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火岩控股
FIRE ROCK HOLDINGS

火岩控股有限公司
FIRE ROCK HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1909)

**(I) VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE PROPOSED ACQUISITION OF
100% EQUITY INTEREST IN TAK SHING INTERNATIONAL
HOLDINGS LIMITED; AND
(II) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS**

FINANCIAL ADVISER TO THE COMPANY

Wilson

Wilson International Capital Limited

INDEPENDENT FINANCIAL ADVISER



Draco Capital Limited

THE ACQUISITION

Reference is made to the announcements of the Company dated 14 September 2020 and 25 September 2020 regarding the Company's potential strategic investment and the entering into of the MOU.

The Board is pleased to announce that, on 18 November 2020 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendors and the Guarantors, pursuant to which Vendor 1, Vendor 2 and Vendor 3 conditionally agreed to sell, and the Company conditionally agreed to acquire, Sale Shares 1, Sale Shares 2 and Sale Shares 3, respectively, which together represent the Target Shares, at Consideration 1 of RMB450 million, Consideration 2 of RMB399.96 million and Consideration 3 of RMB50.04 million, respectively. The aggregate Consideration is RMB900 million (approximately HK\$1.06 billion, out of which RMB300 million (approximately HK\$354 million) will be satisfied by cash and the remaining balance of RMB600 million (approximately HK\$708 million) will be satisfied by the issuance of the Promissory Notes by the Company to each of the Vendors).

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the consolidated financial statements of the Company.

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE CONTRACTUAL ARRANGEMENTS

The Target Company achieves effective control over, and receives the entire economic benefits generated by the OPCO through the Contractual Arrangements between Tak Shing (SZ), on one hand, and each of the OPCO and the OPCO Registered Shareholders, on the other hand. Immediately after Completion, the Target Company will become a wholly-owned subsidiary of the Company. Therefore, immediately after Completion, the Contractual Arrangements will enable the Company to (i) enjoy the entire economic benefits from the OPCO as consideration for the services provided by Tak Shing (SZ) to the OPCO; (ii) exercise effective control over the OPCO; and (iii) hold an exclusive option to purchase all or part of the shares in and/or assets of the OPCO when and to the extent permitted by PRC laws.

LISTING RULES IMPLICATIONS

The Acquisition

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Contractual Arrangements

Given that Mr. Zhang will remain as a director of the OPCO and WFOE and that Mr. Zhang, one of the OPCO Registered Shareholders, is a substantial shareholder of the OPCO by virtue of legally holding 50% of the issued shares in the OPCO, Mr. Zhang will become a connected person of the Company at the subsidiary level immediately after Completion solely for the purpose of Chapter 14A of the Listing Rules. Therefore, the transactions under the Contractual Arrangements between the OPCO Registered Shareholders or OPCO and the Group after Completion will constitute continuing connected transactions of the Company at the subsidiary level under Chapter 14A of the Listing Rules.

The Board has approved the transactions under the Contractual Arrangements and the Directors (including independent non-executive Directors) have also confirmed that the terms thereof are fair and reasonable, on normal commercial term and is in the interests of the Company and the Shareholders as a whole. Therefore, by virtue of Rule 14A.101 of the Listing Rules, the transactions under the Contractual Arrangements is subject to the reporting and announcement requirements applicable to connected transactions, but is exempt from the circular, independent financial advice and Shareholders' approval requirements.

APPLICATION FOR WAIVER

The Company has applied for a waiver from strict compliance with (i) the requirement of fixing the term of the Contractual Arrangements under Rule 14A.52 of the Listing Rules; and (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long as the shares of the Company are listed on the Stock Exchange.

APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Draco Capital has been appointed as the Independent Financial Adviser to advise on the Contractual Arrangements not having (i) a fixed term; and (ii) an annual cap, whose letter of advice will be included in the circular to be despatched to the Shareholders.

EGM

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, further details about the Sale and Purchase Agreement and the transactions contemplated thereunder as well as other information required to be disclosed under the Listing Rules, will be dispatched by the Company to Shareholders within 15 Business Days, after the publication of this announcement.

The Acquisition is subject to the fulfilment of several conditions which are detailed in the section headed “Major Terms of The Sale and Purchase Agreement — Conditions Precedent” in this announcement. As the Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that, on 18 November 2020 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendors, pursuant to which Vendor 1, Vendor 2 and Vendor 3 conditionally agreed to sell, and the Company conditionally agreed to acquire, Sale Shares 1, Sale Shares 2 and Sale Shares 3, respectively, which together represent the Target Shares, at Consideration 1 of RMB450 million, Consideration 2 of RMB399.96 million and Consideration 3 of RMB50.04 million, respectively. The total Consideration is RMB900 million (approximately HK\$1.06 billion, out of which RMB300 million (approximately HK\$354 million) will be satisfied by cash and the remaining balance of RMB600 million (approximately HK\$708 million) will be satisfied by the issuance of the Promissory Notes by the Company to each of the Vendors.

MAJOR TERMS OF THE SALE AND PURCHASE AGREEMENT

Date

18 November 2020

Parties

(i) the Company (as the purchaser)

(ii) Vendor 1, Vendor 2 and Vendor 3 (collectively known as the “Vendors”, or the vendors)

Vendor 1: Honour Soar Holdings Limited (榮升控股有限公司), a limited liability company incorporated under the laws of the British Virgin Islands and wholly-owned by Mr. Zhang. Vendor 1 is the registered and beneficial owner of Sale Shares 1, being 50% of the equity interest in the Target Company as at the date of this announcement.

Vendor 2: Morning Rain Holdings Limited (晨雨控股有限公司), a limited liability company incorporated under the laws of the British Virgin Islands and wholly-owned by Miss. Zhang. Vendor 2 is the registered and beneficial owner of Sale Shares 2, being 44.44% of the equity interest in the Target Company as at the date of this announcement.

Vendor 3: Joyous Bliss Holdings Limited (樂福控股有限公司), a limited liability company incorporated under the laws of the British Virgin Islands and wholly-owned by Miss. Wang. Vendor 3 is the registered and beneficial owner of Sale Shares 3, being 5.56% of the equity interest in the Target Company as at the date of this announcement.

(iii) The Target Company: Tak Shing International Holdings Limited (德成國際控股有限公司), a company incorporated under the laws of the BVI with limited liability and wholly-owned by the Vendors

(iv) Guarantors: Mr. Zhang, Miss Zhang and Miss Wang

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owners namely Mr. Zhang, Miss Zhang and Miss Wang (who are also the Guarantors) are Independent Third Parties.

Assets to be acquired

The asset to be acquired is represented by the entire share capital of the Target Company.

Please refer to the section headed “Information about the Target Business” below for details.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration for the Acquisition is RMB900 million (equivalent to approximately HKD1.06 billion). The consideration shall be settled by internal resources of the Company, which shall be satisfied by way of cash and the issuance of the Promissory Notes by the Company to each of the Vendors in following manners:

- (i) Consideration 1 in the sum of RMB450 million, shall be paid by the Company to Vendor 1 in the following manner: (i) RMB150 million in cash within 10 Business Days after the Completion Date by telegraphic transfer to the account directed by Vendor 1; and (ii) RMB300 million by way of the Promissory Note 1 to be issued by the Company to Vendor 1 within 90 Business Days after the Completion Date;
- (ii) Consideration 2 in the sum of RMB399.96 million, shall be paid by the Company to Vendor 2 in the following manner: (i) RMB133.32 million in cash within 10 Business Days after the Completion Date by telegraphic transfer to the account directed by Vendor 2; and (ii) RMB266.64 million by way of the Promissory Note 2 to be issued by the Company to Vendor 2 within 90 Business Days after the Completion Date; and
- (iii) Consideration 3 in the sum of RMB50.04 million, shall be paid by the Company to Vendor 3 in the following manner: (i) RMB16.68 million in cash within 10 Business Days after the Completion Date by telegraphic transfer to the account directed by Vendor 3; and (ii) RMB33.36 million by way of the Promissory Note 3 to be issued by the Company to Vendor 3 within 90 Business Days after the Completion Date.

Basis for the determination of the consideration

The Consideration is determined after arm's length negotiations between the Company and the Vendors on normal commercial terms after taking into account of, among others, (i) the prospects of the Target Business and the online game industry; (ii) the operation and financial performance of the Target Business relied on the games licensed by the Company; (iii) the historical valuation report prepared by Peak Vision, on the Target Business; (iv) the combined net asset value of the Target Business of approximately RMB22.5 million as at 31 July 2020; (v) the relatively low liquidity of the share capital of the Target Company as it is not a listed company itself; and (vi) other reasons and benefits of the Acquisition as stated under the section headed "Reasons for and Benefits of the Acquisition" below.

(i) the prospects of the Target Business and the online game industry;

From a forward-looking perspective, the growth potential of the Target Group can be reflected by its track records in the past three years and seven months period. According to the financial information of the Target Group for the years ended 31 December 2017, 2018 and 2019, the Target Group's profit from continuing operations were RMB8,859,000, RMB118,837,000 and RMB188,811,000 respectively, representing a growth of approximately 1,241% for financial year 2018 and 59% for financial year 2019. Based on the financial information of the Target Group for seven months ended 31 July 2020, the revenue of the Target Group for first seven months in 2020 reached RMB493,229,000, which represented approximately 83% of its total annual revenue in 2019, hence it is expected that the Target Group will continue to record a growth in 2020 as compared to 2019.

(ii) the operation and financial performance of the Target Business relied on the games licensed by the Company;

The OPCO, being one of the Company's key licensed operators, has a track record of distributing several premium online games, including (i) the Sweeties Fighting (零食大亂鬥) series, (ii) the Fish Catching Contest (捕魚大亂鬥) series and (iii) the Age of Star Wars (星戰紀) series.

The following table sets forth the revenue contributions derived from the games licensed by the Company to the OPCO for each of the three years ended 31 December 2017, 2018 and 2019 and for the seven months ended 31 July 2019 and 2020:

	For the year ended 31 December			For the seven months ended	
	2017	2018	2019	31 July	
	(RMB'000)	(RMB'000)	(RMB'000)	2019	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	114,420	353,381	445,413	256,524	347,312
% of total revenue of the OPCO	21.32%	81.37%	74.70%	71.73%	70.42%

At the same time, as one of the key licensed operators of the Company during the three years ended 31 December 2017, 2018 and 2019 and for the seven months ended 31 July 2020, the OPCO contributed a substantial amount of revenue to the Company.

The following table sets forth the respective revenue contributions from the OPCO to the Company for each of the three years ended 31 December 2017, 2018 and 2019 and for the seven months ended 31 July 2019 and 2020:

	For the year ended 31 December			For the seven months ended	
	2017	2018	2019	31 July	
	(RMB'000)	(RMB'000)	(RMB'000)	2019	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	32,147	126,457	219,000	105,312	213,231
% of total revenue of the Company	40.03%	78.69%	72.04%	82.62%	66.31%

The Directors are of the view that the Target Group and the Company has a mutual reliance in terms of financial performance while the Acquisition, upon Completion, will allow the Group to enhance control and stability over the distribution channels.

(iii) the historical valuation report prepared by Peak Vision, on the Target Business;

The assessed market value of the 100% equity interest of the Target Group as at 31 October 2020 prepared by Peak Vision is approximately RMB1,800 million. A valuation report of the Target Group will be issued by the Peak Vision for inclusion in the circular to be despatched to the Shareholders, and will be prepared in accordance with HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors and the International Valuation Standards (effective 31 January 2020) published by the International Valuation Standards Council, where applicable. The valuation report will be prepared by Mr. Nick C. L. Kung, a director of Peak Vision Appraisals Limited. He is a member of Royal Institution of Chartered Surveyors and member of the Hong Kong Institute of Surveyors,

Registered Professional Surveyor, RICS Registered Valuer and Registered Business Valuer of the Hong Kong Business Valuation Forum (HKBVF) and has more than 10 years of experience in the valuation of business assets and business enterprises in Hong Kong and overseas.

The Independent Valuer has employed the Guideline Publicly Traded Company method under the Market Approach in which the enterprise value to earnings before interest and taxes (EV/EBIT) ratio and price to earnings (P/E) ratio are adopted. The Independent Valuer considers EV/EBIT and P/E are more representative than other commonly adopted multiples such as price to sale (P/S) and price to book (P/B) ratios due to the following reasons:

- P/S ratio does not account for the profitability of the business and fail to reflect the true earnings power and value of the business whereas book value of equity does not account for different capital/asset structures of the comparable companies;
- P/B ratio may not be useful when comparing companies with different capital/asset levels. P/B ratio also fails to reflect the true earnings power and value of the business;
- EV and EBIT measurements are useful for comparisons across comparable companies with different capital/asset structures because they exclude the distorting effects of individual companies' capital/asset levels; and
- Earnings is the primary determinant of value.

The principal assumptions used in the preparation of the valuation report, among others, are set out as below:

- (a) There are no material changes to the financial performances and positions of the Target Group during the period between 31 July 2020 and the Valuation Date;
- (b) For the Target Group to continue as a going concern, the Target Group will successfully carry out all necessary activities for the development of its business;
- (c) The availability of finance will not be a constraint on the forecast growth of the Target Group's operations in accordance with the business plans;
- (d) Market trends and conditions where the Target Group operates will not deviate significantly from the economic forecasts in general;
- (e) The financial statements of the Target Group as supplied to the Independent Valuer have been prepared in a manner which truly and accurately reflect the financial positions of the Target Group as at the respective balance sheet dates;

- (f) Key management, competent personnel and technical staff will all be retained to support the ongoing operations of the Target Group;
- (g) There will be no material changes in the business strategy of the Target Group and its operating structure;
- (h) Interest rates and exchange rates in the localities for the operations of the Target Group will not differ materially from those presently prevailing;
- (i) All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organization required to operate in the localities where the Target Group operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and
- (j) There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues and profits attributable to the Target Group.

In preparation of the valuation report, the Independent Valuer selected a list of comparable companies. The selection criteria include the followings:

- (a) Companies that are profit-making and are actively traded and publicly listed in the PRC, Hong Kong or Taiwan; and
- (b) Principally engaged in the operation of online games.

Based on the Independent Valuer's exhaustive search of the Thomson Reuters database using the criteria above, the Independent Valuer has identified eight guideline public companies. The eight comparable companies are set out as follows:

Thomson Reuters Ticker Name

3083.TWO	Chinese Gamer International Corp.
4994.TW	X-Legend Entertainment Co., Ltd.
300315.SZ	Ourpalm Co., Ltd.
0799.HK	IGG Inc.
300533.SZ	Shenzhen Bingchuan Network Co., Ltd.
603444.SS	G-bits Network Technology Xiamen Co., Ltd.
0797.HK	7Road Holdings Ltd.
603258.SS	Hangzhou Electronic Soul Network Technology Co., Ltd.

The above comparable companies are principally engaged in the operation of online games similar to the Target Group. They are therefore similarly subject to fluctuations in the economy and performance of the online gaming industry, among other factors, as the Target Group.

The assessed EV/EBIT and P/E ratios will be size-adjusted and then multiplied by the earnings before interest and taxes and the net profit of the Target Group respectively. The indicative values will then be adjusted with control premium, other net non-operating assets and liabilities, lack of marketability discount, cash and cash equivalents, and interest bearing debts before arriving at the market value of the Target Group.

According to the valuation report, the assessed market value of the Target Group is approximately RMB1,800 million as at 31 October 2020. The Board considers that the valuation report provides a general reference in assessing the fairness and reasonableness of the market value of the Target Group.

(iv) the combined net asset value of the Target Business of approximately RMB22.5 million as at 31 July 2020;

The Directors are aware of that the valuation of 100% of the Target Group based on the valuation report is approximately RMB1,800 million as at 31 October 2020, which is significantly higher than the net asset value of the Target Group of approximately RMB22.5 million as at 31 July 2020. The Directors considered that the net asset value may not completely reflect the value of the Target Group, given that the net asset value cannot reflect the future earnings, the synergy effect upon Completion and the value of the intangible assets of the Target Group, including but not limited to its: (a) intellectual properties, (b) customers/players database and (c) experienced expert and management teams.

Pursuant to the applicable PRC laws, the Group typically relies on operators with PRC Value-added Telecommunications Business Operation License and Internet Culture Operation License to promote and operate the Group's games in the PRC. The Directors considered that through the Acquisition, the Group can control the above licenses owned by OPCO which is valuable to the Group in the future development.

Moreover, the OPCO is the registered owner of (i) 11 trademarks which are the names or logos of games operated by the OPCO; (ii) 7 trademarks which are names or logos shown on the websites operated by the OPCO to advertise and distribute games by providing platform for downloading by external third parties; and (iii) 37 software copyrights in respect of games operated by the OCPO. The Directors believed that combining the intellectual properties owned by the OPCO and game development capability of the Group can create synergy hence leading to growth in future.

Thus, Company is of the view that, with the Acquisition being a long term investment, there is sufficient justification for the amount of premium over the Target Company's net asset value.

Based on the above, the Board is of the view that the Consideration is fair and reasonable and in the interest of the Company and Shareholders as a whole.

Conditions Precedent

Completion is conditional upon the fulfilment (or, if applicable, the waiver) of the following conditions:

- (i) the Company being satisfied at its sole and absolute discretion with the results of the due diligence review of the legal, financial, taxation, corporate, operations and affairs, contractual, property, trading positions and prospects and profitability projection of the Target Group and other subject matters incidental thereto as the Company may consider appropriate, to be conducted by or on behalf of the Company, in each case to the satisfaction of the Company at its sole and absolute discretion;
- (ii) all warranties given by the Vendors and the OPCO Registered Shareholders in the Sale and Purchase Agreement remaining true, correct and complete in all respects;
- (iii) there being no material adverse effect to the Target Company which may affect the transactions contemplated under the Sale and Purchase Agreement since the date of the Sale and Purchase Agreement;
- (iv) the certificate of incumbency and certificate of good standing in respect of the Target Company not more than 10 Business Days before Completion, in form and substance satisfactory to the Company, having been delivered to the Company (by copies to be delivered before Completion first to be followed by the originals as soon as possible after Completion where necessary);
- (v) all relevant third-party consents, permits, approvals, authorisations and waivers which are necessary or appropriate for the entering into and consummation of the transactions contemplated under the Sale and Purchase Agreement being obtained, including without limitation such consents (if appropriate or required) of the Stock Exchange and the SFC and any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, the PRC or elsewhere which are required for the entering into, execution, delivery and performance of the Sale and Purchase Agreement and the transactions contemplated hereunder; and
- (vi) the passing of the necessary resolution(s) by the Shareholders at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Save for conditions (ii), (iii), (v) and (vi) above, all of the above condition's precedent can be waived by the Company. In the event that the conditions precedent to the Sale and Purchase Agreement are not fulfilled or waived by the Long Stop Date or such later date as agreed in writing between the parties to the Sale and Purchase Agreement, the Sale and Purchase Agreement shall be terminated and the parties shall cease to have any obligations thereunder save for any antecedent breach.

Completion

Completion shall take place within the fifth Business Day after all the conditions precedent under the Sale and Purchase Agreement have been fulfilled or waived by The Company (as the case may be), or such other date as agreed by the parties to the Sale and Purchase Agreement.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Company.

Termination

Save for matters disclosed, if at any time prior to Completion there occurs a material adverse effect, the Company may by notice in writing to the Vendors request the Vendors to solve and fix the problem(s) concerned within fourteen (14) days from the date of the said written notice and in any event before Completion. If the problem(s) concerned is not solved or fixed in the form or manner reasonably satisfactory to the Company within the said time limit, the Company may terminate the Sale and Purchase Agreement. In such event, all obligations of the parties hereto under the Sale and Purchase Agreement shall cease and determine save for any antecedent breach and rights and obligations already accrued.

ISSUE OF THE PROMISSORY NOTES

The Promissory Notes shall be issued by the Company to each of the Vendors within 90 Business Days after Completion to settle part of the Consideration.

(i) Issue of the Promissory Note 1

The Promissory Note 1 shall be issued by the Company to Vendor 1 within 90 Business Days after Completion to settle part of the Consideration 1. The principal terms of the Promissory Note 1 are as follows:

Issuer: The Company

Subscribers: Vendor 1 (or its nominee(s))

Principal amount: RMB300 million (approximately HK\$354 million)

Repayment Date: The Company shall repay the Promissory Note 1 in full by 31 December 2024 in accordance with the following repayment schedule:

Timeline	Amount of Principal Repayment (RMB)
30 June 2021	37,500,000
31 December 2021	37,500,000
30 June 2022	37,500,000
31 December 2022	37,500,000
30 June 2023	37,500,000
31 December 2023	37,500,000
30 June 2024	37,500,000
31 December 2024	<u>37,500,000</u>
	Total: <u><u>300,000,000</u></u>

Interest: Interest shall accrue on the outstanding principal at the rate of three per cent (3%) per annum calculated on a 365-day year and by reference to the numbers of days elapsed from the date of issuance of the Promissory Note 1 to the day of repayment in full, payable annually in arrears.

Repayment: The principal balance will be due and payable on the maturity date.

Early Redemption: Promissory Note 1 may be repaid in whole or in part by the Company at its absolute discretion at any time prior to its maturity (i.e. 31 December 2024) without premium or penalty by the Company giving Vendor 1 not less than 3 Business Days' prior written notice specifying the amount to be so prepaid.

Transferability: The holder of Promissory Note 1 may transfer Promissory Note 1 to any other persons with the written consent of the Company. The Company will notify the Stock Exchange if the promissory note(s) is proposed to be transferred to the Company's connected persons.

(ii) Issue of the Promissory Note 2

The Promissory Note 2 shall be issued by the Company to Vendor 2 within 90 Business Days after Completion to settle part of the Consideration 2. The principal terms of the Promissory Note 2 are as follows:

Issuer: The Company

Subscribers: Vendor 2 (or its nominee(s))

Principal amount: RMB266.64 million (approximately HK\$314.64 million)

Repayment Date: The Company shall repay the Promissory Note 2 in full by 31 December 2024 in accordance with the following repayment schedule:

Timeline	Amount of Principal Repayment (RMB)
30 June 2021	33,330,000
31 December 2021	33,330,000
30 June 2022	33,330,000
31 December 2022	33,330,000
30 June 2023	33,330,000
31 December 2023	33,330,000
30 June 2024	33,330,000
31 December 2024	<u>33,330,000</u>
Total:	<u>266,640,000</u>

Interest:	Interest shall accrue on the outstanding principal at the rate of three per cent (3%) per annum calculated on a 365-day year and by reference to the numbers of days elapsed from the date of issuance of the Promissory Note 2 to the day of repayment in full, payable annually in arrears.
Repayment:	The principal balance will be due and payable on the maturity date.
Early Redemption:	Promissory Note 2 may be repaid in whole or in part by the Company at its absolute discretion at any time prior to its maturity (i.e. 31 December 2024) without premium or penalty by the Company giving Vendor 2 not less than 3 Business Days' prior written notice specifying the amount to be so prepaid.
Transferability:	The holder of Promissory Note 2 may transfer Promissory Note 2 to any other persons with the written consent of the Company. The Company will notify the Stock Exchange if the promissory note(s) is proposed to be transferred to the Company's connected persons.

(iii) Issue of the Promissory Note 3

The Promissory Note 3 shall be issued by the Company to Vendor 3 within 90 Business Days after Completion to settle part of the Consideration 3. The principal terms of the Promissory Note 3 are as follows:

Issuer:	The Company
Subscribers:	Vendor 3 (or its nominee(s))
Principal amount:	RMB33.36 million (approximately HK\$39.36 million)

Repayment Date: The Company shall repay the Promissory Note 3 in full by 31 December 2024 in accordance with the following repayment schedule:

Timeline	Amount of Principal Repayment (RMB)
30 June 2021	4,170,000
31 December 2021	4,170,000
30 June 2022	4,170,000
31 December 2022	4,170,000
30 June 2023	4,170,000
31 December 2023	4,170,000
30 June 2024	4,170,000
31 December 2024	<u>4,170,000</u>
	Total: <u><u>33,360,000</u></u>

Interest: Interest shall accrue on the outstanding principal at the rate of three per cent (3%) per annum calculated on a 365-day year and by reference to the numbers of days elapsed from the date issue of the Promissory Note 3 to the day of repayment in full, payable annually in arrears.

Repayment: The principal balance will be due and payable on the maturity date.

Early Redemption: Promissory Note 3 may be repaid in whole or in part by the Company at its absolute discretion at any time prior to its maturity (i.e. 31 December 2024) without premium or penalty by the Company giving Vendor 3 not less than 3 Business Days' prior written notice specifying the amount to be so prepaid.

Transferability: The holder of Promissory Note 3 may transfer Promissory Note 3 to any other persons with the written consent of the Company. The Company will notify the Stock Exchange if the promissory note(s) is proposed to be transferred to the Company's connected persons.

INFORMATION ABOUT THE TARGET BUSINESS

The Target Business is owned by and operated through the Target Group (including a subsidiary controlled through the Contractual Arrangements), namely Tak Shing (HK), Tak Shing (SZ) and the OPCO. It is principally engaged in online games operating service in the PRC. The OPCO, being one of the Company's licensed operators, has a track record of distributing several premium online games, including (i) the Sweeties Fighting (零食大亂鬥) series, (ii) the Fish Catching Contest (捕魚大亂鬥) series and (iii) the Age of Star Wars (星戰紀) series.

The OPCO is the registered owner of (i) 11 trademarks which are the names or logos of games operated by the OPCO; (ii) 7 trademarks which are names or logos shown on the websites operated by the OPCO to advertise and distribute games by providing platform for downloading by external third parties; and (iii) 37 software copyrights in respect of games operated by the OCPO.

Pursuant to the Contractual Arrangements, Tak Shing (SZ) has effective control over the OPCO and enjoys the economic benefits generated by the OPCO. The Directors have discussed with the Company's auditor in respect of the control over the OPCO through the Contractual Arrangements. The Directors considered that under the prevailing accounting principles, upon Completion, the Company can consolidate the financial results of the OPCO in its consolidated accounts as an indirect subsidiary of the Company under HKFRS.

Financial Information of the Target Group

Based on the information provided by the Target Company, the following table sets out the summary of the financial information of the Target Group for each of the three years ended 31 December 2017, 2018 and 2019 and the seven months ended 31 July 2019 and 2020:

	For the years ended 31 December			For the seven months period ended 31 July	
	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)	2019 (RMB'000)	2020 (RMB'000)
Revenue	536,736	434,267	596,270	357,623	493,229
Gross profit	465,121	273,306	351,313	237,011	142,930
Profit before income tax	8,859	130,407	210,120	153,241	104,193
Profit from continuing operations	8,859	118,837	188,811	135,920	87,434
Total comprehensive income for the year/period	35,727	133,576	207,066	145,609	87,434

	As at 31 December			As at
	2017	2018	2019	31 July
	(RMB'000)	(RMB'000)	(RMB'000)	2020
Total assets	652,786	684,909	267,664	167,603
Total liabilities	176,189	120,736	237,621	145,055
Net assets	476,597	564,173	30,043	22,548

Gross Profit Margin

The significant decrease in gross profit margin since 2017 (GP ratio of 87%) to 2020 (GP ratio of 29%) was mainly due to the increase in royalty fee which is in line with the significant increase in revenue derive from licensed games not developed by the OPCO. The following table sets forth the revenue derived from licensed games not developed by the OPCO for each of the three years ended 31 December 2017, 2018 and 2019 and for the seven months ended 31 July 2019 and 2020:

	For the year ended 31 December			For the seven months ended	
	2017	2018	2019	31 July	
	(RMB'000)	(RMB'000)	(RMB'000)	2019	2020
Revenue	118,375	354,850	446,604	257,384	493,229
% of total revenue	22.05%	81.71%	74.90%	71.97%	100.00%

The following table sets forth the royalty fee for each of the three years ended 31 December 2017, 2018 and 2019 and for the seven months ended 31 July 2019 and 2020:

	For the year ended 31 December			For the seven months ended	
	2017	2018	2019	31 July	
	(RMB'000)	(RMB'000)	(RMB'000)	2019	2020
Royalty fee	32,770	126,870	216,729	105,196	318,116
% of total revenue	6.11%	29.21%	36.35%	29.42%	64.50%

Net Profit

The reasons for the lower net profit recorded in 2017 in compare to 2018 and 2019 were mainly due to the (a) high impairment of interest in the associate and provision of investment commitment amounted to approximately RMB100.6 million for the year ended 31 December 2017 and (b) written off of other receivable amounted to RMB160 million for the year ended 31 December 2017.

(a) Impairment of interest in the associate and provision of investment commitment

The amount of administrative expenses of approximately RMB190.2 million for the year ended 31 December 2017 in compare to approximately RMB76.2 million for the year ended 31 December 2018 and approximately RMB60.6 million for the year ended 31 December 2019 were mainly due to (1) the impairment loss on interest in associates of approximately RMB37.5 million and (2) the provision for commitment of investment in an associate of approximately RMB63.1 million regarding the acquisition of the 100% equity interest of Shenzhen Xinghao Network Technology Company Limited* (深圳市星浩網路科技有限公司) (“SZ Xinghao”), which was focusing on development of Mahjong games, during the year ended 31 December 2017. The said acquisition of SZ Xinghao has contemplated by two stages at total considerations of approximately RMB100.6 million.

During the year ended 31 December 2017, the Target Group acquired 30% equity interest of SZ Xinghao by settlement of the first instalment of RMB37.5 million (stage 1). However, due to the effect of regulatory risk regarding the market rumor of “The implementation of the “Administrative Measures of Online Chess and Card Games” (“棋牌類網路遊戲管理辦法”) by the PRC government aiming to shut down certain online chess and card games including Mahjong games, and prohibit the operation of such games starting from 1 June 2018” (although such policy has not yet been implemented, certain distribution platforms have removed relevant products), the business of SZ Xinghao were adversely affected. Therefore, a full impairment of the interest in the associate of RMB37.5 million and a provision for the non-cancellable commitment of investment in completion stage of approximately RMB63.1 million had been made for the year ended 31 December 2017. The Target Group completed the acquisition in May 2018 and the interest in SZ Xinghao was classified and recognised as interest in a subsidiary during the year ended 31 December 2018. Such interest in a subsidiary was derecognised at 31 December 2019 as the development of online chess and card games (especially Mahjong games) is not the focus of the existing business of the OPCO.

(b) Written off of a RMB160 million other receivable

The amount of provision for expected credit losses for other receivable of approximately RMB202.6 million for the year ended 31 December 2017 in compare to approximately RMB23.7 million for the year ended 31 December 2018 and approximately RMB38.0 million for the year ended 31 December 2019, was mainly due to the written off of other receivable of RMB160 million directly to profit or loss regarding the bankruptcy of a debtor during the year ended 31 December 2017.

Total Assets and Net Assets

The significant decrease in total assets and net assets in 2019 and 2020 were mainly due to:

- (a) the OPCO completed the derecognition and reorganisation of (1) the development business of certain online board and card games, (2) certain investments in subsidiaries and associate, (3) certain investment in financial instruments and (4) certain assets and liabilities for spinning off a separate board and card games business. Such operations, investments, assets and liabilities were allocated to a newly established entity owned by Mr. Zhang, Miss Zhang and Miss Wang during the year ended 31 December 2019. As a result of the above derecognition and reorganisation, the share capital of the OPCO was reduced by RMB10.8 million, the statutory reserve of the Target Group was reduced by RMB3 million, the retained profits of the Target Group was reduced by approximately RMB442.7 million and the non-controlling interests of RMB694,000 was derecognised; and
- (b) the distributions made by the OPCO to its equity owners of approximately RMB295 million and approximately RMB95 million for the year ended 31 December 2019 and for the seven months ended 31 July 2020 respectively.

The following table sets forth the carrying values of the assets and liabilities derecognised by the OPCO during the year ended 31 December 2019:

RMB'000

Assets:

Property, plant and equipment	330
Intangible assets	4,234
Financial assets at fair value through profit or loss	79,604
Interests in associates	62
Trade receivables	2,316
Prepayment, deposits and other receivables	376,935
Tax recoverable	1,097
Cash and cash equivalents	<u>264</u>

Sub-total: 464,842

Liabilities:

Trade and other payables	(6,469)
Deferred revenue	<u>(2,577)</u>

Sub-total: (9,046)

Net assets 455,796

INFORMATION ABOUT THE VENDORS

Vendor 1: Honour Soar Holdings Limited (榮升控股有限公司), a limited liability company incorporated under the laws of the British Virgin Islands and is principally engaged in investment holding and wholly-owned by Mr. Zhang.

Vendor 2: Morning Rain Holdings Limited (晨雨控股有限公司), a limited liability company incorporated under the laws of the British Virgin Islands and is principally engaged in investment holding and wholly-owned by Miss. Zhang.

Vendor 3: Joyous Bliss Holdings Limited (樂福控股有限公司), a limited liability company incorporated under the laws of the British Virgin Islands and is principally engaged in investment holding and wholly-owned by Miss. Wang.

Miss. Wang is the mother of Miss. Zhang. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there is no family relationship between Mr. Zhang and each of Miss. Zhang and Miss. Wang.

INFORMATION ABOUT THE COMPANY

The Company is a game developer principally engaged in the development of browser and mobile games. The listing of the Company's shares has been successfully transferred from GEM of the Stock Exchange to the Main Board of the Stock Exchange on 27 June 2019.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is a game developer focusing on the development of browser and mobile games. The Target Business is owned by and operated through the Target Group (including a subsidiary controlled through the Contractual Arrangements). It is principally engaged in online games operating service (including publishing and operation of online games) in the PRC. The Target Business, being one of the Company's licensed operators, has a track record of distributing several premium online games.

The Directors believe that the Acquisition is in line with the principal business activities of the Group and the Company's strategy to acquire and invest in other online games companies which can enhance the stability and diversity of the Company's revenue.

The Board believes that the Acquisition is strategically attractive and will deliver the following benefits:

- (i) The Acquisition provides the opportunity for the Group to realise potential synergies through the pooling of a number of resources respectively possessed by the Group and the OPCO, including without limitation, (a) the additional valuable data of game players (e.g. buying and gaming habits, preference trends); (b) expertise in online marketing and advertising possessed by the OPCO; (c) intellectual properties owned by the OPCO (e.g. copyrights and trademarks).
- (ii) Strengthen the cash inflow and financial position of the Group by consolidating the entire economic benefits of the Target Group;
- (iii) The Acquisition allows the Group to enhance control over the distribution channels. The control over distribution channels ensures the strategic independence of the Group from third parties and allow extra flexibility to the Group on its distribution and overall game or marketing strategy;
- (iv) The Group typically relies on licensed operators to conduct promotional and marketing activities for our games in their respective licensed territories. The Acquisition can reduce the risk that the licensed operator fails and/or is unable to effectively market and promote the games to game players, which will materially and adversely affect the financial position and results of operation of the Group; and

- (v) Reduce the risk on reputation arise from adverse news and allegations directly or indirectly against a) the licensed operators or their associates and b) the licensed operators' management or their associates.

Taking into account of the above, the Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable and on normal commercial terms and the entering into of the Sale and Purchase Agreement is in the interests of the Company and its Shareholders as a whole.

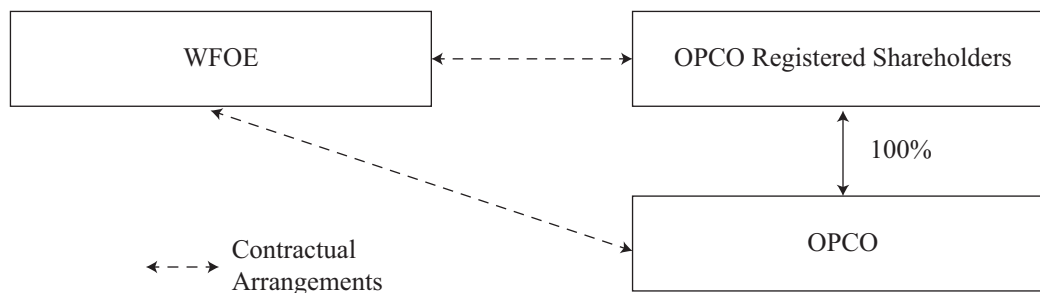
REASONS FOR THE USE OF THE CONTRACTUAL ARRANGEMENTS

The OPCO is principally engaged in the businesses of online games operating service under the PRC Value-added Telecommunications Business Operation Licence and Internet Culture Operation License. Pursuant to applicable PRC laws, including but not limited to the Special Management Measures (Negative List) for the Access of Foreign Investment (2020) 《(外商投資准入特別管理措施(負面清單)(2020年版))》(the “Negative List”) promulgated by the National Development and Reform Commission (“NDRC”) and the Ministry of Commerce of the PRC (“MOFCOM”), the business of the online games operating service is considered “prohibited” for foreign investment, where foreign investment is strictly forbidden. As such, the Target Company, as a foreign investor, cannot directly or indirectly hold any shares in the OPCO.

In light of the above, in order to comply with the applicable PRC laws, Tak Shing (SZ), the OPCO and the OPCO Registered Shareholders have entered into the Contractual Arrangements to enable the financial results, the entire economic benefits and the risks of the businesses of the OPCO to flow into Tak Shing (SZ) and to enable Tak Shing (SZ) to gain effective control over the OPCO.

Summary of the Material Terms of the Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from the OPCO to our Group stipulated under the Contractual Arrangements immediately upon Completion:



INFORMATION OF THE CONTRACTUAL ARRANGEMENTS

Principal terms of each of the agreements under the Contractual Arrangements are set out as follows:

(i) Exclusive Purchase Option Agreement

Parties:

- (i) Tak Shing (SZ);
- (ii) OPCO Registered Shareholders; and
- (iii) OPCO

Options:

- (i) The OPCO Registered Shareholders irrevocably grant to Tak Shing (SZ) or a designee of Tak Shing (SZ) (a “Designee of Tak Shing (SZ)”) an exclusive option to purchase, through one time or multiple batches, all or part of the shares in the OPCO held by the OPCO Registered Shareholders (the “Optioned Shares”) (the “Share Purchase Option”) during the term of the Exclusive Purchase Option Agreement. Other than Tak Shing (SZ) and the Designee of Tak Shing (SZ), no other third parties shall be entitled to the Share Purchase Option or other rights related to the Optioned Shares.

(ii) The OPCO Registered Shareholders and the OPCO irrevocably grant to Tak Shing (SZ) or a Designee of Tak Shing (SZ) an exclusive option to purchase, through one time or multiple batches, all or part of the assets owned by the OPCO (the “Optioned Assets”) at any time (the “Asset Purchase Option”) during the term of the Exclusive Purchase Option Agreement.

Consideration:

(i) The consideration for the Optioned Shares shall be equal to RMB1 or the minimum price permitted under PRC law to each OPCO Registered Shareholder. Save as provided under PRC law, if the Optioned Shares are purchased in multiple batches, the total consideration payable to each OPCO Registered Shareholder shall not exceed RMB1.

(ii) The consideration for the Optioned Assets shall be equal to RMB1 or the minimum price permitted under PRC law to each OPCO Registered Shareholder. Save as provided under PRC law, if the Optioned Assets are purchased in multiple batches, the total consideration payable to each OPCO Registered Shareholder shall not exceed RMB1.

If the consideration for Optioned Shares to each OPCO Registered Shareholder is more than RMB1, the OPCO Registered Shareholders shall fully compensate Tak Shing (SZ) or the Designee of Tak Shing (SZ) for the exceeding in relation to such sale of Optioned Shares.

Term:

The Exclusive Purchase Option Agreement shall remain valid during the legal operating period of the OPCO and extension periods under PRC law until Tak Shing (SZ) or a Designee of Tak Shing (SZ) fully exercises the Share Purchase Option or the Asset Purchase option. Otherwise, Tak Shing (SZ) can terminate the Exclusive Purchase Option Agreement unilaterally by providing thirty (30) days in advance. Unless provided by law, the OPCO and the OPCO Registered Shareholders shall have no rights to unilaterally terminate the Exclusive Purchase Option.

Restrictions on transfer of the OPCO's assets:

The OPCO Registered Shareholders undertake that, save with the prior written consent of Tak Shing (SZ) or in accordance with the Share Pledge Agreement, the OPCO Registered Shareholders shall not sell, surrender, transfer, encumber or through any other method dispose the Optioned Shares.

The OPCO undertake that, save with the prior written consent of Tak Shing (SZ) or in accordance with the Share Pledge Agreement, the OPCO shall not sell, transfer, allow the use of or other methods to dispose any of its assets or allow the creation of any encumbrance over its assets.

Succession:

The OPCO Registered Shareholders, the OPCO and their successors and authorized assignees (if any) shall continue to comply with all the liabilities of the OPCO Registered Shareholders and the OPCO under the Exclusive Purchase Option Agreement.

(ii) Exclusive Business Cooperation Agreement

Parties:

- (i) Tak Shing (SZ);
- (ii) OPCO Registered Shareholders; and
- (iii) OPCO

Services:

Pursuant to the Exclusive Business Cooperation Agreement, Tak Shing (SZ) shall provide management consulting, technical and software support, technical consulting, promotion strategy, marketing and related services to the OPCO. The fee for such services shall be in accordance with the actual cooperation and operation situation between Tak Shing (SZ) and the OPCO.

Term:

The Exclusive Business Cooperation Agreement shall be effective upon signing by the parties until the Exclusive Purchase Option Agreement has been terminated. Tak Shing (SZ) can terminate the Exclusive Business Cooperation Agreement unilaterally by providing thirty (30) days' notice in advance. Unless provided by law, the OPCO and the OPCO Registered Shareholders shall have no rights to unilaterally terminate the Exclusive Business Cooperation Agreement.

(iii) Exclusive Technical Service and Management Consultancy Agreement

Parties: (i) Tak Shing (SZ); and
(ii) OPCO

Services: The OPCO agrees to appoint Tak Shing (SZ) as its exclusive services provider to provide technical services to it, including but not limited to the following:

- (i) developing or assisting in developing computer and mobile equipment software and authorising the OPCO the use of such software and technology;
- (ii) developing or designing the webpages and websites for business use and to supervise, test and debug such webpages and websites;
- (iii) provision of information management systems;
- (iv) provision of technical support;
- (v) provision of periodic or non-periodic technical consulting services;
- (vi) provision of technical training;
- (vii) engaging technical staff to provide on-site technical guidance; and
- (viii) proving other technical services reasonably requested by the OPCO.

Furthermore, Tak Shing (SZ) shall in areas of management, market development and sales provide exclusive management and consulting services to the OPCO, including but not limited to the following:

- (i) development of management model and business plan;
- (ii) preparation of market development plan;
- (iii) provision of market information and customer resource information;
- (iv) provision of market research;

- (v) provision of development training and enhance the work-related capabilities of employees;
- (vi) building of sales networks; and
- (vii) providing other services reasonably requested by the OPCO.

Unless with the prior written consent of Tak Shing (SZ), during the term of the Exclusive Technical Service and Management Consultancy Agreement, the OPCO shall not accept or engage any third party to provide the same or similar technical or management consultancy services. Tak Shing (SZ) and the OPCO agree that Tak Shing (SZ) may appoint other parties to provide the OPCO with the technical or management consultancy services under the Exclusive Technical Service and Management Consultancy Agreement.

Fees:

Subject to PRC laws and reimbursement of losses of the previous year (if required), the OPCO shall pay the remainder of its annual profit after deducting costs, expenses, fees and taxes recognized by Tak Shing (SZ) as service fee (the “Service Fee”) to Tak Shing (SZ). Tak Shing (SZ) has the right to adjust the Service Fee according to the overall situation of the services provided to the OPCO, the operation condition and business development of the OPCO and the OPCO shall cooperate unconditionally. The Service Fee may be paid before or after the provision of the technical and management consultancy services.

The OPCO shall compensate Tak Shing (SZ) for any reasonable expenses, disbursements and costs (the “Expenditure”) arising from the exclusive services that Tak Shing (SZ) provides to the OPCO according to the Exclusive Technical Service and Management Consultancy Agreement.

Term: The Exclusive Technical Service and Management Consultancy Agreement shall be effective upon signing by the parties until the Exclusive Purchase Option Agreement has been terminated. Tak Shing (SZ) can terminate the Exclusive Technical Service and Management Consultancy Agreement unilaterally by providing thirty (30) days' notice in advance. Unless provided by law, the OPCO shall have no rights to unilaterally terminate the Exclusive Technical Service and Management Consultancy Agreement.

(iv) Share Pledge Agreement

Parties: (i) Tak Shing (SZ);
(ii) OPCO Registered Shareholders; and
(iii) OPCO

Pledge: The OPCO Registered Shareholders agree to pledge all their respective shares (including any shares subsequently registered or acquired) in the OPCO (the "Pledged Shares") to Tak Shing (SZ) as security (the "Pledge") for the performance of the contractual obligations by the OPCO and the OPCO Registered Shareholders under the Exclusive Purchase Option Agreement, the Shareholder Rights Authorisation Agreement, and the Exclusive Technical Service and Management Consultancy Agreement (collectively the "Co-operation Agreements"). The OPCO agrees with the Pledge by the OPCO Registered Shareholders pursuant to the Share Pledge Agreement.

Upon the prior written consent of Tak Shing (SZ), the OPCO Registered Shareholders may inject further capital into the OPCO. The additional shares from the capital injection is considered as the Pledged Shares.

Unless in fulfilment of the Exclusive Purchase Option Agreement, without the prior written consent of Tak Shing (SZ), the OPCO Registered Shareholders shall not transfer the Pledged Shares, create or allow any security interest or other encumbrance on the Pledged Shares.

Events of Default: Events of default under the Share Pledge Agreement include the following:

- (1) the OPCO breaching or delaying performance of its obligations under the Co-operation Agreements or representations and warranties therein are inaccurate, incomplete and misleading, including but not limited to the OPCO failing to make full and timely payments in relation to the service fees under the Exclusive Business Cooperation Agreement or other manners of breach of the Contractual Arrangements;
- (2) the OPCO Registered Shareholders or the OPCO breaching other provisions of the Share Pledge Agreement; and
- (3) other than for the purpose of fulfilling the Exclusive Purchase Option Agreement, the OPCO Registered Shareholders surrendering their equity interests in the Pledged Shares or without the prior written consent of Tak Shing (SZ), transferring or attempting to transfer their equity interests in the Pledged Shares.

Unless the OPCO Registered Shareholders remedy the defaults within 20 days after Tak Shing (SZ) issues a formal notice requiring the OPCO Registered Shareholders to remedy such defaults (the “20 Days Requirement”), Tak Shing (SZ) may, at any time, issue to the OPCO Registered Shareholders a formal notice of breach (the “Formal Notice of Breach”) and demand to exercise the Pledge forthwith.

Exercise of Pledge: Without prejudice to the 20 Days Requirement above, Tak Shing (SZ) may, at any time after the issue of the Formal Notice of Breach, have the right to exercise the Pledge. When Tak Shing (SZ) exercises the Pledge, the OPCO Registered Shareholders no longer enjoy any rights and interests in relation to the Pledged Shares.

Termination: Upon the full payment of the service fees under the Contractual Arrangements as well as the discharge of all liabilities under the Contractual Arrangements by the OPCO, the Share Pledge Agreement shall be terminated. Tak Shing (SZ) shall then, as soon as reasonably practicable, terminate such Pledge.

(v) Powers of Attorney

Parties: Each of the OPCO Registered Shareholders

Subject matter: Each of the OPCO Registered Shareholders irrevocably authorises Tak Shing (SZ) as sole agent to exercise the rights of the relevant OPCO Registered Shareholder as a shareholder of the OPCO including but not limited to the following:

- (i) as the agent of the OPCO Registered Shareholders, to propose, convene and attend shareholders' meeting of the OPCO, and voting on any matters discussed in the shareholders' meeting including without limitation nominating and appointing directors, general manager, deputy general manager, chief financial officer, and other senior officers of the OPCO, and the liquidation matters of the OPCO;
- (ii) to sign the minutes and resolutions of the OPCO's shareholders' meeting and other legal documents;
- (iii) without violating the applicable PRC laws, to instruct directors, legal representative, supervisors, general manager and other senior officers of the OPCO to act in accordance with Tak Shing (SZ) or persons designated by it at its sole discretion;
- (iv) as the agent of the OPCO Registered Shareholder, to exercise all the voting rights of shareholders under the articles of association (as amended from time to time) of the OPCO;
- (v) to perform the registration and change of register procedures in the department of industry and commerce or other company registration authorities;
- (vi) to handle the filing and registration to the relevant government authorities according to the applicable PRC laws, regulations and/or the articles of the OPCP (as amended from time to time);
- (vii) to decide on the transfer or disposal of all or part of the shares of the OPCO owned by the OPCO Registered Shareholders; and

(viii) any other rights vested in the shareholders by other applicable PRC laws, regulations and/or the articles of association of the OPCO (as amended from time to time).

Further, each of the OPCO Registered Shareholders undertakes that the relevant Power of Attorney is binding on his or her respective lawful successors and assignees.

Term: The Powers of Attorney shall take effect from the date of execution and shall remain valid irrevocably during the period that such OPCO Registered Shareholders remain as shareholders of the OPCO.

(vi) Shareholder Rights Authorisation Agreement

Parties: (i) Tak Shing (SZ);
(ii) Each of the OPCO Registered Shareholders; and
(iii) OPCO

Subject matter: Each of the OPCO Registered Shareholders irrevocably authorises Tak Shing (SZ) or persons designated by it to represent each of them to exercise all rights in connection with matters concerning his/her rights as shareholders of the OPCO in accordance with the valid articles of association at the time, including without limitation the following rights:

- (1) as the agent of the OPCO Registered Shareholder, to propose, convene and attend shareholders' meeting of the OPCO;
- (2) as the agent of the OPCO Registered Shareholder, to vote on any matters discussed in the shareholders' meeting (including without limitation, designating and electing directors, general manager and other senior officers of the OPCO which shall be appointed by the shareholders of the OPCO);
- (3) any other rights vested in the shareholders by other applicable PRC laws and regulations (as amended from time to time); and

- (4) any other rights vested in the shareholders by the articles of association of the OPCO (as amended from time to time).

Term: The Shareholder Rights Authorisation Agreement shall take effect from the date of execution and shall unconditionally remain valid during the period that the OPCO Registered Shareholders remain as shareholders of the OPCO, unless terminated in advance by the parties in writing. If any of the OPCO Registered Shareholders transfers his/her entire shareholding in the OPCO with the prior written consent of Tak Shing (SZ), the other parties' rights and obligations under the Powers of Attorney shall remain unaffected.

(vii) Spousal Consent Letter

Signatory: The spouse of Mr. Zhang

Subject matter: The spouse of Mr. Zhang unconditionally and irrevocably agrees that:

- (i) she has been fully aware and acknowledged of the obligations under the Exclusive Business Cooperation Agreement, Exclusive Purchase Option Agreement, the Shareholder Rights Authorisation Agreement, the Share Pledge Agreement and the Powers of Attorney (the "Documents");
- (ii) all the equity interests held by Mr. Zhang in the OPCO shall be deemed as assets solely owned by Mr. Zhang, and any pledge, sale or other form of disposal of such equity interests under the Documents does not require her authorization or consent, and that she will not, at any time, claim any rights, interests or damages in relation to the shares of the OPCO;
- (iii) any further amendment or alteration of the Documents does not require her authorization or consent, and that she will not demand anything or take any action inconsistent with the contents of the Documents in relation to the shares of the OPCO;

- (iv) in the event that she obtains any interests in the OPCO for any reason, she will be subject to and abide by the terms of the Documents as if she was a signing party to such Documents, and at the request of Tak Shing (SZ), she will sign any documents in the form and substance consistent with the Documents (as amended from time to time) within three (3) days; and
- (v) the Spousal Consent Letter shall take effect from the date of execution and shall remain valid irrevocably during the period that Mr. Zhang remains as a shareholder of the OPCO.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, both Miss Zhang and Miss Wang are not married.

Compliance of the Contractual Arrangements with PRC Laws

There is no deviation of the Contractual Arrangements from the guidance set out in paragraph 16 of HKEX-GL77-14. Except as disclosed in the section headed "Risk factors in relation to the Contractual Arrangements" in this announcement and any matters which are set out as qualifications or reservations as to matters of law of general application in the legal opinion issued by the PRC Legal Adviser (in particular, (a) the opinions set forth in the PRC legal opinion are limited to the PRC laws and regulations publicly available and currently in force as at the date of the PRC legal opinion and there is no guarantee that any of such laws and regulations, or the interpretation or enforcement thereof, will not be changed, amended or revoked in the future with or without retrospective effect; and (b) the opinions and interpretations from PRC legislative authorities, administrative authorities, courts or arbitration tribunals may change from time to time, and the PRC Legal Adviser cannot rule out the possibility that the PRC legislative authorities, administrative authorities, courts or arbitration tribunals may have different interpretations of relevant PRC laws and regulations), the PRC Legal Adviser is of the opinion that, each of the agreements under the Contractual Arrangements, upon due execution by the parties thereto and approval by the shareholders and/or board of the relevant parties (if applicable), (i) shall not be deemed as "concealment of illegal intentions with a lawful form"; (ii) would not contravene PRC laws and regulations applicable to Tak Shing (SZ) and the OPCO (including the PRC Contract Law) and the articles of association of each of Tak Shing (SZ) and the OPCO; and (iii) is valid, legally binding on and enforceable against the parties thereto in accordance with its terms, except that (A) a liquidation of OPCO awarded by relevant arbitral tribunals may not be enforceable under PRC laws; (B) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the British Virgin Islands may not be recognizable in the PRC; (C) any share pledge contemplated under the Share Pledge Agreement is subject to the registration with relevant State Administration for Market Regulation; and (D) the arbitration awards

provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement. However, there are substantial uncertainties regarding the interpretation and application of PRC Laws and regulations, as a result, the PRC legislative authorities, administrative authorities, courts or arbitration tribunals may hold views contrary to that of the PRC Legal Adviser.

The PRC Legal Adviser is of the opinion that, as of the date of the PRC legal opinion, there are no clear and explicit provisions under applicable PRC Laws that foreign investors are not allowed to gain control of or operate in the businesses conducted by the OPCO through contractual arrangements.

As at the date of this announcement, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

In light of the above, the Directors believe that save as disclosed, each of the agreements under the Contractual Arrangements conferring significant control and economic benefits from the OPCO to Tak Shing (SZ) shall, upon due execution by the parties thereto and approval by the shareholders and/or board of the relevant parties (if applicable), be enforceable under the relevant PRC Laws, and that the Contractual Arrangements will provide a mechanism that enables Tak Shing (SZ) to exercise effective control over the OPCO.

The Company confirms that there is no deviation from the guidances respectively set out in HKEX-GL77-14 and HKEX-LD43-3.

Manner of settlement of disputes which may arise from the Contractual Arrangements

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution clause. Pursuant to such clause, in the event of any dispute between the parties to the Contractual Arrangements regarding the interpretation and performance of the provisions of the relevant structured contract, the parties to the dispute shall settle the dispute through amicable negotiation. Negotiations shall begin immediately after one party in the dispute sends a written request for negotiation specifically stating the dispute or claims to the other party in the dispute. If an agreement to settle the dispute has not been reached within thirty (30) days after a party has requested for a settlement of the dispute through negotiation, then either party may submit the dispute to the Shenzhen Court of International Arbitration (Shenzhen Arbitration Commission) (“SCIA”) for arbitration in accordance with its then effective arbitration rules. The arbitration shall be conducted in Shenzhen. The decision of the arbitration shall be final and legally binding on the parties. To the extent permitted by PRC Laws, the SCIA may grant remedies concerning the shares or assets of the OPCO (including the remedy of specific performance and order of winding up) to compensate the loss suffered by Tak Shing (SZ) as a result of the OPCO Registered Shareholders’ breaches. To the extent permitted by PRC Laws and in appropriate cases, either party may seek interlocutory or permanent

injunctive relief or enforcement orders or other similar remedies from a court with competent jurisdiction to facilitate the arbitration. Thus, the parties have reached a consensus that without violating the applicable PRC Laws, the courts of Hong Kong, the British Virgin Islands and the place where the OPCO is located shall all be deemed to have competent jurisdiction.

However, the PRC Legal Adviser has advised that the above provisions may not be enforceable under the PRC Laws. For instance, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the British Virgin Islands may not be recognisable in the PRC. See paragraph headed “Risk factors in relation to the Contractual Arrangements — Certain provisions in the Contractual Arrangements may not be enforceable under PRC Laws” below.

Succession

The provisions set out in the Contractual Arrangements are also binding on any successors of the OPCO Registered Shareholders (in circumstances, for instances, death or incapacity of any such OPCO Registered Shareholder, as if the successor was a signing party to the Contractual Arrangements. Although the Contractual Arrangements do not specify the identity of successors to such OPCO Registered Shareholders, under the succession law of the PRC, statutory successors may include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents, and as such any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Tak Shing (SZ) can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any successor of an OPCO Registered Shareholder shall assume any and all rights and obligations of such OPCO Registered Shareholder under the Contractual Arrangements as if the successor was a signing party to such Contractual Arrangements.

In addition, each of the OPCO Registered Shareholders and their respective spouse have provided irrevocable undertakings which stipulate certain matters to succession of the rights and obligations under the Contractual Arrangements. See paragraphs headed “Information of the Contractual Arrangements — Contractual Arrangements — Powers of Attorney” and “Information of the Contractual Arrangements — Contractual Arrangements — Spousal Consent Letter”.

Liquidation

In the event of dissolution or liquidation of the OPCO, the OPCO Registered Shareholders shall give all the proceeds they received from liquidation without consideration to Tak Shing (SZ) or any other person(s) designated by Tak Shing (SZ) to the extent permitted by PRC Laws.

Relevant Requirements under Chapter 14A of the Listing Rules and waiver application

Rule 14A.52 of the Listing Rules requires that the period for a connected transaction agreement must be fixed and must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. In this case, the listed issuer must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

Rule 14A.53 of the Listing Rules requires the listed issuer to set an annual cap for the continuing connected transactions. The annual cap must be: (1) expressed in monetary terms; (2) determined by reference to previous transactions and figures in the published information of the listed issuer's group. If there were no previous transactions, the annual cap must be set based on reasonable assumptions; and (3) approved by shareholders if the transaction requires shareholders' approval.

The Company has applied for a waiver (the "CCT Waiver") from strict compliance with (i) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (ii) the requirement of fixing the term of the Contractual Arrangements under Rule 14A.52 of the Listing Rules.

The Company has applied for the CCT Waiver for the following reasons:

(1) Importance and necessity of the Contractual Arrangements

The transactions contemplated under the Contractual Arrangements constitute an important and integral mechanism of the Group to control and manage the prohibited businesses and/or the restricted businesses of the OPCO in the PRC and to receive and enjoy the economic benefits derived from the OPCO. As such, it is in the interest of the Company to ensure that the Company will continue to do so without setting any annual cap which may otherwise limit the economic benefits received by the Company and/or expiration of the terms of the Contractual Arrangements which may otherwise lead to the Group losing control over the OPCO. All the agreements that comprise the Contractual Arrangements are common agreements, and as advised by the Company's PRC legal advisor, are also valid and legally binding. The use of the Contractual Arrangements are in accordance with common and necessary practice of listed issuers in industries which are subject to foreign investment restrictions in the PRC and are fundamental for the Group to effectively exercise and maintain control over operations of the OPCO, obtain the entire economic benefits and prevent leakage of the assets and values of the OPCO to the OPCO Registered Shareholders after Completion.

(2) No undue risk to the Shareholders as a whole

Given that the financial results of the OPCO will be consolidated into the Group's financial results and all the economic benefits of the OPCO's business will flow to the Group under the Contractual Arrangements, the OPCO will be treated as the Company's wholly-owned subsidiary. None of the OPCO Registered Shareholders will receive any benefits from the Contractual Arrangements after Completion as the Group will receive all the economic benefits of the OPCO's business after Completion. Thus, the Contractual Arrangements place the Group in a special position in relation to the connected transactions rules.

(3) The Contractual Arrangements being entered into prior to the Sale and Purchase Agreement

Given that the Contractual Arrangement was entered into prior to the Sale and Purchase Agreement, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

(4) It is anticipated that the CCT Waiver will be subject to the following conditions:

- (a) No Change without Independent Non-executive Directors' Approval: No changes to the terms of any of the agreements under the Contractual Arrangements will be made without the approval of the independent non-executive Directors;
- (b) No Change without Independent Shareholders' Approval: No changes to the terms of any of the agreements under the Contractual Arrangements will be made without the approval of the Independent Shareholders. Once Independent Shareholders' approval of any change has been obtained, no further periodic announcement, circular or any other approval will be required under Chapter 14A of the Listing Rules. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of the Company (as set out in paragraph (e) below) will however continue to be applicable;
- (c) Economic Benefits Flexibility: The Contractual Arrangements shall continue to enable the Group to receive the economic benefits derived by the OPCO through: (i) Tak Shing (SZ)'s option (to the extent permitted under PRC laws and regulations) to acquire, all or part of the equity interest in and/or assets of the OPCO at the minimum purchase price permitted under PRC laws and regulations; (ii) the business structure under which the net profits generated by the OPCO (after deducting the necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year) is substantially retained by Tak Shing (SZ) (such that no limit and hence no annual caps shall be set on the amount of service fees payable to Tak Shing (SZ) under the relevant

agreement under the Exclusive Technology Consulting and Business Cooperation Agreement); and (iii) Tak Shing (SZ)'s right to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO;

- (d) Renewal and reproduction. On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on one hand, and the OPCO, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the shareholders, on substantially the same terms and conditions as the Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group may establish will, upon renewal and, or reproduction of the Contractual Arrangements, however be treated as connected persons of the Company and transactions between these connected persons and the 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. If there will be other contracts to be entered into between and among the Group, the OPCO, the OPCO Registered Shareholders and/or their spouses (as the case may be) that are not on substantially the same terms and conditions as the existing Contractual Arrangements, the Company will fully comply with the relevant requirements under Chapter 14A of the listing Rules unless it applies for and obtains a separate waiver from the Stock Exchange in relation to such contracts;
- (e) Ongoing Reporting and Approvals: the Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (i) The Contractual Arrangements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;
 - (ii) The independent non-executive Directors will review the Contractual Arrangements annually and confirm in the Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the OPCO has been substantially retained by Tak Shing (SZ); (ii) no dividends or other distributions have been made by the OPCO to the

holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole;

- (iii) The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to the Directors that the transactions carried out pursuant to the Contractual Arrangements have received the approval of the Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group;
- (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the OPCO will be treated as the Company's wholly owned subsidiary, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the OPCO and their respective associates will be treated as the Company's "connected persons" (excluding for this purpose, the OPCO). As such, transactions between these connected persons and the Group (including for this purpose the OPCO), other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules; and
- (v) The OPCO shall also undertake that, for so long as the Shares are listed on the Stock Exchange, it will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review on the continuing connected transactions.

RISK FACTORS IN RELATION TO THE CONTRACTUAL ARRANGEMENTS

If the PRC government finds that the agreements that establish the structure for the Group to operate certain businesses in the PRC through the Contractual Arrangements do not comply with applicable PRC Laws, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Group's interest in the OPCO.

Various regulations in the PRC restrict or prohibit foreign-invested enterprises from holding certain licenses required to operate business in relation to value-added telecommunication services, internet content provision and internet culture operation. The Company is a company incorporated under the laws of the Cayman Islands, and Tak Shing (SZ), is a foreign-invested enterprise. In light of the abovementioned restrictions,

by means of entering into the Contractual Arrangements, the Company is able to exercise effective control of the OPCO and receive substantially all of the economic benefits from the operation by the OPCO.

However, there are substantial uncertainties regarding the interpretation and application of PRC Laws, including without limitation the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, and other relevant PRC Laws. Accordingly, there can be no assurance that the PRC regulatory authorities that regulate providers of content and application delivery services and other participants in the telecommunications industry, in particular, the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry), will ultimately take a view that is consistent with the opinion of the PRC Legal Adviser.

The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC Laws. If the corporate structure and Contractual Arrangements under the agreements under the Contractual Arrangements are deemed to be illegal, either in whole or in part, by competent PRC authorities, such corporate structure and/or Contractual Arrangements may have to be modified to comply with regulatory requirements. Further, if such corporate structure and/or Contractual Arrangements were found to be in violation of any existing or future PRC Laws, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including, without limitation:

- (i) revoking the Contractual Arrangements;
- (ii) revoking the business and operating licenses of the OPCO;
- (iii) discontinuing or restricting the operations of the OPCO in the PRC;
- (iv) imposing fines or confiscating any of the income that they deem to have been obtained through illegal operations;
- (v) imposing conditions or requirements with which the Company and/or the Target Group Companies may not be able to comply;
- (vi) requiring the Company and/or the Target Group Companies to restructure the relevant corporate structure and/or Contractual Arrangements; or
- (vii) taking other regulatory or enforcement actions that could be harmful to the business operation of the Target Group.

Any of these actions could cause significant disruption to the business operation of the Target Group, and may materially and adversely affect the business, financial condition and results of operations of the Company. In addition, it is unclear what impact the PRC government actions would have on the Company and on its ability to consolidate the financial results of the OPCO in the Company's consolidated financial statements, if the

PRC governmental authorities find the abovementioned legal structure and Contractual Arrangements to be in violation of PRC Laws and regulations. In addition, if the imposition of any of these penalties or requirement to restructure of corporate structure causes the Company to lose the rights to direct the activities of the OPCO or the Company's right to receive economic benefits from the OPCO, the Company would no longer be able to consolidate the financial results of the OPCO in the Company's financial statements.

The Contractual Arrangements may not be as effective in providing operational control as direct ownership. The OPCO or the OPCO Registered Shareholders may fail to perform their obligations under the Contractual Arrangements.

Due to the PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in the PRC, the Company shall engage in the licensed operations in the PRC through the OPCO, in which the Company shall have no ownership interest. The Company shall rely on a series of Contractual Arrangements with the OPCO and the OPCO Registered Shareholders to control and operate the licensed operations. These Contractual Arrangements are intended to provide the Company with effective control over the OPCO and allow the Company to obtain economic benefits from it (see the section headed "Information of the Contractual Arrangements" above for more details). Although the Company has been advised by the PRC Legal Adviser, that each of the agreements under the Contractual Arrangements is valid, legally binding on and enforceable against the parties thereto in accordance with their terms (except for certain provisions respectively set out in the sections headed "Compliance of the Contractual Arrangements with PRC Laws" above and "Risk factors in relation to the Contractual Arrangements — Certain provisions in the Contractual Arrangements may not be enforceable under PRC Laws" below), these Contractual Arrangements may not be as effective in providing control over the OPCO as direct ownership. If any of the OPCO or OPCO Registered Shareholders fails to perform its/his/her respective obligations under the Contractual Arrangements, the Company may incur substantial costs and expend substantial resources to enforce its rights. All of the Contractual Arrangements are governed by and interpreted in accordance with PRC Laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in the PRC. However, the legal system in the PRC is not as developed as in other jurisdictions, such as the United States. There are very few precedents and little official guidance as to how such contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC Laws. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit the Company's ability to enforce the Contractual Arrangements. In the event the Company is unable to enforce the Contractual Arrangements or experiences significant delays or other obstacles in the process of enforcing the Contractual Arrangements, the Company may not be able to exert effective control over the OPCO and may lose control over the assets owned by the OPCO. As a result, the Company may be unable to consolidate the OPCO in its consolidated financial statements.

The Company may lose the ability to use and enjoy assets held by the OPCO if the OPCO declares bankruptcy or become subject to a dissolution or liquidation proceeding.

The OPCO holds certain assets that are critical to the licensed operations. The Contractual Arrangements contain terms that specifically obligate the OPCO Registered Shareholders to ensure the valid existence of the OPCO and that it may not be voluntarily liquidated without the consent of Tak Shing (SZ). However, in the event that the OPCO Registered Shareholders breach this obligation and voluntarily liquidate the OPCO, or the OPCO declares bankruptcy, all or part of the assets of the OPCO may become subject to liens or rights of third-party creditors and the Company may be unable to continue some or all of the licensed operations, which could materially and adversely affect the business, financial condition, results of operations and prospects of the Company. If the OPCO Registered Shareholders breach or cause the OPCO to breach the Contractual Arrangements, the Company would have to rely on legal proceedings, to resolve disputes between the Company, the OPCO and/or the OPCO Registered Shareholders, which may be expensive, time-consuming and disruptive to the operations of the Company. There is also substantial uncertainty as to the outcome of any such legal proceedings.

Uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Investment Law and how it may impact the viability of the current corporate structure, Contractual Arrangements, corporate governance and business operations of the Group and the Target Group.

Description of the Foreign Investment Law

On 15 March 2019, the National People's Congress of the PRC approved the foreign investment law (the "Foreign Investment Law"), which has come into effect on 1 January 2020 and replace the trio of existing laws regulating foreign investment in the PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

The Foreign Investment Law embodies the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in the PRC. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the aforementioned definition of "foreign investment" in the future. In addition, the aforementioned definition of "foreign investment" contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the

State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment.

Impact of the Foreign Investment Law on VIE

The “variable interest entity” (the “VIE”) structure has been adopted by many fully or partially foreign-owned companies (including the Target Company by way of the Contractual Arrangements) which, through its subsidiaries in the PRC, assumes control over an operating company incorporated in the PRC which holds the necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. It will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations.

In addition, the Foreign Investment Law further specifies that foreign investments shall be conducted in line with the negative list issued by or approved to be issued by the State Council. If a foreign invested enterprise or a foreign invested entity (the “FIE”) proposes to conduct business in an industry subject to foreign investment “restrictions” in the “negative list”, the FIE must meet certain conditions under the “negative list” before being established. An FIE shall not conduct or engage in business in an industry subject to foreign investment “prohibitions” in the “negative list”. It is uncertain whether the businesses operated by the OPCO from time to time will be or continue to be subject to the foreign investment restrictions or prohibitions under the “negative list” to be issued in future.

Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, there will be substantial uncertainties as to whether such actions can be completed by the Group and the Target Group Companies in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance requirements could materially and adversely affect the current corporate structure and business operations of the Group and the Target Group, as well as the ability of the Group and the Target Group to be or continue to be engaged in businesses subject to the foreign investment restrictions or prohibitions.

Potential Risks to the Group

The Contractual Arrangements, in the worst case scenario, may be regarded as invalid and illegal. As a result, the Group may be required to dispose of the business under the Contractual Arrangements and will lose rights to receive the economic benefits from the OPCO, such that the financial results of the OPCO would no longer be consolidated into the Company’s financial results and the Company will have to de-recognise assets and liabilities of the OPCO according to the relevant accounting standards. If the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

Measures adopted by the Company to mitigate against any potential risk arising from the Foreign Investment Law

The Foreign Investment Law was approved by the National People's Congress of the PRC on 15 March 2019 and came into effect on 1 January 2020. As aforementioned, there are uncertainties with respect to the interpretation and implementation of the newly enacted Foreign Investment Law, the Board will closely monitor the development of the Foreign Investment Law with the help of the Company's PRC legal adviser, including but not limited to any new negative list issued by or approved to be issued by the NDRC and the MOFCOM, or any future laws, administrative regulations or provisions prescribed by relevant governmental authorities. The Company will then discuss with its PRC legal adviser in order to assess any possible impact arising from the development of the Foreign Investment Law on the Contractual Arrangements and the business operation of the Group.

In case there would be material and adverse effect on the Group or the business of the Target Group arising from the Foreign Investment Law, the Company will disclose, as soon as possible: (i) updates of material development to the Foreign Investment Law as and when it occurs; and (ii) specific measures taken by the Company to fully comply with the development to the Foreign Investment Law supported by a PRC legal opinion and any material impact of the development of the Foreign Investment Law on the Company's operations and financial position.

The OPCO Registered Shareholders may potentially have potential conflicts of interest with the Group.

The Group's control over the OPCO is based on the Contractual Arrangements. Therefore, conflict of interests of the OPCO Registered Shareholders will adversely affect the interests of the Group. Pursuant to the Powers of Attorney, the OPCO Registered Shareholders shall irrevocably authorise Tak Shing (SZ) or persons designated by Tak Shing (SZ) who are unrelated to the OPCO Registered Shareholders as their representative to exercise all of their rights as shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the OPCO Registered Shareholders. In the case of conflicts of interest between the OPCO Registered Shareholders and the Group, the OPCO Registered Shareholders have undertaken to support the lawful interests of Tak Shing (SZ) and perform actions reasonably required by Tak Shing (SZ).

Certain provisions in the Contractual Arrangements may not be enforceable under PRC Laws.

All the agreements which constitute the Contractual Arrangements are governed by PRC Laws and provide for the resolution of disputes through arbitration in the PRC. Please refer to the section headed “Manner of settlement of disputes which may arise from the Contractual Arrangements — Dispute Resolution”. Accordingly, these agreements would be interpreted in accordance with PRC Laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions and uncertainties in the PRC legal system could limit the Company’s ability to enforce the Contractual Arrangements. In the event that the Company is unable to enforce the Contractual Arrangements, or if the Company suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over the OPCO, and the Company’s ability to conduct certain businesses and the financial condition, results of operations and prospects of the Company may be materially and adversely affected.

Under PRC Laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or shares in the OPCO in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the British Virgin Islands may not be recognisable or enforceable in the PRC. PRC Laws do not allow the arbitral body to grant an award of transfer of assets of or shares in the OPCO in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements, and if the Company is unable to enforce the Contractual Arrangements, the Company may not be able to exert effective control over the OPCO, which could materially and adversely affect the ability to conduct certain businesses by the Company.

The Contractual Arrangements may be subject to the scrutiny of the PRC tax authorities and additional tax may be imposed.

Under PRC Laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The Group could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements do not represent an arms-length price and adjust the income of the OPCO in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by the OPCO, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to the OPCO for under-paid taxes. The Group’s financial results may be materially and adversely affected if the OPCO’s tax liabilities increase or if the OPCO is found to be subject to late payment fees or other penalties.

The Group does not have any insurance which covers the risks relating to the Contractual Arrangements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the Contractual Arrangements and the transactions contemplated thereunder and the Company has no intention to purchase any insurance in this regard. If any risk arises from the Contractual Arrangements in the future, such as those affecting the enforceability of the Contractual Arrangements and the operation of the OPCO, the financial results and financial position of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations.

Tak Shing (SZ) 's ability to acquire the shares in the OPCO may be subject to various limitations and substantial costs

Pursuant to the Contractual Arrangements, Tak Shing (SZ) (or its designee(s)) has the exclusive right to purchase all or any part of the shares in the OPCO from the OPCO Registered Shareholders for RMB1, unless the relevant government authorities request that a higher amount be used as the purchase price and in which case the purchase price shall be such amount. The OPCO Registered Shareholders will be subject to PRC individual income tax on the difference between the purchase price and the capital contribution amount that has been paid in by such OPCO Registered Shareholders to the OPCO. The OPCO Registered Shareholders will pay, after deducting any such tax and other applicable government fees, the remaining amount to Tak Shing (SZ) as a gift under the Contractual Arrangements. The amount to be received by Tak Shing (SZ) may also be subject to enterprise income tax. As such, the costs incurred from Tak Shing (SZ) 's exercise of the Share Purchase Option under the Contractual Arrangements could be substantial.

Economic risks Tak Shing (SZ) bears as the primary beneficiary of the OPCO, financial support to the OPCO and potential exposure of the Target Company to losses

As the primary beneficiary of the OPCO, Tak Shing (SZ) will share both profit and loss of the OPCO. Equally, Tak Shing (SZ) bears economic risks which may arise from difficulties in the operation of the OPCO's business. Tak Shing (SZ) may have to provide financial support in the event of financial difficulty of the OPCO. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the OPCO and the need to provide financial support to the OPCO.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

In addition to the internal control measures provided in the Contractual Arrangements, it is the intention of the Company, following Completion, to implement, through Tak Shing (SZ), additional internal control measures against the OPCO as appropriate, having regard to the internal control measures adopted by the Group from time to time, which may include but not limited to the following:

Management controls

- (i) The Group will appoint an executive director to the board of the OPCO mainly responsible for enforcing all management controls of the OPCO (the “Responsible Person”). The Responsible Person shall be the legal representative of OPCO, and shall be required to conduct monthly reviews on the operations of the OPCO and submit the monthly reviews to the Board;
- (ii) the Responsible Person shall establish a team to be funded by the Group who shall station at the OPCO and shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;
- (iii) upon receiving notification of any material events of the OPCO, the Responsible Person must report to the Board as soon as practicable;
- (iv) the Responsible Person shall conduct regular site visits to the OPCO and conduct interviews with the relevant senior management of the OPCO every six months and submit the interview notes to the Board;
- (v) all seals, chops, incorporation documents and all other legal documents of the OPCO and its subsidiaries from time to time (if any) must be kept at the office of Tak Shing (SZ), which shall be separate from the office of the OPCO;
- (vi) the OPCO will amend its articles of association from time to time so that any transfer, mortgage or disposal of the assets, business or income of the OPCO shall be approved by the Responsible Person; and
- (vii) the Group will ensure that at all times after Completion, no person in any way related to any OPCO Registered Shareholder may be appointed as a member of the board of directors or senior management of Tak Shing (SZ).

Financial controls

- (i) The financial team of the Company shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO within 15 days after each month end for review. The financial team of the Company will seek explanations from the senior management of the OPCO on any material fluctuations of the aforesaid collected items. Upon discovery of any suspicious matters, the financial team of the Company must report to the Responsible Person as soon as practicable, who shall in turn report to the Board;
- (ii) if the payment of the Service Fee from the OPCO to Tak Shing (SZ) is delayed, the financial team of the Company must meet with the OPCO Registered Shareholders to investigate, and should report any suspicious matters to the Board. In extreme cases, the OPCO Registered Shareholders will be removed and replaced under the Contractual Arrangements; and
- (iii) the OPCO must assist and facilitate the Company to conduct all on-site internal audits on the OPCO if so required by the Company.

Legal review

The Responsible Person will consult the Company's PRC legal adviser from time to time to check if there are any legal developments in the PRC affecting the Contractual Arrangements, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment are required to be made.

The Board's view on the Contractual Arrangements

Based on the above, the Board is of the view that the Contractual Arrangements are narrowly tailored to achieve the OPCO's business purpose and to minimise the potential conflict with and are enforceable under relevant PRC Laws. The Contractual Arrangements enable the Target Group to gain control over the financing and business operations of the OPCO, and enjoy the economic benefits generated by the OPCO. The Contractual Arrangements also provide that Tak Shing (SZ) may unwind the Contractual Arrangements as soon as relevant PRC Laws allow Tak Shing (SZ) to register itself as the shareholder of the OPCO.

LISTING RULES IMPLICATIONS

The Acquisition

As one or more applicable percentage ratios under the Rule 14.07 of the Listing Rules in respect of the Acquisition exceed(s) 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Therefore, the Acquisition are subject to the reporting, announcement and Shareholders' approval requirements under Chapters 14 of the Listing Rules.

Contractual Arrangements

Given that Mr. Zhang will remain as a director of the OPCO and WFOE and that Mr. Zhang, one of the OPCO Registered Shareholders, is a substantial shareholder of the OPCO by virtue of legally holding 50% of the issued shares in the OPCO, Mr. Zhang will become a connected person of the Company at the subsidiary level immediately after Completion solely for the purpose of Chapter 14A of the Listing Rules. Therefore, the transactions under the Contractual Arrangements between the OPCO Registered Shareholders or OPCO and the Group after Completion will constitute continuing connected transactions of the Company at the subsidiary level under Chapter 14A of the Listing Rules. The Board has approved the transactions under the Contractual Arrangements and the Directors (including independent non-executive Directors) have also confirmed that the terms thereof are fair and reasonable, on normal commercial term and is in the interests of the Company and the Shareholders as a whole. Therefore, by virtue of Rule 14A.101 of the Listing Rules, the transactions under the Contractual Arrangements is subject to the reporting and announcement requirements applicable to connected transactions, but is exempt from the circular, independent financial advice and Shareholders' approval requirements.

GENERAL

The Company has appointed Draco Capital as its independent financial adviser to advise on the Contractual Arrangements not having (i) a fixed term; and (ii) an annual cap, whose letter of advice will be included in the circular to be despatched to the Shareholders.

An extraordinary general meeting will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement. A circular containing, among other things, further details about (i) the Sale and Purchase Agreement and the transactions contemplated thereunder and (ii) the Contractual Arrangements as well as other information required to be disclosed under the Listing Rules, will be dispatched by the Company to the Shareholders within 15 Business Days after the publication of this announcement.

None of the Directors has any material interest in the connected transaction herein announced. No Director was required to abstain from voting on the Board resolutions of the Company approving the Acquisition and the transactions under the Contractual Arrangements.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholder has a material interest in the Sale and Purchase Agreement and is required to abstain from voting on the resolution(s) to approve the Sale and Purchase Agreement at the EGM.

The Acquisition is subject to the fulfilment of a number of conditions which are detailed in the section headed “Major Terms of The Sale and Purchase Agreement — Conditions Precedent” in this announcement. As the Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITION

In this announcement, unless the context requires otherwise, the following terms shall have the same following meanings as set out below:

“Acquisition”	the acquisition of the Target Shares as contemplated under the Sale and Purchase Agreement
“Peak Vision” or “Independent Valuer”	Peak Vision Appraisals Limited, an independent professional valuer
“associate(s)”	has the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which banks in Hong Kong and PRC are open for normal business (excluding Saturday, Sunday, public holidays in Hong Kong or PRC or days on which a tropical cyclone signal number 8 or above or black rain storm warning is hoisted at any time between 9:00 a.m. to 12:00 noon and which has not been lowered by 12:00 noon on the same day)
“Company”	Fire Rock Holdings Limited (Stock Code: 1909), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	within 5 Business Days after all the conditions precedent in the Sale and Purchase Agreement have been fulfilled or waived by the Company (as the case may be) or such later date as the Company, the Vendors and the OPCO Registered Shareholders may agree in writing
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules

“Consideration”	the total consideration for the Target Shares, being an amount of RMB900 million, which shall be satisfied as to RMB300 million by way of cash, and as to RMB600 million by way of the issue of the Promissory Notes by the Company to each of the Vendors
“Consideration 1”	the consideration for the Sale Shares 1, being an amount of RMB450 million
“Consideration 2”	the consideration for the Sale Shares 2, being an amount of RMB399.96 million
“Consideration 3”	the consideration for the Sale Shares 3, being an amount of RMB50.04 million
“Contractual Arrangements”	the series of contractual arrangements entered into among Tak Shing (SZ), OPCO and the OPCO Registered Shareholders, details of which are described in the section headed “Information of the Contractual Arrangements” in this announcement
“Director(s)”	the director(s) of the Company
“Draco Capital” or “Independent Financial Adviser”	Draco Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise on the Contractual Arrangements not having (i) a fixed term; and (ii) an annual cap
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“Enlarged Group”	the Group as enlarged by the Target Group immediately upon the Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKFRS”	Hong Kong Financial Reporting Standards
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Long Stop Date”	18 January 2021 or such other date as otherwise agreed in writing by the parties to the Sale and Purchase Agreement
“Miss Zhang”	Miss Zhang Xiao Juan (張曉娟), the beneficial owner as to 44.44% equity interest in the Target Company and the OPCO as at the date of this announcement
“Miss Wang”	Miss Wang Ye Qiong (王業瓊), the beneficial owner as to 5.56% equity interest in the Target Company and the OPCO as at the date of this announcement
“MOU”	the memorandum of understanding entered into among the Company, as potential purchaser, and the Vendors, as potential vendors, in relation to the proposed acquisition of the Target Shares on 25 September 2020
“Mr. Zhang”	Mr. Zhang Zhen Hua (張振華), the beneficial owner as to 50% equity interest in the Target Company and the OPCO as at the date of this announcement
“OPCO”	Shenzhen Viking Network Technology Co., Ltd.* (深圳維京人網絡科技有限公司), a company established in the PRC and a subsidiary of the Target Company through the Contractual Arrangements as at the date of this announcement
“OPCO Registered Shareholders” and “Guarantors”	Mr. Zhang, Miss Zhang and Miss Wang, being the legal and beneficial owners of the OPCO as to 50%, 44.44% and 5.56%, respectively as at the date of this announcement
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Promissory Note 1”	the promissory note in the principal amount of RMB300 million to be issued by the Company to Vendor 1 to settle part of the Consideration 1
“Promissory Note 2”	the promissory note in the principal amount of RMB266.64 million to be issued by the Company to Vendor 2 to settle part of the Consideration 2
“Promissory Note 3”	the promissory note in the principal amount of RMB33.36 million to be issued by the Company to Vendor 3 to settle part of the Consideration 3

“Promissory Notes”	the promissory notes, consisting of Promissory Note 1, Promissory Note 2 and Promissory Note 3, in the total principal amount of RMB600 million to be issued by the Company to each of the Vendors to settle part of the Consideration
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 18 November 2020 entered into among the Company, the Vendors and the OPCO Registered Shareholders in respect of the Acquisition
“Sale Shares 1”	5,000 ordinary shares in the Target Company
“Sale Shares 2”	4,444 ordinary shares in the Target Company
“Sale Shares 3”	556 ordinary shares in the Target Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tak Shing (HK)”	Tak Shing Group Hong Kong Limited (德成集團香港有限公司), a company incorporated in Hong Kong, which is wholly-owned by the Target Company
“Tak Shing (SZ)”/“WFOE”	Shenzhen Tak Shing Technology Limited* (深圳德城科技有限公司), a wholly foreign-owned company incorporated in the PRC, which is wholly-owned by Tak Shing (HK)
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Business”	the business of online games operating service in the PRC owned and operated by the Target Group
“Target Company”	Tak Shing International Holdings Limited (德成國際控股有限公司), a company incorporated in the BVI with limited liability which is beneficially owned by Mr. Zhang, Miss Zhang and Miss Wang as to 50.00%, 44.44% and 5.56% respectively as at the date of this announcement

“Target Group”	The Target Company and its subsidiaries (including the OPCO, a subsidiary controlled through the Contractual Arrangements)
“Target Shares”	Sale Shares 1, Sale Shares 2 and Sale Shares 3, 10,000 shares of the Target Company of US\$1.00 each, representing 100% of the entire issued share capital of the Target Company as at the date of this announcement
“Vendor 1”	HONOUR SOAR HOLDINGS LIMITED (榮升控股有限公司), a company incorporated in the British Virgin Islands, which is the registered and beneficial owner of Sale Shares 1
“Vendor 2”	MORNING RAIN HOLDINGS LIMITED (晨雨控股有限公司), a company incorporated in the British Virgin Islands, which is the registered and beneficial owner of Sale Shares 2
“Vendor 3”	JOYOUS BLISS HOLDINGS LIMITED (樂福控股有限公司), a company incorporated in the British Virgin Islands, which is the registered and beneficial owner of Sale Shares 3
“Vendors”	Vendor 1, Vendor 2 and Vendor 3
“%”	per cent

* *for identification purposes only*

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of RMB1 to HK\$1.18. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rate at all.

By Order of the Board
Fire Rock Holdings Limited
Huang Yong
Executive Director and CEO

Hong Kong, 18 November 2020

As at the date of this announcement, the executive Directors are Mr. Huang Yong, Mr. Zhou Kun and Mr. Su Yi; the non-executive Directors are Mr. Zhang Yan and Ms. Yang Kan; and the independent non-executive Directors are Mr. Chan King Fai, Mr. Chen Di and Mr. Yang Zhen.