previously unrecognized tax losses     | –              | (1,253)        | (2,555)        |
| Unrecognized tax loss                                 | 1,177          | –              | –              |
| <b>Income tax expenses</b>                            | <u>13,130</u>  | <u>19,205</u>  | <u>22,064</u>  |

## 12 Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the presentation of the results for the Track Record Period on a combined basis as disclosed in Note 1.3 above.

## 13 Dividends

|  | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|--|----------------|----------------|----------------|
|  | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Dividends declared by Shenzhen 7Road to its then holding company<br>(Note a) | 536,349        | –              | –              |
| Dividends declared by Shenzhen 7Road to its then equity holders<br>(Note b)  | –              | –              | 200,000        |
|  | <u>536,349</u> | <u>–</u>       | <u>200,000</u> |

### Notes:

- (a) The dividends of RMB536,349,000 were approved by the board of directors of Shenzhen 7Road on April 30, 2015. These dividends have been reflected as an appropriation of retained earnings for the year ended December 31, 2015.
- (b) On April 10, 2017 and October 20, 2017, dividends of RMB100,000,000 each were approved by the board of directors of Shenzhen 7Road. These dividends have been reflected as an appropriation of retained earnings for the year ended December 31, 2017.
- (c) The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report. No dividend has been paid or declared by the Company since its incorporation.

## 14 Property, plant and equipment

|  | Buildings | Servers<br>and other<br>equipment | Furniture &<br>leasehold<br>improve-<br>ments | Vehicles     | Construction<br>in progress | Total         |
|--|-----------|-----------------------------------|---|--------------|-----------------------------|---------------|
|  | RMB'000   | RMB'000                           | RMB'000                                       | RMB'000      | RMB'000                     | RMB'000       |
| <b>At January 1, 2015</b>                |           |                                   |   |              |                             |               |
| Cost                                     | –         | 49,495                            | 14,138  | –            | –                           | 63,633        |
| Accumulated depreciation                 | –         | (30,131)                          | (7,981)                                       | –            | –                           | (38,112)      |
| <b>Net book amount</b>                   | <b>–</b>  | <b>19,364</b>                     | <b>6,157</b>                                  | <b>–</b>     | <b>–</b>                    | <b>25,521</b> |
| <b>Year ended December 31, 2015</b>      |           |                                   |   |              |                             |               |
| Opening net book amount                  | –         | 19,364                            | 6,157   | –            | –                           | 25,521        |
| Acquisition of a subsidiary<br>(Note 31) | –         | 332                               | 49  | 351          | –                           | 732           |
| Additions                                | –         | 6,364                             | 7,666   | 1,958        | –                           | 15,988        |
| Disposal                                 | –         | (2,264)                           | (80)  | –            | –                           | (2,344)       |
| Depreciation charge (Note 8)             | –         | (11,748)                          | (5,435)                                       | (387)        | –                           | (17,570)      |
| <b>Closing net book amount</b>           | <b>–</b>  | <b>12,048</b>                     | <b>8,357</b>                                  | <b>1,922</b> | <b>–</b>                    | <b>22,327</b> |
| <b>At December 31, 2015</b>              |           |                                   |   |              |                             |               |
| Cost                                     | –         | 41,575                            | 21,715  | 2,309        | –                           | 65,599        |
| Accumulated depreciation                 | –         | (29,527)                          | (13,358)                                      | (387)        | –                           | (43,272)      |
| <b>Net book amount</b>                   | <b>–</b>  | <b>12,048</b>                     | <b>8,357</b>                                  | <b>1,922</b> | <b>–</b>                    | <b>22,327</b> |

|                                | <u>Buildings</u> | <u>Servers<br/>and other<br/>equipment</u> | <u>Furniture &amp;<br/>leasehold<br/>improve-<br/>ments</u> | <u>Vehicles</u> | <u>Construction<br/>in progress</u> | <u>Total</u>   |
|--------------------------------|------------------|--|---|-----------------|-------------------------------------|----------------|
|                                | <u>RMB'000</u>   | <u>RMB'000</u>                             | <u>RMB'000</u>  | <u>RMB'000</u>  | <u>RMB'000</u>                      | <u>RMB'000</u> |
| <b>Year ended</b>              |                  |  |   |                 |                                     |                |
| <b>December 31, 2016</b>       |                  |  |   |                 |                                     |                |
| Opening net book amount        | –                | 12,048                                     | 8,357   | 1,922           | –                                   | 22,327         |
| Additions                      | 13,175           | 382  | 400   | –               | –                                   | 13,957         |
| Disposal                       | –                | (90)                                       | –   | –               | –                                   | (90)           |
| Depreciation charge (Note 8)   | (104)            | (6,282)                                    | (6,617)   | (599)           | –                                   | (13,602)       |
| <b>Closing net book amount</b> | <b>13,071</b>    | <b>6,058</b>                               | <b>2,140</b>  | <b>1,323</b>    | <b>–</b>                            | <b>22,592</b>  |
| <b>At December 31, 2016</b>    |                  |  |   |                 |                                     |                |
| Cost                           | 13,175           | 41,725                                     | 22,116  | 2,309           | –                                   | 79,325         |
| Accumulated depreciation       | (104)            | (35,667)                                   | (19,976)  | (986)           | –                                   | (56,733)       |
| <b>Net book amount</b>         | <b>13,071</b>    | <b>6,058</b>                               | <b>2,140</b>  | <b>1,323</b>    | <b>–</b>                            | <b>22,592</b>  |
| <b>Year ended</b>              |                  |  |   |                 |                                     |                |
| <b>December 31, 2017</b>       |                  |  |   |                 |                                     |                |
| Opening net book amount        | 13,071           | 6,058                                      | 2,140   | 1,323           | –                                   | 22,592         |
| Additions                      | –                | 405  | –   | 833             | 1,529                               | 2,767          |
| Disposal                       | –                | (147)                                      | –   | –               | –                                   | (147)          |
| Depreciation charge (Note 8)   | (417)            | (3,618)                                    | (800)   | (482)           | –                                   | (5,317)        |
| <b>Closing net book amount</b> | <b>12,654</b>    | <b>2,698</b>                               | <b>1,340</b>  | <b>1,674</b>    | <b>1,529</b>                        | <b>19,895</b>  |
| <b>At December 31, 2017</b>    |                  |  |   |                 |                                     |                |
| Cost                           | 13,175           | 39,635                                     | 22,116  | 3,142           | 1,529                               | 79,597         |
| Accumulated depreciation       | (521)            | (36,937)                                   | (20,776)  | (1,468)         | –                                   | (59,702)       |
| <b>Net book amount</b>         | <b>12,654</b>    | <b>2,698</b>                               | <b>1,340</b>  | <b>1,674</b>    | <b>1,529</b>                        | <b>19,895</b>  |

Depreciation expenses have been charged to the combined statement of profit or loss as follows:

|                                   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|-----------------------------------|----------------|----------------|----------------|
|                                   | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Cost of revenue                   | 12,087         | 6,605          | 3,100          |
| Research and development expenses | 2,964          | 3,858          | 688            |
| Administration expenses           | 2,489          | 3,063          | 1,523          |
| Selling and marketing expenses    | 30             | 76             | 6              |
|                                   | <b>17,570</b>  | <b>13,602</b>  | <b>5,317</b>   |

Note: As at December 31, 2016 and 2017, the Group's buildings of RMB13,071,000 and RMB12,654,000 together with the related land use rights of RMB74,339,000 and RMB73,056,000 (Note 15) were pledged as security for the Group's bank borrowings of RMB59,850,000 and RMB53,711,000, respectively (Note 26).

## 15 Land use rights

|                                | <u>2015</u> | <u>2016</u>   | <u>2017</u>   |
|--------------------------------|-------------|---------------|---------------|
|                                | RMB'000     | RMB'000       | RMB'000       |
| <b>At January 1</b>            |             |               |               |
| Cost                           | –           | –             | 74,660        |
| Accumulated amortization       | –           | –             | (321)         |
|                                | <u>–</u>    | <u>–</u>      | <u>74,339</u> |
| <b>Net book amount</b>         | <u>–</u>    | <u>–</u>      | <u>74,339</u> |
| <b>Year ended December 31</b>  |             |               |               |
| Opening net book amount        | –           | –             | 74,339        |
| Additions                      | –           | 74,660        | –             |
| Amortization charge (Note (a)) | –           | (321)         | (1,283)       |
|                                | <u>–</u>    | <u>74,339</u> | <u>73,056</u> |
| <b>Closing net book amount</b> | <u>–</u>    | <u>74,339</u> | <u>73,056</u> |
| <b>At December 31</b>          |             |               |               |
| Cost                           | –           | 74,660        | 74,660        |
| Accumulated amortization       | –           | (321)         | (1,604)       |
|                                | <u>–</u>    | <u>74,339</u> | <u>73,056</u> |
| <b>Net book amount</b>         | <u>–</u>    | <u>74,339</u> | <u>73,056</u> |

## Notes:

- (a) The Group's land use rights are held under leases for the period of over 50 years located in the PRC.
- (b) As at December 31, 2016 and 2017, the Group's land use rights of RMB74,339,000 and RMB73,056,000 together with the related buildings of RMB13,071,000 and RMB12,654,000 (Note 14) were pledged as security for the Group's bank borrowings of RMB59,850,000 and RMB53,711,000, respectively (Note 26).
- (c) Amortization on land use rights of the Group was charged to the administrative expenses.

## 16 Intangible assets

|                                       | <u>Goodwill</u> | <u>Game<br/>copyrights</u> | <u>Computer<br/>software<br/>licenses</u> | <u>Domain<br/>name</u> | <u>Total</u>  |
|---------------------------------------|-----------------|----------------------------|---|------------------------|---------------|
|                                       | RMB'000         | RMB'000                    | RMB'000                                   | RMB'000                | RMB'000       |
| <b>At January 1, 2015</b>             |                 |                            |   |                        |               |
| Cost                                  | –               | 8,189                      | 2,307                                     | –                      | 10,496        |
| Accumulated amortization              | –               | (4,640)                    | (1,809)                                   | –                      | (6,449)       |
| <b>Net book amount</b>                | <u>–</u>        | <u>3,549</u>               | <u>498</u>                                | <u>–</u>               | <u>4,047</u>  |
| <b>Year ended December 31, 2015</b>   |                 |                            |   |                        |               |
| Opening net book amount               | –               | 3,549                      | 498                                       | –                      | 4,047         |
| Acquisition of a subsidiary (Note 31) | 26,031          | –                          | –   | –                      | 26,031        |
| Additions                             | –               | –                          | 6   | 3,253                  | 3,259         |
| Amortization charge (Note 8)          | –               | (1,638)                    | (309)                                     | (123)                  | (2,070)       |
| <b>Closing net book amount</b>        | <u>26,031</u>   | <u>1,911</u>               | <u>195</u>                                | <u>3,130</u>           | <u>31,267</u> |
| <b>At December 31, 2015</b>           |                 |                            |   |                        |               |
| Cost                                  | 26,031          | 8,189                      | 2,313                                     | 3,253                  | 39,786        |
| Accumulated amortization              | –               | (6,278)                    | (2,118)                                   | (123)                  | (8,519)       |
| <b>Net book amount</b>                | <u>26,031</u>   | <u>1,911</u>               | <u>195</u>                                | <u>3,130</u>           | <u>31,267</u> |
| <b>Year ended December 31, 2016</b>   |                 |                            |   |                        |               |
| Opening net book amount               | 26,031          | 1,911                      | 195                                       | 3,130                  | 31,267        |
| Additions                             | –               | –                          | 4,245                                     | –                      | 4,245         |
| Amortization charge (Note 8)          | –               | (1,638)                    | (698)                                     | (325)                  | (2,661)       |
| <b>Closing net book amount</b>        | <u>26,031</u>   | <u>273</u>                 | <u>3,742</u>                              | <u>2,805</u>           | <u>32,851</u> |
| <b>At December 31, 2016</b>           |                 |                            |   |                        |               |
| Cost                                  | 26,031          | 8,189                      | 6,558                                     | 3,253                  | 44,031        |
| Accumulated amortization              | –               | (7,916)                    | (2,816)                                   | (448)                  | (11,180)      |
| <b>Net book amount</b>                | <u>26,031</u>   | <u>273</u>                 | <u>3,742</u>                              | <u>2,805</u>           | <u>32,851</u> |
| <b>Year ended December 31, 2017</b>   |                 |                            |   |                        |               |
| Opening net book amount               | 26,031          | 273                        | 3,742                                     | 2,805                  | 32,851        |
| Additions                             | –               | –                          | 163                                       | –                      | 163           |
| Amortization charge (Note 8)          | –               | (273)                      | (1,509)                                   | (325)                  | (2,107)       |
| <b>Closing net book amount</b>        | <u>26,031</u>   | <u>–</u>                   | <u>2,396</u>                              | <u>2,480</u>           | <u>30,907</u> |
| <b>At December 31, 2017</b>           |                 |                            |   |                        |               |
| Cost                                  | 26,031          | 8,189                      | 6,721                                     | 3,253                  | 44,194        |
| Accumulated amortization              | –               | (8,189)                    | (4,325)                                   | (773)                  | (13,287)      |
| <b>Net book amount</b>                | <u>26,031</u>   | <u>–</u>                   | <u>2,396</u>                              | <u>2,480</u>           | <u>30,907</u> |



Amortization charges were expensed in the following categories in the combined statements of profit or loss:

|                                   | <u>2015</u>  | <u>2016</u>  | <u>2017</u>  |
|-----------------------------------|--------------|--------------|--------------|
|                                   | RMB'000      | RMB'000      | RMB'000      |
| Cost of revenue                   | 249          | 355          | 327          |
| Research and development expenses | 1,779        | 2,176        | 1,765        |
| Administration expenses           | 41           | 129          | 15           |
| Selling and marketing expenses    | 1            | 1            | –            |
|                                   | <u>2,070</u> | <u>2,661</u> | <u>2,107</u> |

### Impairment tests for goodwill

The goodwill of Group amounted to RMB 26,031,000 was attributable to the acquisition of Shenzhen Qianqi, an online game developer, and the operation of Shenzhen Qianqi have been integrated into the Group after the acquisition, as a result the goodwill is regarded as attributable to the sole reportable segment of the Group, i.e. the Group as a whole.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated, i.e. the Group as a whole. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews. Key assumptions for the value in use calculation as of December 31, 2017 including revenue growth and gross margin of 45% and 85%, respectively. Cash flows beyond the budget period are extrapolated using the estimated growth rate of 2%. Pre-tax discount rate applied is approximately 18%.

The revenue growth rate and gross margin rate are based on management's expectations of market development. The discount rate used is before tax and reflects specific risks relating to the relevant business.

According to the management's impairment assessment, there are significant headroom of more than RMB15 billion as compared to the carrying amount of the goodwill of RMB26 million and hence no impairment loss have been recognized. Even in the case that the budget long term growth rate, gross margin and pre-tax discount rate used in the value in use calculation had been became zero, 5% lower and 2% lower, respectively, there are still no indication for any goodwill impairment. Furthermore, any reasonably possible change in any of key parameters adopted in the value-in-use calculations as stated above would not cause the carrying amount of goodwill to exceed the recoverable amount.

## 17 Investments in associates

|  | 2015           | 2016           | 2017           |
|--|----------------|----------------|----------------|
|  | RMB'000        | RMB'000        | RMB'000        |
| At beginning of the year                   | –              | 186,644        | 201,090        |
| Additions                                  | 183,439        | –              | 999            |
| Shares of results                          | 36             | 7,306          | 313            |
| Share of other comprehensive (loss)/income | (112)          | (883)          | 866            |
| Dilution loss                              | –              | –              | (13,612)       |
| Impairment loss                            | –              | (4,500)        | –              |
| Disposal of an associate (Note 29)         | –              | –              | (3,000)        |
| Currency translation differences           | 3,281          | 12,523         | (11,388)       |
|  | <u>186,644</u> | <u>201,090</u> | <u>175,268</u> |
| At end of the year                         | <u>186,644</u> | <u>201,090</u> | <u>175,268</u> |

Set out below are the associates of the Group as at December 31, 2015, 2016 and 2017. The associates as listed below have share capital consisting solely of ordinary shares.

| Name of associates   | Place of incorporation/ establishment | Principal activities and place of operation                                | Equity interest held as at December 31, |      |        | Note |
|--|---------------------------------------|--|---|------|--------|------|
|  |                                       |  | 2015                                    | 2016 | 2017   |      |
| Digital Hollywood Interactive Limited Co., Ltd. (“Digital Hollywood”)          | Cayman Islands                        | Development, operations and publishing of web-based games and mobile games | 23%                                     | 23%  | 15.52% | (a)  |
| Beijing 7th Heaven Network Technology Co., Ltd. (“Beijing 7th Heaven”)         | The PRC                               | Online games development and distribution                                  | 15%                                     | 15%  | –      | (b)  |
| Shenzhen Xiaotudou Cultural and Communication Co., Ltd. (“Shenzhen Xiaotudou”) | The PRC                               | Designation of advertisement and animation                                 | –                                       | –    | 30%    | (c)  |

## Notes:

- (a) On August 26, 2015, the Group entered into an investment agreement with shareholders of Digital Hollywood and pursuant to which the Group purchased 23% equity interests in Digital Hollywood at a cash consideration of US\$27,600,000. The Group has been entitled the right to appoint one director to Digital Hollywood thus the directors of the Company consider that the Group has significant influence on Digital Hollywood in its operational and financial decision-making processes, accordingly, the investment in Digital Hollywood was accounted for using equity accounting method.

On May 27, 2017, Digital Hollywood allotted and issued a total of 1,111,122 new shares to a trustee of its share option scheme at a nominal consideration of US\$1,111,122 and the Group's equity interest in Digital Hollywood diluted to 20.7%.

On December 15, 2017, Digital Hollywood completed its initial public offering (“IPO”) on the Main Board of the Stock Exchange. Digital Hollywood allotted and issued 500,000,000 new shares upon the IPO at an offer price of HK\$0.63 per shares with net cash proceed of approximately HK\$265 million. The Group’s equity interest in Digital Hollywood further diluted to 15.52%.

Despite that the Group’s interest in Digital Hollywood diluted to 15.52% upon its IPO, the Group remains able to exercise significant influence in Digital Hollywood’s operational and financial matters through the participation in its board of directors, thus the Group continues to account for its interest in Digital Hollywood as an associate.

The Group recognized a loss on dilution of interest in Digital Hollywood of RMB13,612,000 as a result of the aforesaid new shares issued by Digital Hollywood.

- (b) On November 25, 2015, the Group entered into an investment agreement with shareholders of Beijing 7th Heaven and pursuant to which the Group subscribed for 15% equity interests in Beijing 7th Heaven at a consideration of RMB7,500,000. The Group has been entitled the right to appoint one director to Beijing 7th Heaven, thus the directors of the Company consider that the Group has significant influence Beijing 7th Heaven in its operational and financial decision-making processes, accordingly, the investment in Beijing 7th Heaven was accounted for using equity accounting method.

In December 2016, the Group performed an assessment on the business performance of Beijing 7th Heaven, and impairment provision of RMB4,500,000 had been made against the carrying amounts of these investments which were considered to be irrecoverable due to the uncertainty of their future performance and operations. In 2017, the Beijing 7th Heaven and the Group agreed to terminate the investment and Beijing 7th Heaven proceeded the liquidation. The liquidation is expected to be completed in 2018.

- (c) On September 8, 2017, the Group established Shenzhen Xiaotudou with other parties with an initial capital investment of RMB999,000. The Group owns 30% equity interest and has been entitled to appoint one director to Shenzhen Xiaotudou. The directors of the Group consider that the Group has significant influence exercised on Shenzhen Xiaotudou through the participation in its operational and financial decision-making processes; therefore, the investment in Shenzhen Xiaotudou was accounted for using equity accounting method.

**Summarized financial information**

Set out below are the summarized financial information of the significant associate of the Group, Digital Hollywood as at December 31, 2015, 2016 and 2017 which is accounted for using the equity method.

|   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---|----------------|----------------|----------------|
|   | <b>RMB'000</b> | <b>RMB'000</b> | <b>RMB'000</b> |
| <b>Summarized balance sheet</b>                     |                |                |                |
| Current assets                                      | 201,092        | 174,610        | 405,031        |
| Non-current assets                                  | 118,191        | 114,067        | 98,453         |
| Current liabilities                                 | (179,166)      | (108,825)      | (89,671)       |
| Non-current liabilities                             | (1,240)        | (310)          | (285)          |
|   | <u>138,877</u> | <u>179,542</u> | <u>413,528</u> |
| Net Assets  |                |                |                |
|   | <u>138,877</u> | <u>179,542</u> | <u>413,528</u> |
| Net assets attributable to the Group                | 31,942         | 41,295         | 69,405         |
| Goodwill  | 147,202        | 156,795        | 104,898        |
|   | <u>179,144</u> | <u>198,090</u> | <u>174,303</u> |
| Carrying amount attributable to the Group           |                |                |                |
|   | <u>179,144</u> | <u>198,090</u> | <u>174,303</u> |
| <b>Summarized statement of comprehensive income</b> |                |                |                |
| Revenue   | 174,445        | 188,945        | 193,324        |
| Net Profit  | 24,981         | 31,764         | 1,507          |
| Other comprehensive loss                            | (1,956)        | (3,836)        | 3,763          |
| Total comprehensive income                          | <u>23,025</u>  | <u>27,928</u>  | <u>5,270</u>   |

## 18 Financial instruments by category

|  | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|--|----------------|----------------|----------------|
|  | RMB'000        | RMB'000        | RMB'000        |
| <b>Assets as per balance sheet</b>   |                |                |                |
| Available-for-sale financial assets (Note 19)  | 3,521          | 10,339         | 41,979         |
| Financial assets at fair value through profit or loss (Note 22)  | –              | 123,587        | 123,000        |
| Loans and receivables:   | 427,591        | 410,659        | 429,364        |
| – Trade and other receivables (excluding prepayments) (Note 20, 21)  | 205,417        | 193,111        | 134,120        |
| – Restricted cash (Note 23(b))   | 170,380        | 169,694        | 165,058        |
| – Cash and cash equivalents (Note 23(a))   | 51,794         | 47,854         | 130,186        |
|  | <u>431,112</u> | <u>544,585</u> | <u>594,343</u> |
| <b>Liabilities as per balance sheet</b>  |                |                |                |
| Financial liabilities at amortized cost:   |                |                |                |
| – Trade payables and other payables (excluding advance, staff payroll and welfare payables, government grants and other taxes payable) (Note 29) | 152,509        | 99,425         | 47,882         |
| – Borrowings (Note 26)   | 145,885        | 188,252        | 159,751        |
|  | <u>298,394</u> | <u>287,677</u> | <u>207,633</u> |

## 19 Available-for-sale financial assets

|                             | <u>2015</u>  | <u>2016</u>   | <u>2017</u>   |
|-----------------------------|--------------|---------------|---------------|
|                             | RMB'000      | RMB'000       | RMB'000       |
| Unlisted equity investments | <u>3,521</u> | <u>10,339</u> | <u>41,979</u> |

Movements in available-for-sale financial assets during the years ended December 31, 2015, 2016 and 2017 are as follows:

|                                | <u>2015</u>  | <u>2016</u>   | <u>2017</u>   |
|--------------------------------|--------------|---------------|---------------|
|                                | RMB'000      | RMB'000       | RMB'000       |
| At the beginning of the year   | –            | 3,521         | 10,339        |
| Addition                       | 2,113        | 3,550         | 26,200        |
| Disposal                       | –            | –             | (12,500)      |
| Business combination (Note 31) | 1,408        | –             | –             |
| Fair value change              | –            | 3,981         | 18,940        |
| Impairment (Note 7)            | –            | (713)         | (1,000)       |
| At the end of year             | <u>3,521</u> | <u>10,339</u> | <u>41,979</u> |

As of December 31, 2015, 2016 and 2017, unlisted equity investments include equity investments held by the Group in several private companies in the PRC.

The equity investments held by the Group in the private companies are less than 20% for each entity and the Group does not have control nor significant influence over the operating and financial decisions of each of these entities respectively. Therefore, the Group classified its investments in each of these entities as available-for-sale financial assets.

There are no quoted market prices available for all the underlying entities. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 3.3.

Gains or losses arising from the changes in fair value of available-for-sale financial assets are recognized as other comprehensive income.

In September 2017, the Group disposed certain equity interest in an investee at a cash consideration of RMB12,500,000, resulted in a gain of RMB11,777,000 transferred from other comprehensive income to profit or loss for the year ended December 31, 2017.

## 20 Trade receivables

|   | <u>2015</u>           | <u>2016</u>           | <u>2017</u>           |
|---|-----------------------|-----------------------|-----------------------|
|   | RMB'000               | RMB'000               | RMB'000               |
| Trade receivables                                   | 123,525               | 151,027               | 102,626               |
| Less: allowance for impairment of trade receivables | <u>(389)</u>          | <u>(1,259)</u>        | <u>(1,259)</u>        |
| Trade receivables – net                             | <u><u>123,136</u></u> | <u><u>149,768</u></u> | <u><u>101,367</u></u> |

As at December 31, 2015, 2016 and 2017, the Group's trade receivables were denominated in the following currencies:

|        | <u>2015</u>           | <u>2016</u>           | <u>2017</u>           |
|--------|-----------------------|-----------------------|-----------------------|
|        | RMB'000               | RMB'000               | RMB'000               |
| RMB    | 47,531                | 85,624                | 47,223                |
| US\$   | 74,160                | 64,147                | 53,807                |
| Others | <u>1,834</u>          | <u>1,256</u>          | <u>1,596</u>          |
|        | <u><u>123,525</u></u> | <u><u>151,027</u></u> | <u><u>102,626</u></u> |

The Group allows a credit period of 60 – 120 days to its customers. An aging analysis of trade receivables based on invoice date is as follows:

|                    | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|--------------------|----------------|----------------|----------------|
|                    | RMB'000        | RMB'000        | RMB'000        |
| Up to 3 months     | 77,142         | 93,358         | 57,799         |
| 3 to 6 months      | 31,608         | 35,990         | 30,215         |
| 6 months to 1 year | 12,025         | 15,486         | 10,790         |
| 1 to 2 years       | 2,750          | 5,746          | 2,390          |
| Over 2 years       | –              | 447            | 1,432          |
|                    | <u>123,525</u> | <u>151,027</u> | <u>102,626</u> |

As at December 31, 2015, 2016 and 2017, trade receivables of RMB62,879,000, RMB73,814,000, and RMB49,112,000 were past due but not impaired. These relate to a number of independent customers for whom there is no financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

|                    | <u>2015</u>   | <u>2016</u>   | <u>2017</u>   |
|--------------------|---------------|---------------|---------------|
|                    | RMB'000       | RMB'000       | RMB'000       |
| Up to 3 months     | 16,496        | 19,300        | 18,997        |
| 3 to 6 months      | 31,608        | 33,191        | 25,258        |
| 6 months to 1 year | 12,025        | 15,377        | 4,169         |
| Over 1 year        | 2,750         | 5,946         | 688           |
|                    | <u>62,879</u> | <u>73,814</u> | <u>49,112</u> |

Movements on the Group's provision for impairment of trade receivables are as follows:

|  | <u>2015</u>  | <u>2016</u>    | <u>2017</u>    |
|--|--------------|----------------|----------------|
|  | RMB'000      | RMB'000        | RMB'000        |
| At beginning of the year                                 | (7)          | (389)          | (1,259)        |
| Provision for impairment (Note 8)                        | (382)        | (1,576)        | (1,870)        |
| Receivables written off during the year as uncollectible | –            | 706            | 1,870          |
|  | <u>(389)</u> | <u>(1,259)</u> | <u>(1,259)</u> |

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the statement of profit or loss (Note 8).

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables. The Group does not hold any collateral as security.

## 21 Prepayments and other receivables

|  | <u>2015</u>   | <u>2016</u>   | <u>2017</u>   |
|--|---------------|---------------|---------------|
|  | RMB'000       | RMB'000       | RMB'000       |
| <b>Included in non-current assets</b>      |               |               |               |
| Rented deposits                            | 3,175         | 2,358         | 1,554         |
| Prepayment for technology services         | 5,041         | 8,242         | 6,294         |
| Prepayment for copyright loyalty           | 4,174         | –             | –             |
| Prepayment for investment (Note b)         | 7,211         | –             | –             |
|  | <u>19,601</u> | <u>10,600</u> | <u>7,848</u>  |
| <b>Included in current assets</b>          |               |               |               |
| Housing loans to employee                  | 18,659        | 6,128         | 5,349         |
| Loans granted to third parties (Note a)    | –             | 15,837        | 800           |
| Recoverable value-added tax                | 8,716         | 6,817         | 6,376         |
| Interest receivable                        | 1,989         | 7,929         | 13,852        |
| Prepayment for listing expenses            | –             | –             | 4,250         |
| Prepayment to game developers              | 1,000         | 1,000         | 4,808         |
| Prepayment for technology services         | 1,518         | –             | –             |
| Prepayment for copyright loyalty           | 791           | 1,131         | –             |
| Prepayment for advertisement and marketing | 11,746        | 4,861         | 3,116         |
| Deposit for investment (Note b)            | 30,000        | –             | –             |
| Down payments to game developer            | 5,517         | –             | –             |
| Others (Note c)                            | 6,625         | 3,015         | 3,563         |
|  | <u>86,561</u> | <u>46,718</u> | <u>42,114</u> |

## Notes:

- (a) In March 2016, the Group provided a loan to a customer who is an independent third party of US\$2,250,000 at an interest rate of 1% per annum for a maturity period of 15 months. The loan was fully repaid in July 2017.
- (b) In 2015, the Group agreed to make equity investments in a number of companies engaging in online game development and certain investment amounts or deposit have been paid. However, due to the unsatisfying results of these companies' ongoing projects in 2016, the Group terminated the investments contracts and withdrew the prepayment and deposit.
- (c) As at December 31, 2017, receivables from shareholders of approximately RMB42,000 arising from the issuance of ordinary shares of the Company was included in "others". These receivables are interest-free and repayable on demand.



## 22 Financial assets at fair value through profit or loss

|  | <u>2015</u> | <u>2016</u>    | <u>2017</u>    |
|--|-------------|----------------|----------------|
|  | RMB'000     | RMB'000        | RMB'000        |
| Current  |             |                |                |
| Investments in wealth management products (Note a) | –           | 123,587        | 43,000         |
|  | <u>–</u>    | <u>123,587</u> | <u>43,000</u>  |
| Non-current  |             |                |                |
| Unlisted investment (Note b)                       | –           | –              | 80,000         |
|  | <u>–</u>    | <u>–</u>       | <u>80,000</u>  |
|  | <u>–</u>    | <u>123,587</u> | <u>123,000</u> |

Movements in financial assets at fair value through profit or loss during the years ended December 31, 2015, 2016 and 2017 are as follows:

|  | <u>2015</u> | <u>2016</u>    | <u>2017</u>    |
|--|-------------|----------------|----------------|
|  | RMB'000     | RMB'000        | RMB'000        |
| At the beginning of the year   | –           | –              | 123,587        |
| Addition   | 290,000     | 316,600        | 247,292        |
| Disposal   | (290,062)   | (194,191)      | (250,455)      |
| Realized and unrealized gains (Note 7)   | 62          | 1,178          | 2,576          |
|  | <u>–</u>    | <u>123,587</u> | <u>123,000</u> |
| At the end of year   | <u>–</u>    | <u>123,587</u> | <u>123,000</u> |
| Unrealized gains recognized in statement of profit or loss included in the above balance | <u>–</u>    | <u>987</u>     | <u>–</u>       |

## Notes:

- (a) The Group purchased certain wealth management products issued by certain major commercial banks in the PRC. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on expected return of each wealth management products held by the Group.
- (b) On December 12, 2017, the Group invested RMB80,000,000 in Ningbo Jiu Jin Investment (Limited liability partnership) (“Jiu Jin”) as a limited partner. The directors of the Company determined that the Group does not have significant influence on Jiu Jin and accordingly this investment was classified as financial assets at fair value through profit or loss.

Jiu Jin is not traded on an active market, its fair value is determined using valuation techniques as disclosed in Note 3.3.

**23 Bank balances and cash****(a) Cash and cash equivalents**

|                          | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------------------|-------------|-------------|-------------|
|                          | RMB'000     | RMB'000     | RMB'000     |
| Cash at bank and on hand | 51,794      | 47,854      | 130,186     |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

**(b) Restricted cash**

|   | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|-------------|-------------|-------------|
|   | RMB'000     | RMB'000     | RMB'000     |
| <b><u>Current</u></b>   |             |             |             |
| Restricted deposits as reserve for serving of debt for loans (note) | —           | —           | 162,330     |
|   | —           | —           | 162,330     |
| <b><u>Non-Current</u></b>   |             |             |             |
| Restricted deposits as reserve for serving of debt for loans (note) | 162,330     | 162,330     | —           |
| Restricted deposits as guarantee for government grants              | 8,050       | 7,364       | 2,728       |
|   | 170,380     | 169,694     | 2,728       |
|   | 170,380     | 169,694     | 165,058     |

Note: These restricted deposits were denominated in RMB and as at December 31, 2015, 2016 and 2017, the interest rates of these deposits per annum were 2.25% — 3.70%.

**24 Combined capital**

The combined capital comprised the share capital of the Company and the paid-in capital of Shenzhen 7Road, the principal operating company of the Group.

|                                      | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------------------------------|-------------|-------------|-------------|
|                                      | RMB'000     | RMB'000     | RMB'000     |
| At January 1                         | 10,000      | 10,000      | 10,000      |
| Issuance of shares <sup>(note)</sup> | —           | —           | 42          |
| At December 31                       | 10,000      | 10,000      | 10,042      |

Note: On September 6, 2017, 1 ordinary share was allotted and issued for cash at par to the initial subscriber of the Company and was subsequently transferred to Ben Holdings. On the same day, the Company further allotted and issued 9,999 ordinary shares for cash at par to Ben Holdings and credited as fully paid. These shares rank pari passu in all respects with the share in issue.

On November 17, 2017, 63,729,400 ordinary shares were allotted and issued for cash at par of US\$0.0001 each and credited as fully paid. These shares rank pari passu in all respects with the share in issue.

## 25 Other reserves

|   | Capital reserve | Statutory reserve | Share-based compensations reserve | Currency translation differences | Investment in associates | Available-for-sale financial assets fair value reserve | Total         |
|---|-----------------|-------------------|-----------------------------------|----------------------------------|--------------------------|--|---------------|
|   | RMB'000         | RMB'000           | RMB'000                           | RMB'000                          | RMB'000                  | RMB'000  | RMB'000       |
| <b>At January 1, 2015</b>   | 15,700          | 5,000             | –                                 | –                                | –                        | –  | 20,700        |
| Share-based compensations – value of services (Note 9(c))           | –               | –                 | 13,461                            | –                                | –                        | –  | 13,461        |
| Share of other comprehensive loss of associates (Note 17)           | –               | –                 | –                                 | –                                | (112)                    | –  | (112)         |
| Currency translation differences                                    | –               | –                 | –                                 | 710                              | –                        | –  | 710           |
| <b>At December 31, 2015</b>   | <b>15,700</b>   | <b>5,000</b>      | <b>13,461</b>                     | <b>710</b>                       | <b>(112)</b>             | <b>–</b>   | <b>34,759</b> |
| <b>At January 1, 2016</b>   | 15,700          | 5,000             | 13,461                            | 710                              | (112)                    | –  | 34,759        |
| Share-based compensations (Note 9(c))                               | –               | –                 | 228,840                           | –                                | –                        | –  | 228,840       |
| – value of services   | –               | –                 | (242,301)                         | –                                | –                        | –  | (242,301)     |
| – vesting of shares   | –               | –                 | –                                 | –                                | (883)                    | –  | (883)         |
| Share of other comprehensive loss of associates (Note 17)           | –               | –                 | –                                 | –                                | –                        | –  | –             |
| Fair value change in available-for-sale financial assets (Notes 19) | –               | –                 | –                                 | –                                | –                        | 2,986  | 2,986         |
| Currency translation differences                                    | –               | –                 | –                                 | 3,351                            | –                        | –  | 3,351         |
| <b>At December 31, 2016</b>   | <b>15,700</b>   | <b>5,000</b>      | <b>–</b>                          | <b>4,061</b>                     | <b>(995)</b>             | <b>2,986</b>   | <b>26,752</b> |
| <b>At January 1, 2017</b>   | 15,700          | 5,000             | –                                 | 4,061                            | (995)                    | 2,986  | 26,752        |
| Share of other comprehensive income of associates (Note 17)         | –               | –                 | –                                 | –                                | 866                      | –  | 866           |
| Currency translation differences                                    | –               | –                 | –                                 | (3,217)                          | –                        | –  | (3,217)       |
| Fair value change in available-for-sale financial assets (Notes 19) | –               | –                 | –                                 | –                                | –                        | 5,373  | 5,373         |
| <b>At December 31, 2017</b>   | <b>15,700</b>   | <b>5,000</b>      | <b>–</b>                          | <b>844</b>                       | <b>(129)</b>             | <b>8,359</b>   | <b>29,774</b> |

## 26 Borrowings

|                         | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|-------------------------|----------------|----------------|----------------|
|                         | RMB'000        | RMB'000        | RMB'000        |
| Secured bank borrowings |                |                |                |
| – RMB loan (note a)     | –              | 59,850         | 53,711         |
| – USD loan (note b)     | 145,885        | 128,402        | 106,040        |
|                         | <u>145,885</u> | <u>188,252</u> | <u>159,751</u> |

## Notes:

- (a) In September, 2016, the Group received a loan from a bank of RMB61,600,000 at an interest rate of SHIBOR basic loan rate plus 1.09% per annum. The borrowing was secured by certain property, plant and equipment and land use rights of the Group.
- (b) According to the facility agreement with a bank signed in August 2015, the Group was provided with a total facility amount of US\$27,600,000 for a term of 3 years at an interest rate of LIBOR plus 1.55%. As at December 31, 2015, 2016 and 2017, the borrowing was secured by the restricted bank deposits of the Group to the extent of RMB162,330,000 (Note 23(b)).

At December 31, 2015, 2016 and 2017, the Group's borrowings were repayable as follows:

|               | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---------------|----------------|----------------|----------------|
|               | RMB'000        | RMB'000        | RMB'000        |
| Within 1 year | –              | 6,138          | 112,178        |
| 1~2 years     | –              | 134,541        | 6,138          |
| 2~5 years     | 145,885        | 18,415         | 18,415         |
| Over 5 years  | –              | 29,158         | 23,020         |
|               | <u>145,885</u> | <u>188,252</u> | <u>159,751</u> |

At December 31, 2015, 2016 and 2017, the carry amounts of the Group's borrowings approximately fair values.

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see note 3.3) due to the use of unobservable inputs, including own credit risk.

## 27 Deferred revenue

|                                      | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|--------------------------------------|----------------|----------------|----------------|
|                                      | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| <b>Current</b>                       |                |                |                |
| Game copyrights                      | 342            | 75             | 4,371          |
| Game revenue derived from game users | 70,055         | 89,004         | 48,935         |
| Government grants                    | 3,289          | 1,744          | –              |
|                                      | <u>73,686</u>  | <u>90,823</u>  | <u>53,306</u>  |
| <b>Non-Current</b>                   |                |                |                |
| Game copyrights                      | 2,372          | 1,494          | 5,592          |
| Government grants                    | 1,744          | –              | –              |
|                                      | <u>4,116</u>   | <u>1,494</u>   | <u>5,592</u>   |
|                                      | <u>77,802</u>  | <u>92,317</u>  | <u>58,898</u>  |

Deferred revenue primarily comprised the unamortized revenue derived from sale of virtual items in the Group's Game Product service, which the Group continued to have obligations as at the reporting date, as described in Note 2.21. Deferred revenue will be recognized as revenue when all of the revenue recognition criteria are met.

## 28 Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

|   | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|---|----------------|----------------|----------------|
|   | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Deferred tax assets:                        |                |                |                |
| – to be recovered after more than 12 months | 450            | 276            | 559            |
| – to be recovered within 12 months          | 8,516          | 7,513          | 5,767          |
|   | <u>8,966</u>   | <u>7,789</u>   | <u>6,326</u>   |
| Deferred tax liabilities:                   |                |                |                |
| – to be recovered after more than 12 months | –              | –              | (2,785)        |
| – to be recovered within 12 months          | –              | (995)          | –              |
|   | <u>–</u>       | <u>(995)</u>   | <u>(2,785)</u> |

The movements in the deferred income tax assets accounts are as follows:

|  | <b>Deferred<br/>revenue</b> | <b>Impairment of<br/>trade receivables,<br/>prepayments and<br/>other receivables,<br/>available-for-sale<br/>financial assets<br/>and investment in<br/>associates</b> | <b>Tax loss</b> | <b>Total</b>   |
|--|-----------------------------|---|-----------------|----------------|
|  | <b>RMB'000</b>              | <b>RMB'000</b>  | <b>RMB'000</b>  | <b>RMB'000</b> |
| <b>At January 1, 2015</b>                                      | 8,899                       | –   | –               | 8,899          |
| (Charged)/credited to statement of profit or<br>loss (Note 11) | (1,119)                     | 39  | 1,147           | 67             |
| <b>At December 31, 2015</b>                                    | <u>7,780</u>                | <u>39</u>   | <u>1,147</u>    | <u>8,966</u>   |
| <b>At January 1, 2016</b>                                      | 7,780                       | 39  | 1,147           | 8,966          |
| (Charged)/credited to statement of profit or<br>loss (Note 11) | (938)                       | 908   | (1,147)         | (1,177)        |
| <b>At December 31, 2016</b>                                    | <u>6,842</u>                | <u>947</u>  | <u>–</u>        | <u>7,789</u>   |
| <b>At January 1, 2017</b>                                      | 6,842                       | 947   | –               | 7,789          |
| (Charged)/credited to statement of profit or<br>loss (Note 11) | (952)                       | (761)   | 250             | (1,463)        |
| <b>At December 31, 2017</b>                                    | <u>5,890</u>                | <u>186</u>  | <u>250</u>      | <u>6,326</u>   |

The movements in the deferred income tax liabilities accounts are as follows:

|  | <b>Available-for-sale<br/>financial assets</b> |
|--|--|
|  | <b>RMB'000</b>                                 |
| <b>At January 1, and December 31, 2015</b> | <u>–</u>                                       |
| <b>At January 1, 2016</b>                  | –  |
| Charged to other comprehensive income      | (995)  |
| <b>At December 31, 2016</b>                | <u>(995)</u>                                   |
| <b>At January 1, 2017</b>                  | (995)  |
| Charged to other comprehensive income      | (1,790)  |
| <b>At December 31, 2017</b>                | <u>(2,785)</u>                                 |

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

## 29 Trade payables, other payables and receipt in advance

|  | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|--|----------------|----------------|----------------|
|  | RMB'000        | RMB'000        | RMB'000        |
| Trade payables                                 | 1,418          | 3,112          | 7,384          |
| Payroll liabilities                            | 8,367          | 13,279         | 6,505          |
| Advance from customers                         | 30,254         | 3,118          | 74,809         |
| Other tax payables                             | 6,512          | 4,601          | 5,424          |
| Interest payables                              | 89             | 86             | 85             |
| Dividend payables                              | 66,524         | 56,524         | 38,616         |
| Government grants                              | 8,050          | 7,364          | 2,728          |
| Payable to investee company (Note a)           | –              | 1,000          | –              |
| Payable to then holding company (Note b)       | 68,000         | 34,000         | –              |
| Accrued expenses                               | 1,518          | 493            | 84             |
| Payable of investments in associates (Note 17) | 7,500          | 3,000          | –              |
| Others   | 7,460          | 1,210          | 1,713          |
|  | <u>205,692</u> | <u>127,787</u> | <u>137,348</u> |

Notes:

- (a) In November 2016, the Group agreed to invest RMB1,000,000 in Shenzhen Fenggu Interactive Technology Co., Ltd., and the investments were fully settled in 2017.
- (b) In August 2015, the Group borrowed a short-term interest-free loan of RMB128,000,000, repayable in December 2015, from an entity controlled by the then holding company, Beijing Changyou. The Group repaid RMB60,000,000 in December 2015 and extended the repayment date of the remaining balance of RMB68,000,000 until January 2016. In 2016, the Group further extended the repayment date of the short-term loan and repaid RMB34,000,000 and RMB34,000,000 in 2016 and 2017, respectively.

As at December 31, 2015 and 2016, the short-term interest-free loan was secured by certain intellectual properties of the Group with no carrying amount.

The aging analysis of trade payables based on invoice date is as follows:

|              | <u>2015</u>  | <u>2016</u>  | <u>2017</u>  |
|--------------|--------------|--------------|--------------|
|              | RMB'000      | RMB'000      | RMB'000      |
| 0-30 days    | 521          | 2,924        | 3,109        |
| 31-60 days   | 392          | 71           | 4,117        |
| 61-90 days   | 26           | 20           | 61           |
| 91-180 days  | 220          | 97           | 97           |
| 181-365 days | 259          | –            | –            |
|              | <u>1,418</u> | <u>3,112</u> | <u>7,384</u> |



## 30 Cash flow information

## (a) Cash generated from operations

|   | <u>2015</u>   | <u>2016</u>    | <u>2017</u>    |
|---|---------------|----------------|----------------|
|   | RMB'000       | RMB'000        | RMB'000        |
| Profit before income tax  | 181,861       | 2,365          | 279,245        |
| Amortization of land use rights (Note 15)   | –             | 321            | 1,283          |
| Amortization of intangible assets (Note 16)   | 2,070         | 2,661          | 2,107          |
| Depreciation of property, plant and equipment (Note 14)                                       | 17,570        | 13,602         | 5,317          |
| Impairment (Note 17 and 19)   | –             | 5,213          | 1,000          |
| Share-based compensation (Note 9)   | 13,461        | 228,840        | –              |
| Loss on disposal of property, plant and equipment (Note 7)                                    | 1,434         | 36             | 112            |
| Return on wealth management products (Note 22)  | (62)          | (191)          | (2,576)        |
| Fair value change in wealth management products (Note 22)                                     | –             | (987)          | –              |
| Finance income, net (Note 10)   | (12,620)      | (5,742)        | 4,128          |
| Share of results from investments in associates (Note 17)                                     | (36)          | (7,306)        | (313)          |
| Dilution loss (Note 17)   | –             | –              | 13,612         |
| Gain on partial disposal on an available-for-sales financial asset (Note 7)                   | –             | –              | (11,777)       |
| (Increase)/decrease in trade receivable, prepayments and other receivable<br>(Note 20 and 21) | (35,450)      | 18,243         | 14,223         |
| (Decrease)/increase in trade and other payable (Note 29)                                      | (71,944)      | (29,335)       | 72,669         |
| Decrease in restricted cash (Note 23)   | 2,217         | 686            | 4,636          |
|   | <u>98,501</u> | <u>228,406</u> | <u>383,666</u> |

## (b) Reconciliation of liabilities arising from financing activities

|   | As at January 1, 2015 | Business combination | Cash flows | Non-cash changes          |                         |
|---|-----------------------|----------------------|------------|---------------------------|-------------------------|
|   |                       |                      |            | Foreign exchange movement | As at December 31, 2015 |
|   | RMB'000               | RMB'000              | RMB'000    | RMB'000                   | RMB'000                 |
| Trade payables, other payables and receipt in advance | –                     | 19,258               | 48,742     | –                         | 68,000                  |
| Bank borrowings, non-current                          | –                     | –                    | 145,885    | –                         | 145,885                 |
| Total liabilities from financing activities           | –                     | 19,258               | 194,627    | –                         | 213,885                 |

**APPENDIX I**

**ACCOUNTANT'S REPORT**

|   | <u>Non-cash changes</u>      |                   |                         |                         | <u>As at December 31, 2016</u> |
|---|------------------------------|-------------------|-------------------------|-------------------------|--------------------------------|
|   | <u>As at January 1, 2016</u> | <u>Cash flows</u> | <u>Foreign exchange</u> |                         |                                |
|   |                              |                   | <u>movement</u>         | <u>Reclassification</u> |                                |
|   | <u>RMB'000</u>               | <u>RMB'000</u>    | <u>RMB'000</u>          | <u>RMB'000</u>          | <u>RMB'000</u>                 |
| Trade payables, other payables and receipt in advance | 68,000                       | (34,000)          | –                       | –                       | 34,000                         |
| Bank borrowings, non-current                          | 145,885                      | 32,051            | 10,316                  | (6,138)                 | 182,114                        |
| Bank borrowings, current                              | –                            | –                 | –                       | 6,138                   | 6,138                          |
| <b>Total liabilities from financing activities</b>    | <b>213,885</b>               | <b>(1,949)</b>    | <b>10,316</b>           | <b>–</b>                | <b>222,252</b>                 |

|   | <u>Non-cash changes</u>      |                   |                         |                         | <u>As at December 31, 2017</u> |
|---|------------------------------|-------------------|-------------------------|-------------------------|--------------------------------|
|   | <u>As at January 1, 2017</u> | <u>Cash flows</u> | <u>Foreign exchange</u> |                         |                                |
|   |                              |                   | <u>movement</u>         | <u>Reclassification</u> |                                |
|   | <u>RMB'000</u>               | <u>RMB'000</u>    | <u>RMB'000</u>          | <u>RMB'000</u>          | <u>RMB'000</u>                 |
| Trade payables, other payables and receipt in advance | 34,000                       | (34,000)          | –                       | –                       | –                              |
| Bank borrowings, non-current                          | 182,114                      | (22,365)          | 2                       | (112,178)               | 47,573                         |
| Bank borrowings, current                              | 6,138                        | (6,138)           | –                       | 112,178                 | 112,178                        |
| <b>Total liabilities from financing activities</b>    | <b>222,252</b>               | <b>(62,503)</b>   | <b>2</b>                | <b>–</b>                | <b>159,751</b>                 |

### 31 Business combination

On August 5, 2015, the Group acquired 100% equity interest in Shenzhen Qianqi from Mr. Liu Jing and Mr. Hu Min, shareholders of the Company at a cash consideration of RMB 1,000,000. Shenzhen Qianqi is principally engaged in the development of online game. The goodwill of approximately RMB 26,031,000 arising from the acquisition is attributable to the acquired workforce and the economies of scale expected to be derived from combining with the operations of the Group. None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for the acquisition, the fair value of assets acquired and liabilities assumed at the acquisition date.

|   | <u>At August 5, 2015</u>    |
|---|-----------------------------|
|   | <u>RMB'000</u>              |
| Cash consideration  | 1,000                       |
| Recognized amounts of identifiable assets acquired and liabilities assumed: |                             |
| Cash and cash equivalents   | 154                         |
| Other net working capital   | (32,915)                    |
| Property, plant and equipment   | 732                         |
| Available-for-sale financial assets   | 1,408                       |
| Investment in an associate  | 3,750                       |
| Long term prepayment  | 1,840                       |
|   | <u>                    </u> |
| Total identifiable net liabilities  | (25,031)                    |
| Goodwill (Note 16)  | 26,031                      |
|   | <u>                    </u> |
|   | <u>                    </u> |
|   | <u>                    </u> |
|   | 1,000                       |
|   | <u>                    </u> |

Acquisition-related costs were not significant and have been charged to administrative expenses. The revenue and the results contributed by Shenzhen Qianqi to the Group for the period since the acquisition were relatively insignificant to the Group. The Group's revenue and results for the year ended December 31, 2015 would not be materially different if the Acquisition had occurred on January 1, 2015.

### 32 Commitments

#### (a) Operating lease commitment — as lessee

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between 3 and 5 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|                      | <u>2015</u>   | <u>2016</u>   | <u>2017</u>   |
|----------------------|---------------|---------------|---------------|
|                      | RMB'000       | RMB'000       | RMB'000       |
| No later than 1 year | 10,116        | 7,280         | 7,341         |
| 1~2 years            | –             | 7,341         | 7,659         |
| 2~5 years            | –             | 15,359        | 7,700         |
|                      | <u>10,116</u> | <u>29,980</u> | <u>22,700</u> |

### (b) Capital commitments

As at December 31, 2015, 2016 and 2017 significant capital expenditure in respect of purchase of property, plant and equipment contracted but not provided for amounted to nil, nil and RMB2,971,000, respectively.

### 33 Related party transactions

Save as disclosed in other notes, 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.

#### (a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during the Track Record Period.

| <u>Company</u>  | <u>Relationship</u>                    |
|---|--|
| Digital Hollywood   | Associate                              |
| Mr. Meng Shuqi  | Director of the Company                |
| Mr. Hu Min  | Director of the Company                |
| Mr. Wang Chendong   | Director of the Company                |
| Beijing Changyou (an entity controlled by Changyou Limited)   | Fellow subsidiary prior to August 2015 |
| Beijing AmazGame Age Internet Technology Co., Ltd. (An entity controlled by Changyou.com Limited, "Beijing AmazGame") | Fellow subsidiary prior to August 2015 |
| Shenzhen 7Road Network Technology Co., Ltd. (An entity controlled by Changyou.com Limited, "7Road Network")           | Fellow subsidiary prior to August 2015 |

## (b) Significant transactions with related parties

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 mutually agreed between the Group and the respective parties.

|                   | <u>2015</u>  | <u>2016</u>   | <u>2017</u>   |
|-------------------|--------------|---------------|---------------|
|                   | RMB'000      | RMB'000       | RMB'000       |
| <i>Revenue:</i>   |              |               |               |
| Digital Hollywood | <u>9,997</u> | <u>45,345</u> | <u>26,440</u> |

## (c) Year-end balances arising from revenue

|  | <u>2015</u>   | <u>2016</u>   | <u>2017</u>   |
|--|---------------|---------------|---------------|
|  | RMB'000       | RMB'000       | RMB'000       |
| <i>Receivables from related parties (Note 20):</i> |               |               |               |
| Digital Hollywood                                  | <u>36,062</u> | <u>26,419</u> | <u>20,216</u> |

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and interest-free. No provisions have been made against receivables from related parties.

## (d) Loans to key management

## (i) Mr. Meng Shuqi

|                                     | <u>2015</u> | <u>2016</u> | <u>2017</u>  |
|-------------------------------------|-------------|-------------|--------------|
|                                     | RMB'000     | RMB'000     | RMB'000      |
| Movements during the years:         |             |             |              |
| At January 1,                       | –           | 264         | –            |
| Loans advanced                      | 264         | –           | 5,000        |
| Loan repaid                         | –           | (264)       | (5,000)      |
|                                     | <u>–</u>    | <u>–</u>    | <u>–</u>     |
| At December 31,                     | <u>264</u>  | <u>–</u>    | <u>–</u>     |
| Maximum outstanding during the year | <u>264</u>  | <u>264</u>  | <u>5,000</u> |

## (ii) Mr. Hu Min

|                                     | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|-------------------------------------|----------------|----------------|----------------|
|                                     | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Movements during the years:         |                |                |                |
| At January 1,                       | –              | 500            | –              |
| Loans advanced                      | 500            | –              | –              |
| Loan repaid                         | –              | (500)          | –              |
|                                     | <u>–</u>       | <u>–</u>       | <u>–</u>       |
| At December 31,                     | <u>500</u>     | <u>–</u>       | <u>–</u>       |
| Maximum outstanding during the year | <u>500</u>     | <u>500</u>     | <u>–</u>       |

## (iii) Other key management

|                             | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|-----------------------------|----------------|----------------|----------------|
|                             | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| Movements during the years: |                |                |                |
| At January 1,               | 350            | 1,462          | 148            |
| Loans advanced during year  | 1,147          | 791            | –              |
| Loan repayments received    | (35)           | (2,105)        | (28)           |
|                             | <u>1,462</u>   | <u>148</u>     | <u>120</u>     |
| At December 31,             | <u>1,462</u>   | <u>148</u>     | <u>120</u>     |

Loans to key management of the Group was unsecured, interest-free and repayable on demand.

## (e) Loans from key management

## Mr. Meng Shuqi

|                                    | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    |
|------------------------------------|----------------|----------------|----------------|
|                                    | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u> |
| <i>Movements during the years:</i> |                |                |                |
| At January 1,                      | –              | –              | –              |
| Acquisition of a subsidiary        | 19,258         | –              | –              |
| Loans advanced (Note 31)           | –              | 35,200         | –              |
| Loan repaid                        | (19,258)       | (35,200)       | –              |
|                                    | <u>–</u>       | <u>–</u>       | <u>–</u>       |
| At December 31,                    | <u>–</u>       | <u>–</u>       | <u>–</u>       |

## (f) Key management compensation

Key management includes Chairman, Executive directors and Chief Executive Officers. The compensation paid or payable to key management for employee services is shown below:

|  | <u>2015</u>   | <u>2016</u>    | <u>2017</u>  |
|--|---------------|----------------|--------------|
|  | RMB'000       | RMB'000        | RMB'000      |
| Wages, salaries and bonuses  | 829           | 1,769          | 3,588        |
| Other social security costs and housing benefits and other employee benefits | 93            | 156            | 226          |
| Pension costs — defined contribution plans                                   | 92            | 156            | 235          |
| Share-based compensations  | 13,461        | 228,840        | —            |
| <b>Total</b>   | <u>14,475</u> | <u>230,921</u> | <u>4,049</u> |

## (g) Transaction and balance with Beijing Changyou

|   | <u>2015</u>   | <u>2016</u>   | <u>2017</u> |
|---|---------------|---------------|-------------|
|   | RMB'000       | RMB'000       | RMB'000     |
| <i>Balances at as December 31:</i>                |               |               |             |
| Loan balance included in other payables (Note 29) | <u>68,000</u> | <u>34,000</u> | <u>—</u>    |

The transactions with Beijing Changyou were carried out in the normal course of business and at terms mutually agreed between the Group and Changyou.com Limited.

## (h) Transaction and balance with Beijing AmazGame

|                                       | <u>2015</u>  | <u>2016</u> | <u>2017</u> |
|---------------------------------------|--------------|-------------|-------------|
|                                       | RMB'000      | RMB'000     | RMB'000     |
| <i>Transactions during the years:</i> |              |             |             |
| Interest income received              | <u>8,691</u> | <u>—</u>    | <u>—</u>    |

The transactions with Beijing AmazGame were carried out in the normal course of business and at terms mutually agreed between the Group and Changyou.com Limited.

## (i) Transaction and balance with 7Road Network

|   | <u>2015</u>   | <u>2016</u> | <u>2017</u> |
|---|---------------|-------------|-------------|
|   | RMB'000       | RMB'000     | RMB'000     |
| <i>Transactions during the years:</i>   |               |             |             |
| Outsourced technology services fee paid | <u>97,197</u> | <u>—</u>    | <u>—</u>    |

The transactions with 7Road Network were carried out in the normal course of business and at terms mutually agreed between the Group and Changyou.com Limited.

### **34 Contingencies**

The Group did not have any material contingent liabilities as at December 31, 2015, 2016 and 2017.

### **35 Subsequent Events**

Save as disclosed on the report, the totaling significant events take place subsequent to December 31, 2017:

- (i) On March 31, 2018, 5,040,000 RSUs have been granted to certain employees of the Group (including 600,000 RSUs and 2,157,500 RSUs granted to a directors and other senior management of the Company) under the RSUs Scheme approved and adopted by the Company on March 6, 2018.

Pursuant to the RSUs Scheme, subject to grantee's continued service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 30%, 30% and 40% of the RSUs on each of the first three anniversaries of the grant date or the listing date of the Company, whichever is later.

As the Group will receive employment services of these employees in exchange for the grant of RSUs, share-based compensation expenses in respect of the employee services received is to be recognized as an expense over the vesting period. The total amount to be expensed is determined by the fair value of the RSUs granted at the grant date and taking into account the number of RSUs that are expected to vest.

- (ii) On March 5, 2018, dividends of RMB68,000,000 were approved by the board of directors of Shenzhen 7Road.
- (iii) On February 28, 2018, March 12, 2018 and May 4, 2018, the Company allotted and issued an aggregate of 36,260,600 ordinary shares for cash at par to the offshore investment holding companies pursuant to the Offshore Shareholding Agreement.

## **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 December 31, 2017 and up to the date of this report. Save as disclosed in this report, no dividends or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2017.



*The information set forth in this appendix does not form part of the Accountant’s Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included in this appendix for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this prospectus and the Accountant’s Report set forth in Appendix I to this appendix.*

**(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following statement of our unaudited pro forma adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis set out below is for illustrative purpose only, and is set out herein to illustrate the effect of the Global Offering on the net tangible asset of our Group attributable to the owners of the Company as at December 31, 2017 as if it had taken place on December 31, 2017.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at December 31, 2017 or as at any future dates.

|  | Audited<br>combined<br>net tangible<br>assets of the<br>Group<br>attributable<br>to owners<br>of the<br>Company as<br>at December 31,<br>2017 | Estimated net<br>proceeds from<br>the Global<br>Offering | Unaudited<br>pro forma<br>adjusted<br>net tangible<br>assets<br>attributable<br>to the owners<br>of the<br>Company as<br>at December 31,<br>2017 | Unaudited<br>pro forma<br>adjusted net<br>tangible<br>assets per<br>Share | Unaudited<br>pro forma<br>adjusted<br>net tangible<br>assets per<br>Share |
|--|---|--|--|---|---|
|  | (Note 1)<br>RMB’000   | (Note 2)<br>RMB’000                                      | RMB’000  | (Note 3)<br>RMB   | (Note 5)<br>HK\$  |
| Based on an Offer<br>Price of<br>HK\$1.50 per<br>Offer Share | 524,938   | 754,878  | 1,279,816  | 0.48  | 0.59  |
| Based on an Offer<br>Price of<br>HK\$2.22 per<br>Offer Share | 524,938   | 1,135,104  | 1,660,042  | 0.62  | 0.76  |

*Notes:*

- (1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at December 31, 2017 is extracted from the Accountant’s Report set forth in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the owners of the Company as at December 31, 2017 of RMB555,845,000 with an adjustment for the intangible assets as at December 31, 2017 of RMB30,907,000.

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.50 (equivalent to RMB1.23) and HK\$2.22 (equivalent to RMB1.81) per Share, respectively, after deduction of estimated underwriting fees and other related expenses payable by the Group (excluding approximately RMB6,116,000 listing expenses which have been charged to our combined statements of profit or loss up to December 31, 2017) and takes no account of any Shares which may be granted and issued by the Company pursuant to the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue shares and the general mandate to repurchase shares.
- (3) The unaudited pro forma net tangible assets per Share are determined after the adjustments as described in the paragraph above and on the basis that 2,666,680,000 Shares are in issue (assuming that the Global Offering has been completed on December 31, 2017), without taking into account of any Shares which may be granted and issued by the Company pursuant to the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue shares and the general mandate to repurchase shares.
- (4) Save as disclosed in Note (3) above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2017. In particular, the unaudited pro forma adjusted net tangible assets of our Group has not taken into account the dividends of RMB68.0 million declared by Shenzhen 7Road to its then Shareholders in March 2018. The unaudited pro forma adjusted net tangible assets per Share would have been HK\$0.55 (equivalent to RMB0.45) per Share based on the Offer Price of HK\$1.50 and HK\$0.73 (equivalent to RMB0.60) per Share based on the Offer Price of HK\$2.22, respectively, if the dividend of RMB68.0 million had been accounted for.
- (5) In connection with the preparation of this unaudited pro forma statement of adjusted net tangible assets, the translation of Renminbi to Hong Kong dollars has been made at a rate of RMB1.00 to HK\$1.22.

**(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

*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 7Road Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of 7Road Holdings 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 December 31, 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 June 29, 2018, in connection with the proposed Global 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 Global Offering on the Group's financial position as at December 31, 2017 as if the proposed Global Offering had taken place at December 31, 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 year ended December 31, 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").

***Our Independence and Quality Control***

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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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 Global Offering at December 31, 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, June 29, 2018

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on September 6, 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on June 23, 2018. A summary of certain provisions of the Articles is set out below.

### **(a) Shares**

#### ***(i) Classes of shares***

The share capital of the Company consists of ordinary shares.

#### ***(ii) Variation of rights of existing shares or classes of shares***

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. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned

meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

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***

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 to such shares 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; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

***(iv) Transfer of shares***

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognize any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided 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 register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(v) Power of the Company to purchase its own shares***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

***(vi) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.



***(vii) Calls on shares and forfeiture of shares***

The Board may, from time to time, make such calls as it thinks fit 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) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by installments. If the sum payable in respect of any call or installment 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 20% per annum as the Board shall fix from the day appointed for payment 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 money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or installment of a call on the day appointed for payment, the Board may, for so long as any part of the call or installment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, 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, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(b) Directors*****(i) Appointment, retirement and removal***

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional

Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest 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 shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time 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 the 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 also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also 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 shall, in the exercise of the powers 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 Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) 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 the Company shall be 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 the Company nor the Board shall be 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(iii) Power to dispose of the assets of the Company or any of its subsidiaries***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

***(iv) Borrowing powers***

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

***(v) Remuneration***

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect

of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, 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 shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the 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 former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, 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***

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

***(vii) Loans and provision of security for loans to Directors***

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close

associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the 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 for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, 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 the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken

by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have 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 proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or 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 proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) 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, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

**(c) Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(d) Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**(e) Meetings of member*****(i) Special and ordinary resolutions***

A special resolution of the 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 by proxy or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which 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.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

***(ii) Voting rights and right to demand a poll***

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) 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 share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be



demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the 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 in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

***(iii) Annual general meetings***

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

***(iv) Notices of meetings and business to be conducted***

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

Extraordinary general meetings shall also be convened on the requisition of one or more members 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.

***(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, and continues to be present until the conclusion of the meeting.

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 the Company entitled to attend and vote at a meeting of the 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 the Company or

at a class meeting. A proxy need not be a member of the Company and shall be 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 shall be 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. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(f) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company 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 account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who

have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarized financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at any general meeting convened and held in accordance with the Articles of the Company, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(g) Dividends and other methods of distribution**

The 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.

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 of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) 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 members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

- (bb) that the members 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.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by check or warrant sent through the post. Every such check or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the 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.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending checks for dividend entitlements or dividend warrants by post if such checks or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a check or warrant is returned undelivered.

**(h) Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in

Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the 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 the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are 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 on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or 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 so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(k) Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and

the 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

### **3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on September 6, 2017 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### **(a) Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also 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**

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or 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 arrangements in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, 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.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so 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 are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. 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 member and, for the avoidance of doubt, 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; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorize the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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. In addition, 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 that have been purchased or redeemed by a company or surrendered to the company shall not be treated as canceled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either canceled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or



articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, 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, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has 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 the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence

and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**(h) Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities. 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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The Company has applied for, and expects to receive, an undertaking from the Governor-in-Cabinet of the Cayman Islands to the effect that, for a period of 20 years from such date, no law that thereafter is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company, or any tax in the nature of estate duty or inheritance tax, shall be payable in respect of the shares, debentures or other obligations of the Company, or by way of the withholding in whole or in part of any relevant payment as defined in the Tax Concessions Law (2011 Revision) of the Cayman Island.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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 member, 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 (2013 Revision) of the Cayman Islands.

**(o) Register of Directors and officers**

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate 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 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

**(p) Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a 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 the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall 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.

**(q) Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

**(s) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation of our Company**

Our Company was incorporated on September 6, 2017 in the Cayman Islands as an exempted company with limited liability. Accordingly, our Company's corporate structure and Articles are subject to relevant laws of the Cayman Islands. A summary of our Articles and Memorandum of Association is set out in Appendix III of this prospectus. Our registered office is at Sertus Chambers, Governors Square, Suite#5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1-1104, Cayman Islands.

Our principal place of business in Hong Kong is at 18/F, Tesbury Center, 28 Queen's Road East, Wanchai, Hong Kong. Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on March 5, 2018.

**2. Changes in share capital of our Company**

As at the date of incorporation, our Company had an authorized share capital of US\$50,000 divided into 500,000,000 shares of US\$0.0001 each.

The following sets out the changes in our Company's share capital since its incorporation:

- (a) On September 6, 2017, our Company issued shares with par value of US\$0.0001 each in the following manner:
  - (i) 1 share to Sertus Nominees (Cayman) Limited, which was subsequently transferred to Ben Holdings on the same day; and
  - (ii) 9,999 shares to Ben Holdings.
- (b) On November 17, 2017, our Company issued shares in the following manner:
  - (iii) 21,486,100 shares to Ben Holdings;
  - (iv) 16,557,300 shares to World Holdings;
  - (v) 2,000,000 shares to Zing Holdings;
  - (vi) 4,360,200 shares to Red Shanghai Holdings;
  - (vii) 9,496,800 shares to Songshuxing Holdings;
  - (viii) 2,161,900 shares to Liweimin Holdings;
  - (ix) 3,459,100 shares to Liuzhan Holdings;

- (x) 1,729,500 shares to Zhoufashun Holdings;
  - (xi) 475,600 shares to Yanglei Holdings; and
  - (xii) 1,992,900 shares to Chendifeng Holdings.
- (c) On February 28, 2018, our Company issued shares in the following manner:
- (i) 43,600 shares to Shanghai Bao Pu Holdings.
- (d) On March 12, 2018, our Company issued shares in the following manner:
- (i) 4,946,600 shares to ESOP 1 Holdings;
  - (ii) 4,000,000 shares to ESOP 2 Holdings.
- (e) on May 4, 2018, our Company issued shares in the following manner:
- (i) 8,720,500 shares to Shaoxing Shang Yu Holdings;
  - (ii) 17,635,700 shares to Shanghai Bao Hu Holdings;
  - (iii) 59,400 shares to Shanghai Rong Xi Holdings; and
  - (iv) 864,800 shares to Guangzhou Ju Ze Holdings.

#### ***Share Subdivision***

On June 23, 2018, our Shareholders resolved, among other things that, all the issued and unissued ordinary shares of our Company at a par value of US\$0.0001 each will be subdivided into 20 Shares at a par value of US\$0.000005 each such that the authorized share capital of our Company shall be US\$50,000 divided into 10,000,000,000 Shares of par value US\$0.000005 each and the issued share capital shall be US\$10,000 divided into 2,000,000,000 Shares of US\$0.000005 par value each.

Save as disclosed herein and in the section headed “Written resolutions of the shareholders passed on June 23, 2018”, there has been no alteration in our share capital of our Company since its incorporation.

### **3. Changes in share capital of our subsidiaries and PRC Operating Entities**

Our Company’s subsidiaries and the PRC Operating Entities are set out in the Accountant’s Report in Appendix I to this prospectus. In addition to those disclosed in the section headed “— Changes in share capital of our Company” and the section headed “History and Reorganization”, the following alterations in the share capital of our

Company's subsidiaries and the PRC Operating Entities have taken place within the two years immediately preceding the date of the prospectus:

### *Qianhai Huanjing*

Qianhai Huanjing was established on July 12, 2015 by Shenzhen Qianqi, Mr. Hu and Independent Third Parties which consist of Mr. Chen Xiaofei, Mr. Zhang Shuai and Mr. Dong Xiaoguang.

On September 14, 2015, the then shareholders of Qianhai Huanjing transferred their respective shareholding interests in Qianhai Huanjing to Shenzhen 7Road at nominal consideration.

On December 15, 2017, Shenzhen 7Road transferred 5% of the equity interests of Qianhai Huanjing to Ms. Bao Wei, an Independent Third Party at a consideration of RMB250,000. Subsequently, on February 10, 2018, Ms. Bao Wei and Shenzhen 7Road transferred their respective shareholding interests in Qianhai Huanjing to 7Road Hong Kong at a consideration of RMB156,000 and RMB3.0 million, respectively.

### *Shenzhen 7Road*

On November 7, 2016, Mr. Meng transferred 2%, and Wuxi Yi Yao transferred 17.5% of the equity interest of Shenzhen 7Road to Shanghai Ting Can at considerations of RMB84.0 million and RMB735.0 million, respectively.

On November 29, 2016, Shanghai Yong Chong transferred 30.76% and 0.74% of the equity interest in Shenzhen 7Road to Ningbo Bao Pu and Shanghai Ting Can at considerations of RMB1,292.0 million and RMB31.1 million, respectively.

### *Shenzhen Qianqi*

Shenzhen Qianqi was established on November 28, 2013 and was owned as to 49% by Mr. Liu and 51% by Shanghai You Zu.

On April 30, 2014, Shanghai You Zu transferred 21% and 30% of equity interests in Shenzhen Qianqi to Mr. Liu and Mr. Hu at nominal consideration.

On August 5, 2015, Mr. Liu and Mr. Hu transferred 70% and 30% of equity interests in Shenzhen Qianqi to Shenzhen 7Road at a consideration of RMB700,000 and RMB300,000, respectively.

Saved as disclosed above, there has been no alteration in the share or registered capital of any of the subsidiaries of our Company and the PRC Operating Entities within the two years immediately preceding the date of this prospectus.

#### **4. Written resolutions of the shareholders passed on June 23, 2018**

Written resolutions of the shareholders were passed on June 23, 2018 approving, among others, the following:

- (a) each issued and unissued ordinary share of US\$0.0001 each of our Company be subdivided into 20 ordinary shares of US\$0.000005 each such that the authorized



share capital of our Company shall be US\$50,000 divided into 10,000,000,000 ordinary shares with a par value of US\$0.000005 each, in each case to be effective on the Listing Date;

- (b) our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon Listing;
- (c) subject to the conditions of the Global Offering as set out in this prospectus being fulfilled and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as result of the waiver of any condition(s) thereunder the Joint Global Coordinators for themselves and on behalf of the Underwriters) and such obligations not having been terminated in accordance with their respective terms:
  - (i) the Listing, the Global Offering and the Over-allotment Option was approved, subject to such modifications as our Directors (or any committee established by the Board) may in their sole discretion determine, and our Directors or any committee established by the Board were authorized to do all such things as they consider necessary to give effect to the Listing, the Global Offering and the Over-allotment Option;
  - (ii) a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warranties or similar rights to subscribe for Shares or such convertible securities and to make or grant general offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles; (c) a specific authority granted by the shareholders in general meeting, shall not exceed the aggregate of (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (excluding any Shares to be issued upon the Over-allotment Option); and (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (iii) below, such mandate to main effect during the period from the passing of the resolution until the earliest of the conclusion of our earliest annual general meeting, the expiration of the period within which we are required by any applicable law or Articles to hold our next annual general meeting or the date on which the resolution is varied or revoked by any ordinary resolution of the shareholders in the general meeting (the “Applicable Period”);
  - (iii) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding any Shares to be issued upon the Over-allotment Option), such mandate to remain effect during the Applicable Period; and

- (iv) the general unconditional mandate mentioned in paragraph (ii) above to be extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate to repurchase Shares referred to in paragraph (iii) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global offering (excluding any Shares to be issued upon the Over-allotment Option).

## **5. Corporate Reorganization**

For details of the Reorganization which was effected for the Listing, please refer to the section headed "History and Reorganization" in this prospectus.

## **B. FURTHER INFORMATION ABOUT OUR BUSINESS**

### **1. Summary of Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or any member of our Group within two years preceding the date of this prospectus and are or may be material:

- (a) the equity transfer agreement dated October 31, 2016, entered into among Shanghai Yong Chong, Shanghai Bao Pu and Shenzhen 7Road, pursuant to which Shanghai Yong Chong agreed to transfer 25.5% of the equity interest in Shenzhen 7Road to Shanghai Bao Pu at a consideration of RMB1,071 million;
- (b) the supplemental equity transfer agreement dated October 31, 2016, entered into among Shanghai Yong Chong, Shanghai Bao Pu, Shenzhen 7Road and Ningbo Bao Pu, pursuant to which Shanghai Bao Pu agreed to assign its rights and obligations under the equity transfer agreement mentioned in paragraph (b) above to Ningbo Bao Pu;
- (c) the supplemental equity transfer agreement dated November 29, 2016, entered into among Shanghai Yong Chong, Ningbo Bao Pu and Shenzhen 7Road, pursuant to which Shanghai Yong Chong agreed to transfer 30.76% of the equity interest in Shenzhen 7Road to Ningbo Bao Pu at a consideration of RMB1,292 million;

- (d) the equity transfer agreement dated November 7, 2016, entered into among Shanghai Yong Chong, Shanghai Ting Can and Shenzhen 7Road, pursuant to which Shanghai Yong Chong agreed to transfer 6% of the equity interest in Shenzhen 7Road to Shanghai Ting Can at a consideration of RMB252 million;
- (e) the supplemental equity agreement dated November 29, 2016, entered into among Shanghai Yong Chong, Shanghai Ting Can and Shenzhen 7Road, pursuant to which Shanghai Yong Chong agreed to transfer 0.74% of the equity interest in Shenzhen 7Road to Shanghai Ting Can at a consideration of RMB31.08 million;
- (f) the equity transfer agreement dated November 7, 2016, entered into among Mr. Meng, Shanghai Ting Can and Shenzhen 7Road, pursuant to which Mr. Meng agreed to transfer 2.00% of the equity interest in Shenzhen 7Road to Shanghai Ting Can at a consideration of RMB84 million;
- (g) the equity transfer agreement dated November 7, 2016, entered into among Wuxi Yi Yao, Shanghai Ting Can and Shenzhen 7Road, pursuant to which Wuxi Yi Yao agreed to transfer 17.5% of the equity interest in Shenzhen 7Road to Shanghai Ting Can at a consideration of RMB735 million;
- (h) the equity transfer agreement dated December 15, 2017, entered into between Shenzhen 7Road and Ms. Bao Wei, pursuant to which Shenzhen 7Road agreed to transfer 5% of the equity interest in Qianhai Huanjing to Ms. Bao Wei at a consideration of RMB250,000;
- (i) the equity transfer agreements dated February 10, 2018, entered into among Shenzhen 7Road, Ms. Bao Wei and 7Road Hong Kong, pursuant to which Shenzhen 7Road agreed to transfer 95% of the equity interest in Qianhai Huanjing to 7Road Hong Kong at a consideration of RMB2.97 million, and Ms. Bao Wei agreed to transfer 5% of the equity interest in Qianhai Huanjing to 7Road Hong Kong at a consideration of RMB156,167;
- (j) the exclusive business cooperation agreement dated April 13, 2018, entered into between Qianhai Huanjing and Shenzhen 7Road, as further described in the section headed “Contractual Arrangements”;
- (k) the exclusive option agreement dated April 13, 2018, entered into among Qianhai Huanjing, Mr. Meng, Mr. Hu, Mr. Liu, Ningbo Bao Pu, Shanghai Ting Can and Shenzhen 7Road, as further described in the section headed “Contractual Arrangements”;
- (l) the equity pledge agreement dated April 13, 2018, entered into among Qianhai Huanjing, Mr. Meng, Mr. Hu, Mr. Liu, Ningbo Bao Pu, Shanghai Ting Can and Shenzhen 7Road, as further described in the section headed “Contractual Arrangements”;
- (m) the voting rights proxy agreement dated April 13, 2018, entered into among Qianhai Huanjing, Mr. Meng, Mr. Hu, Mr. Liu, Ningbo Bao Pu, Shanghai Ting Can and Shenzhen 7Road, as further described in the section headed “Contractual Arrangements”; and

- (n) a cornerstone investment agreement dated June 26, 2018, entered into among Zhonghua Financial Holdings Limited, our Company, GF Securities (Hong Kong) Brokerage Limited, GF Capital (Hong Kong) Limited, CCB International Capital Limited and Haitong International Securities Company Limited, pursuant to which Zhonghua Financial Holdings Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$30 million;
- (o) a cornerstone investment agreement dated June 26, 2018, entered into among Shengqu Technology Korean Limited, our Company, GF Securities (Hong Kong) Brokerage Limited, GF Capital (Hong Kong) Limited and CCB International Capital Limited, pursuant to which Shengqu Technology Korean Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$10 million; and
- (p) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights

### (a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be material to our business:

| No. | Trademark   | Class | Register owner | Place of registration | Registration number | Expiry date (yyyy/mm/dd) |
|-----|---|-------|----------------|-----------------------|---------------------|--------------------------|
| 1.  |  | 9     | Shenzhen 7Road | PRC                   | 9814415             | 2024/05/20               |
| 2.  |  | 41    | Shenzhen 7Road | PRC                   | 9814414             | 2024/05/20               |
| 3.  |  | 41    | Shenzhen 7Road | PRC                   | 12188535            | 2024/08/06               |
| 4.  |  | 9     | Shenzhen 7Road | PRC                   | 8764055             | 2021/10/27               |
| 5.  |  | 41    | Shenzhen 7Road | PRC                   | 8482199             | 2021/07/27               |
| 6.  |  | 9     | Shenzhen 7Road | PRC                   | 13784050            | 2026/02/20               |
| 7.  |  | 41    | Shenzhen 7Road | PRC                   | 13784489            | 2025/02/13               |
| 8.  |  | 41    | Shenzhen 7Road | PRC                   | 8481989             | 2021/07/27               |

| No. | Trademark   | Class     | Register owner   | Place of registration | Registration number | Expiry date (yyyy/mm/dd) |
|-----|---|-----------|------------------|-----------------------|---------------------|--------------------------|
| 9.  |    | 41        | Shenzhen 7Road   | PRC                   | 8763950             | 2022/02/13               |
| 10. |    | 9         | Shenzhen 7Road   | PRC                   | 8763750             | 2021/10/27               |
| 11. |    | 41        | Shenzhen 7Road   | PRC                   | 8763873             | 2022/02/13               |
| 12. |    | 9         | Shenzhen 7Road   | PRC                   | 8763997             | 2026/03/20               |
| 13. |    | 41        | Shenzhen 7Road   | PRC                   | 8482059             | 2021/07/27               |
| 14. |    | 9         | Shenzhen 7Road   | PRC                   | 11391131            | 2024/03/13               |
| 15. |    | 41        | Shenzhen 7Road   | PRC                   | 11391052            | 2024/03/13               |
| 16. |   | 41        | Shenzhen 7Road   | PRC                   | 8858378             | 2023/11/20               |
| 17. |  | 41        | Shenzhen 7Road   | PRC                   | 11165302            | 2023/11/27               |
| 18. |  | 9         | Shenzhen 7Road   | PRC                   | 13252806            | 2025/01/13               |
| 19. | 神曲世界  | 9         | Shenzhen 7Road   | PRC                   | 17889342            | 2026/10/20               |
| 20. | 神曲世界  | 41        | Shenzhen 7Road   | PRC                   | 17889342            | 2026/10/20               |
| 21. | 乔峰传   | 9         | Shenzhen 7Road   | PRC                   | 14681915            | 2025/08/27               |
| 22. | 乔峰传   | 41        | Shenzhen 7Road   | PRC                   | 14681915            | 2025/08/27               |
| 23. | 符文英雄  | 41        | Huoerguosi 7Road | PRC                   | 19553434            | 2027/05/27               |
| 25. | 神曲  | 9         | Shenzhen 7Road   | PRC                   | 22106242            | 2028/02/27               |
| 26. | 神曲  | 41        | Shenzhen 7Road   | PRC                   | 22106242            | 2028/02/27               |
| 27. |  | 9, 35, 41 | Shenzhen 7Road   | Hong Kong             | 304282858           | 2027/09/21               |
| 28. | 第七大道<br>7ROAD.COM   | 9, 35, 41 | Shenzhen 7Road   | Hong Kong             | 304282849           | 2027/09/21               |

**(b) Patents**

As of the Latest Practicable Date, we have registered the following patents which we consider to be material to our business:

| No. | Patent   | Patentee         | Place of registration | Patent number  | Date of application (yyyy/mm/dd) | Expiry date (yyyy/mm/dd) |
|-----|--|------------------|-----------------------|----------------|----------------------------------|--------------------------|
| 1.  | A control method, device and system for distributed server (一種分布式服務器的控制方法、裝置和系統)   | Qianhai Huanjing | PRC                   | 201110329811.2 | 2011/10/26                       | 2031/10/25               |
| 2.  | A method and device for changing appearance in web games (一種改變網頁遊戲中人物形象的方法及裝置)   | Qianhai Huanjing | PRC                   | 201110332939.4 | 2011/10/28                       | 2031/10/27               |
| 3.  | Method, server and system for multi-server distributed data processing (多服務器分布式數據處理方法、服務器及系統)  | Qianhai Huanjing | PRC                   | 201110334695.3 | 2011/10/28                       | 2031/10/27               |
| 4.  | A method and device for drawing dynamic ocean in map (一種在地圖中繪製動態海洋的方法及裝置)  | Qianhai Huanjing | PRC                   | 201210370403.6 | 2012/9/28                        | 2032/09/27               |
| 5.  | A method for game special effect animation display (一種遊戲特效動畫展示方法)  | Qianhai Huanjing | PRC                   | 201310061810.3 | 2013/2/27                        | 2033/02/26               |
| 6.  | A method and device for generating picture verification codes, a method and device for identity verification (一種圖片驗證碼的生成方法及裝置、身份驗證方法及裝置) | Qianhai Huanjing | PRC                   | 201310225977.9 | 2013/6/7                         | 2033/06/07               |
| 7.  | A method, system and related equipment for automatic game testing (一種遊戲自動測試方法、系統及相關設備)   | Qianhai Huanjing | PRC                   | 201410373422.3 | 2014/07/31                       | 2034/07/30               |
| 8.  | A method for switching game terminals and user terminals (一種切換遊戲終端的方法及用戶終端)  | Qianhai Huanjing | PRC                   | 201410453245.X | 2014/9/5                         | 2034/09/04               |

**(c) Domain Names**

As of the Latest Practicable Date, we have registered the following domain names which we consider to be material to our business:

| <b>No.</b> | <b>Domain Name</b> | <b>Registered Owner</b> | <b>Date of Registration<br/>(yyyy/mm/dd)</b> | <b>Expiry Date<br/>(yyyy/mm/dd)</b> |
|------------|--------------------|-------------------------|--|-------------------------------------|
| 1.         | ddtank.com         | Shenzhen 7Road          | 2010/06/13                                   | 2020/06/13                          |
| 2.         | 7rcloud.com        | Qianhai Huanjing        | 2015/02/05                                   | 2020/02/05                          |
| 3.         | boomz.com.cn       | Qianhai Huanjing        | 2017/08/10                                   | 2019/08/10                          |
| 4.         | shenquonline.com   | Qianhai Huanjing        | 2017/08/10                                   | 2019/08/10                          |
| 5.         | wartune.com.cn     | Qianhai Huanjing        | 2012/06/07                                   | 2019/06/07                          |
| 6.         | wartune.cn         | Qianhai Huanjing        | 2012/06/07                                   | 2019/06/07                          |

**(d) Copyrights**

As at the Latest Practicable Date, we have registered the following copyrights which we consider to be material to our business:

| <b>No.</b> | <b>Name of Copyright</b>                                    | <b>Version</b> | <b>Registration<br/>Number</b> | <b>Place of<br/>Registration</b> | <b>Registration<br/>Date<br/>(yyyy/mm/dd)</b> |
|------------|---|----------------|--------------------------------|----------------------------------|---|
| 1.         | 7Road Wartune online game software<br>(第七大道神曲在綫遊戲軟件)        | V1.0           | 2011SR028201                   | PRC                              | 2011/05/13                                    |
| 2.         | 7Road Crazy DDTank game software<br>(第七大道瘋狂彈彈堂遊戲軟件)         | V1.0           | 2011SR077462                   | PRC                              | 2011/10/26                                    |
| 3.         | 7Road DDTank 2 game software (第七大道彈彈堂2遊戲軟件)                 | V1.0           | 2011SR085918                   | PRC                              | 2011/11/22                                    |
| 4.         | 7Road income and expenditure platform software (第七大道收支平台軟件) | V2.7           | 2013SR112552                   | PRC                              | 2013/10/23                                    |
| 5.         | 7Road marketing service system software (第七大道營銷服務系統軟件)      | V1.6           | 2013SR113389                   | PRC                              | 2013/10/24                                    |
| 6.         | BI operation analysis system (BI運營分析系統)                     | V2.0           | 2013SR146546                   | PRC                              | 2013/12/16                                    |
| 7.         | 7Road online server merger software<br>(第七大道在綫合區工具軟件)       | V1.0           | 2013SR155975                   | PRC                              | 2013/12/24                                    |
| 8.         | Wartune mobile game software (神曲手機遊戲軟件)                     | V1.0           | 2013SR162458                   | PRC                              | 2013/12/30                                    |

| No. | Name of Copyright   | Version | Registration Number | Place of Registration | Registration Date (yyyy/mm/dd) |
|-----|---|---------|---------------------|-----------------------|--------------------------------|
| 9.  | Game website backstage management system (遊戲網站後台管理系統)                         | V1.0    | 2014SR018133        | PRC                   | 2014/02/17                     |
| 10. | The Legend of Qiao online game software (第七大道喬峰傳在綫遊戲軟件)                       | V1.0    | 2014SR037126        | PRC                   | 2014/07/29                     |
| 11. | Mobile game code generator software (手遊代碼生成器軟件)                               | V1.0    | 2017SR043089        | PRC                   | 2017/02/15                     |
| 12. | 7Cube web game development engine software (7Cube網頁遊戲開發引擎軟件)                  | V1.0    | 2017SR043095        | PRC                   | 2017/02/15                     |
| 13. | Mobile game skeletal animation editing software (手遊骨骼動畫編輯器軟件)                 | V1.0    | 2017SR043101        | PRC                   | 2017/02/15                     |
| 14. | Game mirroring automatic update deployment service software (遊戲鏡像化自動更新部署服務軟件) | V1.0    | 2017SR043103        | PRC                   | 2017/02/15                     |
| 15. | GM Central Management System (GM中控管理系統)                                       | V1.0    | 2017SR043153        | PRC                   | 2017/02/15                     |



## 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*

Immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), so far as our Directors are aware, the interests or short positions of the Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed, will be as follows:

| Name of Director                 | Capacity / Nature of interest        | Number of Shares held <sup>(1)</sup> | Approximate percentage of issued share capital <sup>(2)</sup> |
|----------------------------------|--------------------------------------|--------------------------------------|---|
| Mr. Meng <sup>(3)(5)</sup>       | Interest in a controlled corporation | 528,854,000                          | 19.83%  |
| Mr. Hu <sup>(4)(6)</sup>         | Interest in a controlled corporation | 411,146,000                          | 15.42%  |
| Mr. Wang Chendong <sup>(7)</sup> | Beneficial owner                     | 12,000,000                           | 0.45%   |

*Note:*

- (1) All interest stated are long positions.
- (2) The calculation is based on the total number of 666,680,000 Shares in issue immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised).
- (3) The Shares are registered under the name of Ben Holdings, the issued share capital of which is owned as to 100% by Mr. Meng. Accordingly, Mr. Meng is deemed to be interested in all the Shares held by Ben Holdings for the purpose of Part XV of the SFO.
- (4) The Shares are registered under the name of World Holdings, the issued share capital of which is owned as to 100% by Mr. Hu. Accordingly, Mr. Hu is deemed to be interested in all the Shares held by World Holdings for the purpose of Part XV of the SFO.
- (5) 98,932,000 Shares are registered under the name of ESOP 1 Holdings, the issued share capital of which is owned as to 100% by Ben Holdings. Ben Holdings is wholly-owned by Mr. Meng. Accordingly, Mr. Meng is deemed to be interested all the Shares held by ESOP 1 Holdings for the purpose of Part XV of the SFO.
- (6) 80,000,000 Shares are registered under the name of ESOP 2 Holdings, the issued share capital of which is owned as to 100% by World Holdings. World Holdings is wholly-owned by Mr. Hu. Accordingly, Mr. Hu is deemed to be interested all the Shares held by ESOP 2 Holdings for the purpose of Part XV of the SFO.
- (7) Mr. Wang Chendong as interested in 600,000 RSUs granted to him under the RSU Scheme entitling him to receive 12,000,000 Shares subject to vesting.

***(b) Interests of the Substantial Shareholders***

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 an interest or short position in the Shares or the underlying Shares which, once the Shares are listed, would fall to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

**2. Particulars of Service Contracts**

Each of Mr. Meng, Mr. Hu and Mr. Wang Chendong, all being our executive Directors, will enter into a service agreement with our Company with an initial term of three years commencing from the Listing Date, and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other. Each of our non-executive Directors and independent non-executive Directors will enter into a letter of appointment with our Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of our non-executive Directors and independent non-executive Directors is appointed with an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any members of our Group (other than contracts expiring or determinate by the employer within one year without the payment of compensation (other than statutory compensation)).

**3. Director’s Remuneration**

The aggregate remuneration (including salaries, bonuses, share-based compensations, contributions to pension schemes, other social security costs and other employee benefits) incurred for the years ended December 31, 2015, 2016 and 2017 was RMB10.7 million, RMB180.1 million, and RMB1.3 million, respectively.

Save as the disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors for the years ended December 31, 2015, 2016 and 2017.

Pursuant to the existing arrangements that currently in force as of the date of this prospectus, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending December 31, 2018 is estimated to be approximately RMB2.11 million in aggregate.

**4. Agent fees or commissions received**

Save in connection the Underwriting Agreements, none of our Directors nor any of the parties listed in the section headed “Qualification of experts” in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue of sale of any share or loan capital of our Company or any member of our Group within the two years preceding the date of this prospectus.

**5. Disclaimers**

Save as disclosed in this prospectus:

- (a) There are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation) between the Directors and member of our Group);
- (b) none of our Directors nor any of the parties listed in the section headed “Qualification of Experts” of this Appendix 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 by or leased to our Company or any member of our Group, or are proposed to be acquired or disposed of by or leased to our Company or any member of our Group;
- (c) none of our Directors or chief executive of our Company has any interests and short position in the shares, underlying shares and debentures of our Company or our associated incorporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of 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 our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange;
- (d) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any other member of our Group;
- (e) 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 section headed “Qualification of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business in our Group;

- (f) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “Qualification of experts” of this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any member of our Group; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) none of our Directors or their respective associates (as defined under the Listing Rules) or any Shareholders of our Company (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 revenue payment collection channels.

#### **D. RSU SCHEME**

The following is a summary of the principal terms of the RSU Scheme approved and adopted by our Company on March 6, 2018. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

##### **1. Purpose of the RSU Scheme**

The purpose of the RSU Scheme is to incentivize Directors, senior management and employees for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

##### **2. RSUs**

A RSU gives a participant in the RSU Scheme (the “RSU Participant”) a conditional right when the RSU vests to obtain Shares, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion. Each RSU represents 20 underlying Shares. A RSU may include, if so specified by our Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares.

##### **3. Participants in the RSU Scheme**

Persons eligible to receive RSUs under the RSU Scheme are existing employees, directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of our Company or any member of our Group (the “RSU Eligible Persons”). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

##### **4. Terms of the RSU Scheme**

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from the date of the first grant of the RSUs, being March 6, 2017 (unless it is terminated earlier in accordance with its terms) (the “RSU Scheme Period”).

## 5. Grant and Acceptance

### *(a) Making an offer*

An offer to grant a RSU will be made to a RSU Eligible Person selected by our Board (the “RSU Selected Person”) by a letter, in such form as our Board may determine (the “RSU Grant Letter”). The RSU Grant Letter will specify the RSU Selected Person’s name, the manner of acceptance of the RSU, the number of RSUs granted and the number of underlying Shares represented by the RSUs, the vesting criteria and conditions, the vesting schedule, the exercise price of the RSUs (where applicable) and such other details as our Board considers necessary and are not inconsistent with the RSU Scheme, and will require the RSU Selected Person to undertake to hold the RSU on the terms on which it is granted and to be bound by the provisions of the RSU Scheme.

### *(b) Acceptance of an offer*

A RSU Selected Person may accept an offer of the grant of RSUs in such manner as set out in the RSU Grant Letter. Once accepted, the RSUs are deemed granted from the date of the RSU Grant Letter (the “RSU Grant Date”).

### *(c) Restrictions on Grants*

Our Board may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless our Board determines otherwise;
- where granting the RSUs would result in a breach by our Company, any member of our Group or any of their directors of any applicable laws, rules or regulations; or
- where such grant of any RSUs would result in a breach of the limits of the RSU Scheme (as set out in paragraph 6 below).

## 6. Maximum number of Shares pursuant to RSUs

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been canceled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the RSU Trustee for the purpose of the RSU Scheme from time to time.

**7. Rights attached to RSUs**

A RSU Participant does not have any contingent interest in any Shares underlying the RSUs unless and until such Shares are actually transferred to the RSU Participant. Further, a RSU Participant may not exercise voting rights in respect of the Shares underlying the RSUs prior to their exercise and, unless otherwise specified by our Board in its entire discretion in the RSU Grant Letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs.

**8. Rights attached to Shares**

Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members.

**9. Assignment of RSUs**

The RSUs granted pursuant to the RSU Scheme are personal to each RSU Participant, and are not assignable. RSU Participants are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the RSU Trustee (as defined in paragraph 11 below) on trust for the RSU Participants, the RSUs, or any interest or benefits therein.

**10. Vesting of RSUs**

Our Board can determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the RSU Grant Letter.

Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, our Board will send a vesting notice (the “Vesting Notice”) to each of the relevant RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

**11. Appointment of the RSU Trustee**

Our Company has appointed Mr. Meng and Mr. Hu (the “RSU Trustees”) as the trustee to assist in the administration of the RSU Scheme. Our Company may (i) allot and issue

Shares to the RSU Trustees to be held by the RSU Trustees and which will be used to satisfy the Shares underlying the RSUs upon exercise and/or (ii) direct and procure the RSU Trustees to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the Shares underlying the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustees by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustees to satisfy its obligations in connection with the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to the RSU Trustees.

## **12. Exercise of RSUs**

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to our Company. Any exercise of RSUs must be in respect of a board lot of 1,000 Shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot)

In an exercise notice, the RSU Participant shall request the RSU Trustee to, and the Board shall direct and procure the RSU Trustee to, within five (5) business days, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or

The Participant shall serve the exercise notice within three (3) months after receiving the Vesting Notice. The Trustee will not hold the Shares underlying the RSUs vested for the RSU Participant after this three (3) months period. If the exercise notice is not served during this three (3) months period or the Shares underlying the RSUs exercised cannot be transferred to the RSU Participant pursuant to the preceding paragraph due to the Participant not being able to provide sufficient information to affect the transfer, the RSUs vested or exercised (as the case may be) shall lapse unless otherwise agreed by the Board at its absolute discretion.

## **13. Rights on a takeover**

If a general offer to acquire the Shares (whether by takeover offer, merger, or otherwise in a like manner) is made to all of our Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

**14. Rights on a compromise or arrangement**

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies and a notice is given by our Company to our Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement and such Shareholders' approval is obtained, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

**15. Rights on a compromise or arrangement**

If an effective resolution is passed during the RSU Scheme Period for the voluntary winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement), all outstanding RSUs shall be treated as having vested immediately. No Shares will be transferred, and no cash alternative will be paid, to the RSU Participant, but the RSU Participant will be entitled to receive out of the assets available in liquidation on an equal basis with our Shareholders such sum as they would have received in respect of the RSUs.

**16. Lapse of RSUs****(a) Full lapse of RSU**

Any unvested RSU will automatically lapse immediately where:

- such RSU Participant's employment or service terminates for any reason; or
- the RSU Participant makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any RSUs or any interests or benefits pursuant to the RSUs.

**(b) If at any time, a RSU Participant:**

- ceases to be an employee;
- fails, during the course of his employment, to devote the whole of his time and attention to the business of our Group or to use his best endeavors to develop the business and interests of our Group;
- is concerned during the course of his employment with our Group (without the prior written consent of our Company) with any (competitive or other) business other than that of our Group; and/or



- is in breach of his contract of employment with or any other obligation to our Group (including without limitation certain restrictive covenants),

then all vested and unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares.

#### **17. Cancellation of RSUs**

Our Board may at its discretion cancel any RSU that has not vested or lapsed, provided that:

- (a) our Company or our subsidiaries pay to the RSU Participant an amount equal to the fair value of the RSU at the date of the cancellation as determined by the Board, after consultation with our auditors or an independent financial advisor appointed by our Board;
- (b) our Company or our relevant subsidiary provides to the RSU Participant a replacement award (or a grant or option under any other restricted share unit scheme, share option scheme or share-related incentive scheme) of equivalent value to the RSUs to be canceled; or
- (c) our Board makes any arrangement as the RSU Participant may agree in order to compensate him/her for the cancellation of the RSUs.

#### **18. Reorganization of capital structure**

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company, our Board may make such equitable adjustments, designed to protect the RSU Participants' interests, to the number of Shares underlying the outstanding RSUs or to the amount of the equivalent value, as it may deem appropriate at its absolute discretion.

#### **19. Amendment of the RSU Scheme**

Save as provided in the RSU Scheme, our Board may alter any of the terms of the RSU Scheme at any time. Written notice of any amendment to the RSU Scheme shall be given to all RSU Participants.

Any alterations to the terms and conditions of the RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted which shall operate to affect materially adversely any subsisting rights of any RSU Participant shall be subject to the consent of the RSU Participants amounting to three-fourths in nominal value of all underlying RSUs so held by the RSU Participants on the date of the relevant resolution passed by our Board in approving the amendment of the RSU Scheme or the terms of the RSUs granted (as the case may be), except where the alterations or changes take effect

automatically under the existing terms of the RSU Scheme. Our Board's determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme or the terms of the RSUs granted (as the case may be) is material shall be conclusive.

#### **20. Termination of the RSU Scheme**

Our Board may terminate the RSU Scheme at any time before the expiry of the RSU Scheme Period. The provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted pursuant to the rules of the RSU Scheme prior to the termination of the operation of the RSU Scheme. Our Company or our relevant subsidiary shall notify the RSU Trustee and all RSU Participants of such termination and of how any property held by the RSU Trustee on trust for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

#### **21. Administration of the RSU Scheme**

Our Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. Our Board may delegate the authority to administer the RSU Scheme to a committee of our Board. Our Board may also appoint one or more independent third-party contractors to assist in the administration of the RSU Scheme and delegate such powers and/or functions relating to the administration of the RSU Scheme as our Board thinks fit.

Our Board's determinations under the RSU Scheme need not be uniform and may be made by it selectively with respect to persons who are granted, or are eligible to be granted, RSUs under it. If a Director is a RSU Participant he may, notwithstanding his own interest and subject to our Articles, vote on any Board resolution concerning the RSU Scheme (other than in respect of his own participation in it), and may retain RSUs under it.

Each RSU Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and our Board's administration of the RSU Scheme.

#### **22. General**

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, new Shares underlying the RSUs that have been granted pursuant to the RSU Scheme.

#### **23. Outstanding RSUs granted**

As at the Latest Practicable Date, RSUs in respect of underlying Shares representing approximately 3.78% of the total issued share capital of our Company after the completion of the Share Subdivision and immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) had been granted to 66 RSU Participants pursuant to the RSU Scheme. Assuming the total number of Shares in

issue on the Listing Date will be 2,666,680,000, the RSUs granted to the RSU Participants as of the Latest Practicable Date will represent 100,800,000 underlying Shares. One of the RSU Participants is our Director; one of the RSU Participants is the director of Huoerguosi 7Road, one of our PRC Operating Entities; and four of the RSU Participants are members of our senior management.

Details of the RSUs granted under the RSU Scheme as at the date of this document and details of the vesting period are set out in the paragraph headed “- 24. Details of the RSUs granted under the RSU Scheme” below.

#### 24. Details of the RSUs granted under the RSU Scheme

| Name of the Grantees of RSU   | Position held with our Group  | Address  | Number of Shares represented by RSUs | Date of Grant  | Approximate percentage of shareholding immediately following the completion of the Global Offering <sup>(1)</sup> |
|---|---|--|--------------------------------------|----------------|---|
| <b>Director of our Company</b>  |   |  |                                      |                |   |
| Wang Chendong (王臣棟)   | executive Director, chief human resource officer, director of Qianhai Huanjing and director of Shenzhen 7Road | Flat 1403, Block A Jiajia Hao Yuan 223-1, Hai De First Road, Nanshan District, Shenzhen, PRC | 12,000,000                           | March 31, 2018 | 0.45%   |
| <b>Director of our subsidiary and/or PRC Operating Entities (excluding those who are also Directors of our Company)</b> |   |  |                                      |                |   |
| Xu Jing (許菁)  | director of Huoerguosi 7Road and head of business management department                                       | Flat 610, Chang Sheng Garden, District 43, Bao'an District, Shenzhen, PRC                    | 6,500,000                            | March 31, 2018 | 0.24%   |
| <b>Senior management members of our Company (excluding those are also Directors of our Company)</b>                     |   |  |                                      |                |   |
| Xu Jia (徐嘉)   | Chief operation officer   | Room 201, Unit 2, Block 1, Chang Wa West Street, Haidian District, Beijing, PRC              | 20,400,000                           | March 31, 2018 | 0.76%   |

| Name of the Grantees of RSU            | Position held with our Group   | Address  | Number of Shares represented by RSUs | Date of Grant  | Approximate percentage of shareholding immediately following the completion of the Global Offering <sup>(1)</sup> |
|--|--------------------------------|--|--------------------------------------|----------------|---|
| Lin Sen<br>(林森)                        | Chief financial officer        | Room 101, Block 305, Estate 28, Guangqu Road, Chaoyang District, Beijing, PRC                      | 14,000,000                           | March 31, 2018 | 0.52%   |
| Guo Hua<br>(郭華)                        | Head of the testing department | Flat 1907, Block 9A, Nuo De Holiday Garden, No. 0369 Qianhai Road, Nanshan District, Shenzhen, PRC | 1,000,000                            | March 31, 2018 | 0.04%   |
| Shi Shuanghua<br>(石雙華)                 | Head of the arts department    | Flat 24A, Block H1, Ao Cheng Garden Phase II, Nanshan District, Shenzhen, PRC                      | 1,250,000                            | March 31, 2018 | 0.05%   |
| Rank/position held with our Group      |                                |  | Number of Shares represented by RSUs | Date of Grant  | Approximate percentage of shareholding immediately following the completion of the Global Offering <sup>(1)</sup> |
| 45 game development employees          |                                |  | 30,600,000                           | March 31, 2018 | 1.15%   |
| 10 game operation employees            |                                |  | 6,450,000                            | March 31, 2018 | 0.24%   |
| 5 general and administration employees |                                |  | 8,600,000                            | March 31, 2018 | 0.32%   |

Note:

- (1) Assuming the total number of Shares in issue on the Listing Date will be 2,666,680,000 and without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option.

The Guarantees of the RSUs granted under the RSU Scheme as referred to in the table above are not required to pay for the grant of any RSU under the RSU Scheme.

For the RSUs granted on March 31, 2018 to the named individual grantees of the RSU set out in the table above, they shall (unless our Company shall otherwise determine and so notify the RSU Participant in writing and subject to the below conditions) vest as follows:

- (i) as to 30% of the RSUs on March 31, 2019;

(ii) as to 30% of the RSUs on March 31, 2020; and

(iii) as to 40% of the RSUs on March 31, 2021.

The vesting is subject to:

(i) our Company's date of Listing; and

(ii) as to several game development employees, the vesting of RSUs granted to them is also subject to the initial launch date of our games in pipeline.

## **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 member of our Group.

### **2. Litigation**

As of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

### **3. Joint Sponsors**

The Joint Sponsors has made an application on our behalf to the Listing Committee for the listing of, and the permission to deal in, the Shares in issue and 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). Each of GF Capital and CCB International satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The fees payable to the Joint Sponsors in respect of their services as sponsors for the Listing are US\$1.2 million and are payable by us.

### **4. Preliminary Expenses**

Save as disclosed in "Financial Information — Listing Expenses", we have not incurred any material preliminary expenses.

### **5. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## 6. Binding Effect

This prospectus shall have effect, if an application is made pursuant to it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## 7. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who gave opinions or advice which are contained in this prospectus:

| Name                               | Qualifications   |
|------------------------------------|--|
| GF Capital (Hong Kong) Limited     | Licensed to conduct Type 6 (advising on corporate finance) of the regulated activity under the SFO   |
| CCB International Capital Limited  | Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO |
| PricewaterhouseCoopers             | Certified Public Accountants   |
| Tian Yuan Law Firm                 | PRC legal advisors   |
| Hogan Lovells                      | International Sanctions Legal Advisors   |
| Walkers                            | Cayman legal advisors  |
| Shanghai iResearch Co., Ltd, China | Industry consultant  |

## 8. Consent of Experts

Each of the experts as referred to in the section headed “Qualification of Experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or legal opinion (as the case may be) and references to their names included in the form and context in which it respectively appears.

None of experts named above has any shareholders’ interests in our Company or any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for interests in our Company or any member of our Group.

## 9. Promoters

Our Company has no promoter.

**10. No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

**11. Miscellaneous**

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
  - (i) neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
  - (iv) no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;
  - (v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
  - (vi) there is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Our Directors confirm that:
  - (i) since December 31, 2017 (being the date on which the latest audited consolidated financial statements of the Group was made up), there has been no material adverse change in our financial or trading position or prospects;
  - (ii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus; and
  - (iii) our Company has no outstanding convertible debt securities or debentures.
- (c) No company within our Group is presently listed on any stock exchange or traded on any trading system.

**A. DOCUMENTS DELIVERED TO THE REGISTER OF THE COMPANIES OF  
HONG KONG**

The documents attached to a company of this Prospectus and delivered to the Register of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in “Appendix IV — Statutory and General Information — Other Information – Consent of Experts” in this prospectus; and
- (c) particulars of the material contracts referred to in “Appendix IV — Statutory and General Information — Further Information about Our Business — Summary of Material Contracts” in this prospectus.

**B. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of William Ji & Co. (in Association with Tian Yuan Law Firm Hong Kong Office) at Suite 702, 7/F, Two Chinachem Central, 26 Des Voeux Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the text of which is set out in “Appendix I — Accountant’s Report” to this prospectus;
- (c) the audited combined financial statements of the Group for each of the three years ended December 31, 2017;
- (d) the report on unaudited pro forma financial information from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the text of which is set out in “Appendix II — Unaudited Pro Forma Financial Information” to this prospectus;
- (e) the letter of advice prepared by Walkers summarizing certain aspects of the Cayman Islands company law as referred to in “Appendix III — Summary of the Constitution of the Company and Cayman Company Law” in this prospectus;
- (f) the Companies Law;
- (g) the material contracts referred to in the section headed “Appendix IV — Statutory and General Information — Further Information About Our Business — Summary of the Material Contracts” in this prospectus;



- (h) the service contracts and letters of appointment with directors, referred to in the section headed “Appendix IV — Statutory and General Information — Further Information about Our Directors and Substantial Shareholders” in this prospectus;
- (i) the legal memorandum prepared by Hogan Lovells, our International Sanctions Legal Advisors;
- (j) the industry report prepared by iResearch, our industry consultant;
- (k) the written consents referred to in the section headed “Appendix IV — Statutory and General Information — Other Information — Consents of Experts” in this prospectus;
- (l) the legal opinion prepared by Tian Yuan Law Firm, our legal advisor as to PRC law, in respect of certain aspects of our Group and our property interests in the PRC; and
- (m) the Restricted Share Unit Scheme.



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