**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Fire Rock Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



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 INTERESTS IN TAK SHING INTERNATIONAL HOLDINGS LIMITED; (ii) CONTINUING CONNECTED TRANSACTION IN RELATION TO THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS; AND (iii) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Financial adviser to the Company**

Wilson

**Wilson International Capital Limited**

**Independent Financial adviser to the Company**

瓏盛資本
Draco Capital

**Draco Capital Limited**

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out from pages 6 to 57 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on Tuesday, 2 February 2021 at 9th Floor, Block 1, Chongwen Garden, Nanshan iPark, 3370 Liuxian Avenue, Nanshan District, Shenzhen, the PRC and a form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

13 January 2021

# CONTENTS

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

| | |
|---|---|
| "Acquisition" | the acquisition of the Target Shares as contemplated under the Sale and Purchase Agreement |
| "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 |
| "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 |

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| "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 circular |
| "controlling shareholder" | has the same meaning as ascribed to it under the Listing Rules |
| "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 at 9th Floor, Block 1, Chongwen Garden, Nanshan iPark, 3370 Liuxian Avenue, Nanshan District, Shenzhen, the PRC on Tuesday, 2 February 2021, 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 |
| "HKFRS" | Hong Kong Financial Reporting Standards |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Third Party(ies)" | third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules) |
| 'Latest Practicable Date" | 8 January 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Long Stop Date" | 31 March 2021 or such other date as otherwise agreed in writing by the parties to the Sale and Purchase Agreement |
| "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 circular |

| | |
|---|---|
| "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 circular |
| "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 circular |
| "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 |
| "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 circular |
| "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 circular |
| "Peak Vision" or "Independent Valuer" | Peak Vision Appraisals Limited, an independent professional valuer |
| "PRC" | the People's Republic of China (for the purpose of this circular, 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 |

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| "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, as amended and supplemented by the Supplemental Sale and purchase agreement entered into among the same parties dated 8 January 2021 |
| "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 circular |
| "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 circular |
| "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 ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this circular in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.*

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)**

*Executive Directors:*
Mr. Huang Yong *(Chief Executive Officer)*
Mr. Zhou Kun
Mr. Su Yi

*Non-executive Director:*
Mr. Zhang Yan *(Chairman)*
Ms. Yang Kan

*Independent Non-executive Directors:*
Mr. Chan King Fai
Mr. Chen Di
Mr. Yang Zhen

*Registered Office:*
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

*Head office and principal place of business:*
9th Floor, Block 1
Chongwen Garden
Nanshan iPark
3370 Liuxian Avenue
Nanshan District
Shenzhen, Guangdong
The People's Republic of China

13 January 2021

*To the Shareholders,*

Dear Sir or Madam,

**(i) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN TAK SHING INTERNATIONAL HOLDINGS LIMITED; (ii) CONTINUING CONNECTED TRANSACTION IN RELATION TO THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS; AND (iii) NOTICE OF EXTRAORDINARY GENERAL MEETING**

## INTRODUCTION

Reference is made to the announcements of the Company dated 18 November 2020, 8 December 2020, 23 December 2020 and 8 January 2021.

The purpose of this circular is to provide you with, among other things, (i) further details of the Sales and Purchase Agreement and the transactions contemplated thereunder; (ii) the accountants' reports of the Target Company; (iii) letter from the Independent Financial Adviser; (iv) the valuation report; (v) the pro forma financial information of the Enlarged Group; (vi) the notice of the EGM; and (vii) other information as required under the Listing Rules for the purpose of considering and approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

**THE ACQUISITION**

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.

**MAJOR TERMS OF THE SALE AND PURCHASE AGREEMENT**

The principal terms of the Sale and Purchase Agreement (as amended and supplemented by the supplemental sale and purchase agreement dated 8 January 2021) are summarised as follows:

**Date**

18 November 2020

**Parties**

(i) the Company (as the purchaser)

(ii) Vendor 1, Vendor 2 and Vendor 3 (collectively known as the "Vendors", as 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 Latest Practicable Date. |
| 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 Latest Practicable Date. |
| 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 Latest Practicable Date. |

(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: (a) RMB150 million in cash within 10 Business Days after the Completion Date by telegraphic transfer to the account directed by Vendor 1; and (b) 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: (a) RMB133.32 million in cash within 10 Business Days after the Completion Date by telegraphic transfer to the account directed by Vendor 2; and (b) 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: (a) RMB16.68 million in cash within 10 Business Days after the Completion Date by telegraphic transfer to the account directed by Vendor 3; and (b) 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**

According to the valuation prepared by the Peak Vision, the assessed market value of the 100% equity interest of the Target Group as at 31 October 2020 is approximately RMB1,800 million, which is significantly higher than the Consideration of RMB900 million. The Board is of the view that such discount reflected the favorable bargaining position over Vendors as over 70% of revenue of the Target Business relied on the games licensed by the Company.

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 Accountants' Report of the Target Group as set out in Appendix II to this circular (the "Accountants' Report") for the years ended 31 December 2017, 2018 and 2019, the Target Group's audited 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 Accountants' Report 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 (a) the Sweeties Fighting (零食大亂鬥) series, (b) the Fish Catching Contest (捕魚大亂鬥) series and (c) 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 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| Revenue | 114,120 | 353,381 | 445,413 | 256,524 | 347,312 |
| % of total revenue of the OPCO | 21.26% | 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 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **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. The valuation report as set out in Appendix V to this circular (the "Valuation Report of the Target Company") is 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 is 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 which account for majority (>50%) of its revenue.

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 same as the Target Group. The comparable companies and the Target Group are all based in close geographical proximity within the Greater China area. They are similarly subject to fluctuations in the economy and performance of the online gaming industry within the area, among other factors, as the Target Group. Thus, the Independent Valuer consider they are confronted with similar risks and rewards and are therefore fair and reasonable comparables to 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.

*(a) intellectual properties*

The OPCO is the registered owner of (a) 11 trademarks which are the names or logos of games operated by the OPCO; (b) 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 (c) 37 software copyrights in respect of games operated by the OCPO. The Directors believe that the Acquisition will enable our Company to gain access to the above intellectual properties owned by OPCO, which in turn create synergy with the game development capability of the Group to enhance profitability in future, including future game players retention activities by utilizing icons or characters owned by OPCO with the icons or characters owned by the Group and the opportunities for relaunching/redesigning the OPCO's software copyrights with by the technical expertise of the Group.

*(b) customers/players database*

The OPCO holds customers/players' data such as their game preferences, payment methods, playing patterns, amount of time spent on each game and the time of day customers/players play. The Directors believe that by utilizing the customers/players database, the Company will be able to (1) allow the Company to direct more resources from games which are going out of style to more popular games according to the database; (2) create better marketing campaigns towards customers/players' preferences; and (3) increase the ability of the Company to develop premium online games by analyzing the taste/preferences from the customers/players database.

*(c) experienced expert and management teams*

Prior to the Acquisition, the Company mainly relied on licensed operators to conduct promotional and marketing activities for the Group's games. The Acquisition allows the Group to acquire the talent and expertise in online marketing and advertising possessed by the OPCO. As at Latest Practicable Date, the OPCO has a dedicated sales and marketing team, comprising 44 employees who are responsible for implementation of various marketing and event promotion activities to attract new paying users and stimulate existing players' in-game purchase and activity.

The Directors believe that upon completion, the Company will benefit from combining the experiences of the expert and management teams of the Company and OPCO. This can enhance the ability of the Group to formulate marketing strategy to prolong the lifecycle of the online games and reduce the risk that other 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.

Moreover, 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's future development.

Thus, the Company is of the view that, with the Acquisition being a long term investment and the above reasons does not reflect on the net asset value, 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 conditions 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.

As at the Latest Practicable Date, conditions (i), (ii), (iii) and (v) have been fulfilled.

**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 | 37,500,000 |
| Total: | 300,000,000 |

| | |
|---|---|
| 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 | 33,330,000 |
| Total: | 266,640,000 |

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 | 4,170,000 |
| Total: | 33,360,000 |

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 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 Target Company

The Target Company is an investment holding company incorporated in the British Virgin Islands on 23 April 2020 with limited liability, which is directly wholly owned by the Vendors as at the Latest Practicable Date. Mr. Zhang is the current sole director of the Target Company.

### Tak Shing (HK)

Tak Shing (HK) is an investment holding company incorporated in Hong Kong on 8 May 2020 with limited liability, which is directly wholly owned by the Target Company. Mr. Zhang is the current sole director of Tak Shing (HK).

### Tak Shing (SZ)/WFOE

Tak Shing (SZ) is a wholly foreign-owned enterprise established in the PRC on 3 September 2020 with limited liability and is wholly owned by Tak Shing (HK).

Mr. Zhang is the sole director and general manager of the WFOE, while Miss. Wen Yu Mei (温玉梅) is the supervisor of the WFOE. Save as disclosed below, none of the directors or senior management of the WFOE is related to any of the OPCO Registered Shareholders.

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 confirmed 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.

**The OPCO**

The OPCO is a company established in the PRC on 5 August 2011 with limited liability and is principally engaged in providing online games operating service in the PRC. As at the Latest Practicable Date, the OPCO has a registered capital of RMB10,800,000 and is wholly owned by the OPCO Registered Shareholders.

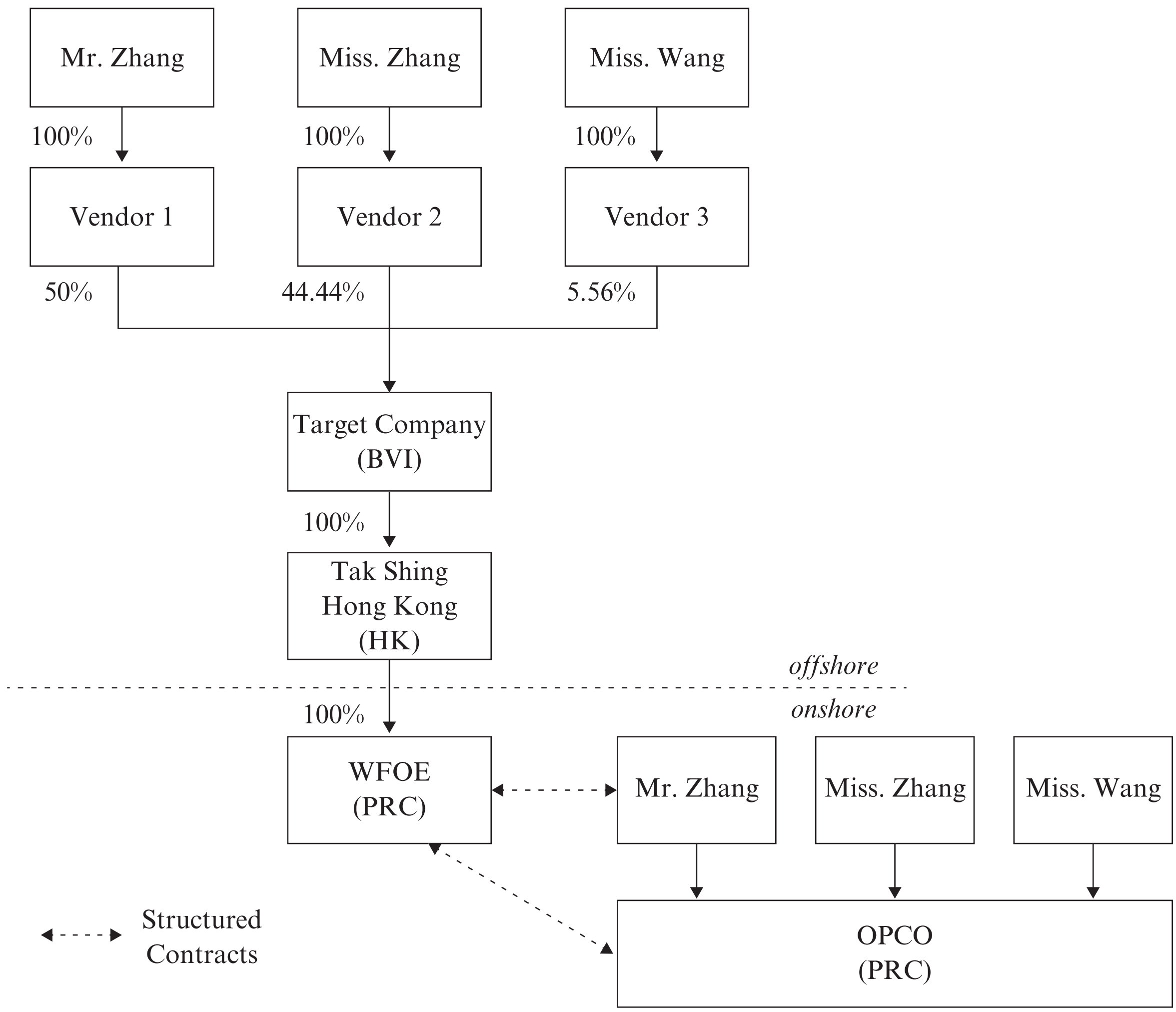
As at the Latest Practicable Date, the OPCO holds the PRC's Value-Added Telecommunications Operations Licence* (中華人民共和國增值電信業務經營許可證) issued by the Guangdong Communications Administration which permits the OPCO to engage in information service business (internet information services only) in the second class value-added telecommunications business.

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.

In addition, 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.

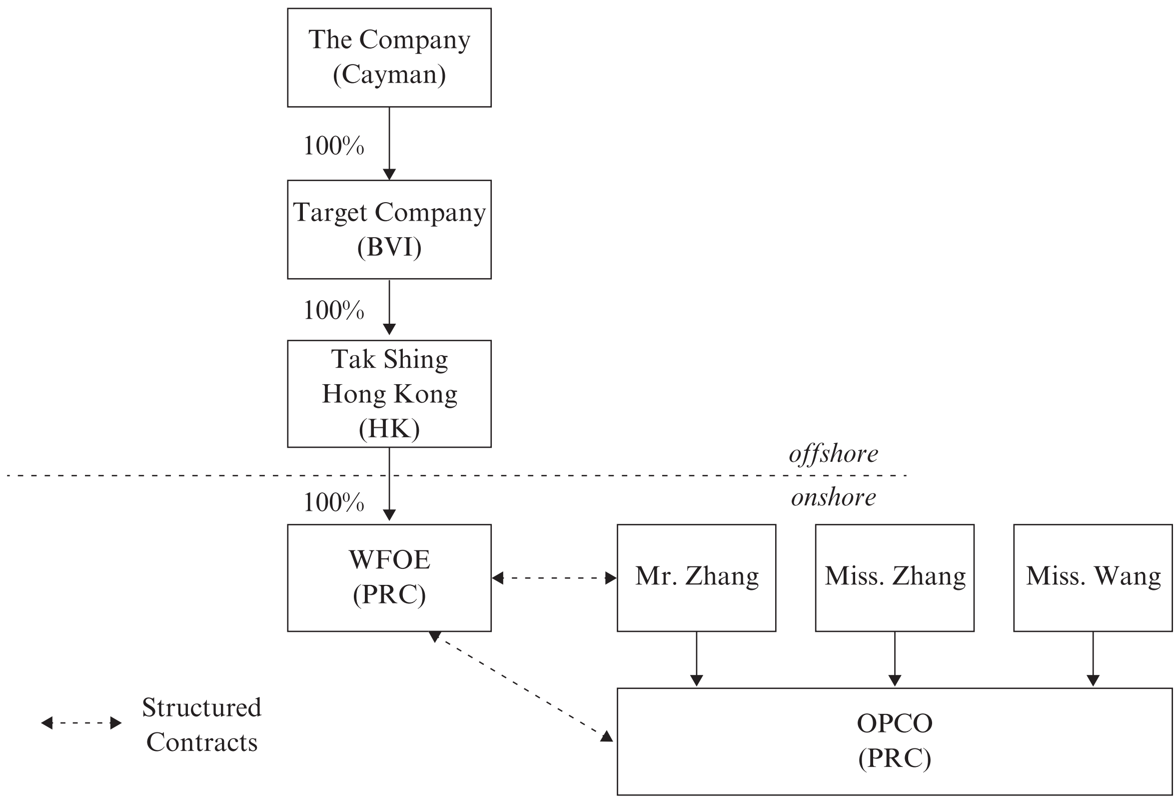
**Shareholding structure prior to Completion**

Set out below is the shareholding structure of the Target Company and its subsidiaries immediately prior to Completion:



**Shareholding structure upon Completion**

Set out below is the shareholding structure of the Target Company and its subsidiaries upon Completion:




**Financial Information of the Target Business**

Based on the Accountants' Report, the following table sets out the summary of the audited 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 year ended 31 December** | | | **For the seven months ended 31 July** | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(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 31 July |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| 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 31 July | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| 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 31 July | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| 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 (i) 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 (ii) written off of other receivable amounted to RMB160 million for the year ended 31 December 2017.

***(i) 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 (a) the impairment loss on interest in associates of approximately RMB37.5 million and (b) the provision for investment commitment of approximately RMB63.1 million regarding the acquisition of the 100% equity interest of Shenzhen Xinghao Network Technology Company Limited* (深圳市星浩網絡科技有限公司) ("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" ("棋牌類網絡遊戲管理辦法") 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 in 2017. In addition, the Target Group recognised a fair value loss of financial liabilities at fair value through profit or loss in relation to investment commitment amounted to RMB63,131,000 as at 31 December 2017 as a result of the non-cancellable commitment for the investment of the remaining 70% equity interest of SZ Xinghao. 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.

***(ii) 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:

(i) the OPCO completed the derecognition and reorganisation of (a) the development business of certain online board and card games, (b) certain investments in subsidiaries and associate, (c) certain investment in financial instruments and (d) 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

(ii) 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 derecognized 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 | 264 |
| Sub-total: | 464,842 |
| **Liabilities:** | |
| Trade and other payables | (6,469) |
| Deferred revenue | (2,577) |
| Sub-total: | (9,046) |
| **Net assets** | 455,796 |

## INFORMATION ON THE PARTIES TO THE SALE AND PURCHASE AGREEMENT

### The Company

The Group 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 ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange (the "Main Board") on 27 June 2019 (the "Transfer of Listing") upon the approval of the Stock Exchange.

### 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.

## 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 flow and financial position of the Group by consolidating the entire economic benefits of the Target Group, please refer to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular (the "Pro Forma Financial Information") for details;

(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.

## FINANCIAL EFFECTS OF THE ACQUISITION

### Assets and liabilities

Based on the Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group as at 30 June 2020 would increase from approximately RMB602.0 million to approximately RMB1,623.1 million and the unaudited pro forma consolidated total liabilities of the Enlarged Group as at 30 June 2020 would increase from approximately RMB44.0 million to approximately RMB1,070.5 million assuming the Acquisition had taken place on 30 June 2020.

**Earnings**

Following the Completion, the Target Company will be able to enjoy the entire earnings of the OPCO. According to Pro Forma Financial Information, assuming the Acquisition had been completed on 1 January 2019, the pro forma net profit of the Enlarged Group for the year ended 31 December 2019 attributable to the owners of the Company would increase from approximately RMB208.8 million to approximately RMB343.8 million.

Further information regarding the financial position and financial performance, as well as the management discussions and analysis and other financial information of the Target Company is contained in Appendices II, III and IV to this circular.

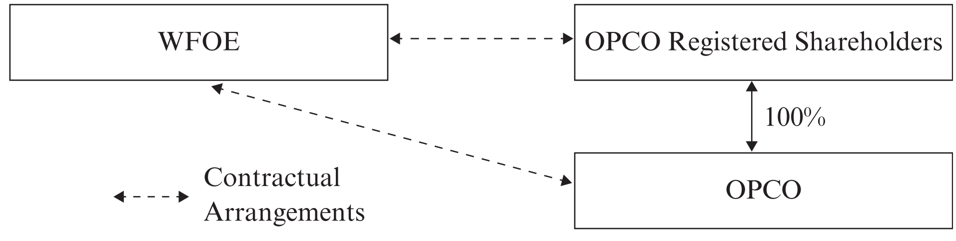
## REASONS FOR THE USE OF THE CONTRACTUAL ARRANGEMENTS

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 STRUCTURED CONTRACTS

**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.

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| Events of Default: | Events of default under the Share Pledge Agreement include the following:<br><br>(i) 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;<br><br>(ii) the OPCO Registered Shareholders or the OPCO breaching other provisions of the Share Pledge Agreement; and<br><br>(iii) 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.<br><br>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***

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| 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:

(i) as the agent of the OPCO Registered Shareholder, to propose, convene and attend shareholders' meeting of the OPCO;

(ii) 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);

(iii) any other rights vested in the shareholders by other applicable PRC laws and regulations (as amended from time to time); and

(iv) 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 circular 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, (i) 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 (ii) 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 circular, 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: (i) expressed in monetary terms; (ii) 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 (iii) approved by shareholders if the transaction requires shareholders' approval.

The Company has applied for, and the Stock Exchange has granted, a waiver (the "CCT 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.

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

***(i) 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.

***(ii) 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.

***(iii) 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.

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 its applies for and obtains a separate wavier 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:

(1) 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;

(2) 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;

(3) 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;

(4) 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

(5) 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 Stale 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. 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.

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the OPCO, injunctive relief and/or winding up of the OPCO. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC Laws, these terms may not be enforceable. 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 a price equal to the paid-in capital contribution amount corresponding to such Optioned Shares, 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.

## GRANT OF WAIVER

The Company has applied for, and the Stock Exchange has granted, 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.

## 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.

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 EGM**

The EGM will be convened and held to consider and, if thought fit, approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder.

A notice convening the EGM to be held at 10:30 a.m. on Tuesday, 2 February 2021 at 9th Floor, Block 1, Chongwen Garden, Nanshan iPark, 3370 Liuxian Avenue, Nanshan District, Shenzhen, the PRC is set out on pages EGM-1 to EGM-2 of this circular. The register of members of the Company will be closed from Thursday, 28 January 2021 to Tuesday, 2 February 2021, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for attending and voting at the EGM, all transfer forms accompanied by the relevant share certificates must be lodged for registration with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 27 January 2021.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39 (4) of the Listing Rules, voting at the EGM will be conducted by way of poll. The Chairman of the EGM will therefore demand a poll on the resolutions put forward at the EGM pursuant to the bye-laws of the Company.

An announcement on the poll results of the EGM will be published on the websites of the Stock Exchange and the Company after the EGM.

## GENERAL

The Company has appointed Draco Capital as its independent financial adviser to advise on the Contractual Arrangements not fulfilling (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, whose letter of advice is as set out in section headed "Letter from the Independent Financial Adviser" to this circular.

## RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Financial Adviser as set out on pages 58 to 93 of this circular which contains, amongst other matters, its advice to the Shareholders on the Contractual Arrangements not having (i) a fixed term; and (ii) an annual cap, with the principal factors and reasons considered by it in concluding its advice.

Having considered the factors mentioned above, the Directors (including the independent non-executive Directors) are of the view that the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Contractual Arrangements) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interest of the Shareholders and the Company as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

## ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices and the notice of the EGM, which form part of this circular.

As Completion is subject to the fulfillment or waiver (as the case may be) of the Conditions, it may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

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

*The following is the full text of the letter of advice from the Independent Financial Adviser setting out its advice in respect of the Contractual Arrangements not having (i) a fixed term and (ii) an annual cap prepared for the purpose of inclusion in this circular.*

瓏盛資本
Draco Capital

Room B, 26/F, Two Chinachem Plaza
68 Connaught Road Central
Central, Hong Kong

13 January 2021

Fire Rock Holdings Limited
Rooms 2201–2203, 22/F
World-Wide House
19 Des Voeux Road Central
Hong Kong

*To the Shareholders*

Dear Sirs,

## CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS

### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise on the Contractual Arrangements not having (i) a fixed term; and (ii) an annual cap, details of which are set out in the Letter from the Board contained in the circular dated 13 January 2021 to the Shareholders (the "Circular"), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

Reference is made to (i) 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; and (ii) the announcement of the Company dated 18 November 2020 regarding the entering into of the Sale and Purchase Agreement among the Company and the Vendors.

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 the aggregate Consideration of RMB900 million (approximately HK$1.06 billion).

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.

Given that Mr. Zhang will remain as a director of the OPCO and Tak Shing (SZ) 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 the OPCO and the Group after Completion will constitute continuing connected transactions of the Company (the "CCT") 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. As such, we have been appointed to advise on the Contractual Arrangements not having (i) a fixed term; and (ii) an annual cap.

The Company has applied for, and the Stock Exchange has granted, 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.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement. Save as disclosed above, 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.

We are not associated with the Group and its associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for acting as an independent financial adviser in this appointment and the occasions as detailed in the Circular. we have not acted as a financial adviser or an independent financial adviser to the Company and its associates in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group and its associates. We are not aware of any relationship or interest between us and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the advise on the Contractual Arrangements not having (i) a fixed term; or (ii) an annual cap.

**BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. Specifically, we have reviewed/obtained/discussed with the Directors and/or management of the Group (as the case may be) the following documents or regarding the following issues:

1. the Circular
2. the Sale and Purchase Agreement
3. the Exclusive Purchase Option Agreement
4. the Exclusive Business Cooperation Agreement
5. the Exclusive Technical Service and Management Consultancy Agreement
6. the Share Pledge Agreement
7. the Power of Attorney

8. the Shareholder Rights Authorisation Agreement

9. the Spousal Consent Letter

10. the PRC legal opinion issued by the PRC Legal Adviser

We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that the information provided to us may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subjects of, and parties to, the Contractual Arrangements. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and we do not have any obligation to update, revise or reaffirm this opinion.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the CCT and arriving at our opinion, we have taken into consideration the following principal factors and reasons:

### 1. Background and reasons for the Continuing Connected Transactions

***The Sale and Purchase Agreement***

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.

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.

***Information of the Company***

The Company is an investment holding company principally engaged in the development of browser and mobile games. It launches games of various language versions and licenses self-developed games to licensed operators around the world. Its games are free for players to play on the browsers or for players to download from third party Internet platforms onto mobile devices. The games of the Company include Kings and Legends series, Hero's Crown series, Heroines of Three Kingdoms series, Endless Battles series and Legends of Fairies series, among others. The Company operates its businesses in the PRC, North America, Japan, Taiwan and Germany. 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.

***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 Target Company is an investment holding company incorporated in the British Virgin Islands on 23 April 2020 with limited liability, which is directly wholly owned by the Vendors as at the Latest Practicable Date. Mr. Zhang is the current sole director of the Target Company.

Tak Shing (HK) is an investment holding company incorporated in Hong Kong on 8 May 2020 with limited liability, which is directly wholly owned by the Target Company. Mr. Zhang is the current sole director of Tak Shing (HK).

Tak Shing (SZ) is a wholly foreign-owned enterprise established in the PRC on 3 September 2020 with limited liability and is wholly owned by Tak Shing (HK).

Mr. Zhang is the sole director and general manager of the WFOE, while Miss. Wen Yu Mei (温玉梅) is the supervisor of the WFOE. Save as disclosed below, none of the directors or senior management of the WFOE is related to any of the OPCO Registered Shareholders.

The OPCO is a company established in the PRC on 5 August 2011 with limited liability and is principally engaged in providing online games operating service in the PRC. As at the Latest Practicable Date, the OPCO has a registered capital of RMB10,800,000 and is wholly owned by the OPCO Registered Shareholders.

As at the Latest Practicable Date, the OPCO holds the PRC's Value-Added Telecommunications Operations Licence* (中華人民共和國增值電信業務經營許可證) issued by the Guangdong Communications Administration which permits the OPCO to engage in information service business (internet information services only) in the second class value-added telecommunications business.

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 enjoy the economic benefits generated by the OPCO. The Directors have discussed with the Company's auditor and confirmed 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 Target Company under HKFRS.

Based on the Accountants' Report, the following table sets out the audited financial information of the Target Group for each of the three years ended December 31, 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** | **2018** | **2019** | **2019** | **2020** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(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 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| 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 |

***Information of the Vendors***

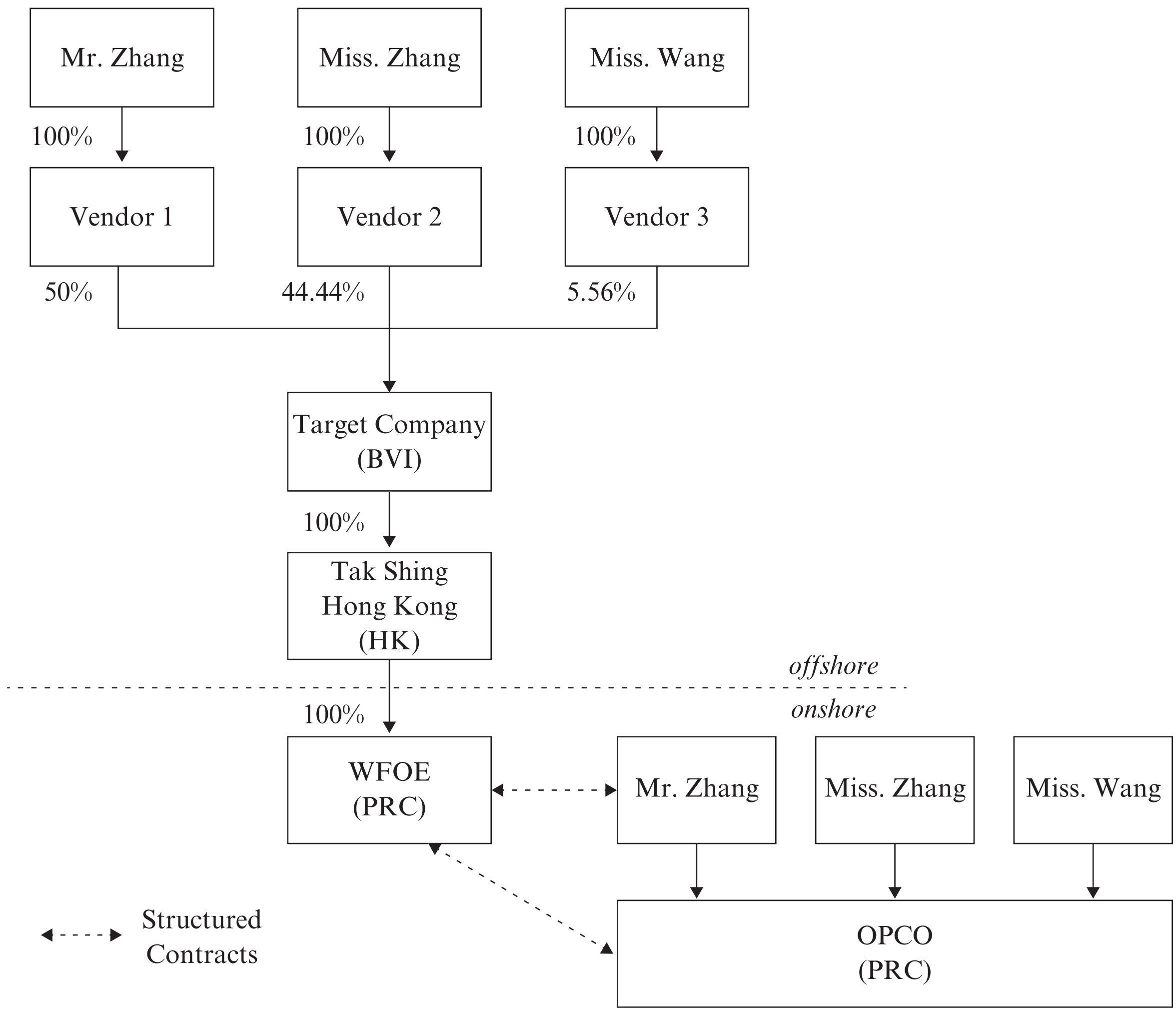
Vendor 1: Honour Soar Holdings Limited (榮升控股有限公司), a limited liability company incorporated under the laws of the British Virgin Islands and is principally engaged in investment holding and wholly-owned by Mr. Zhang. Vendor 1 is the registered and beneficial owner of Sale Shares 1, being 50% of the equity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

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 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 Latest Practicable Date.

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. 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 Latest Practicable Date.

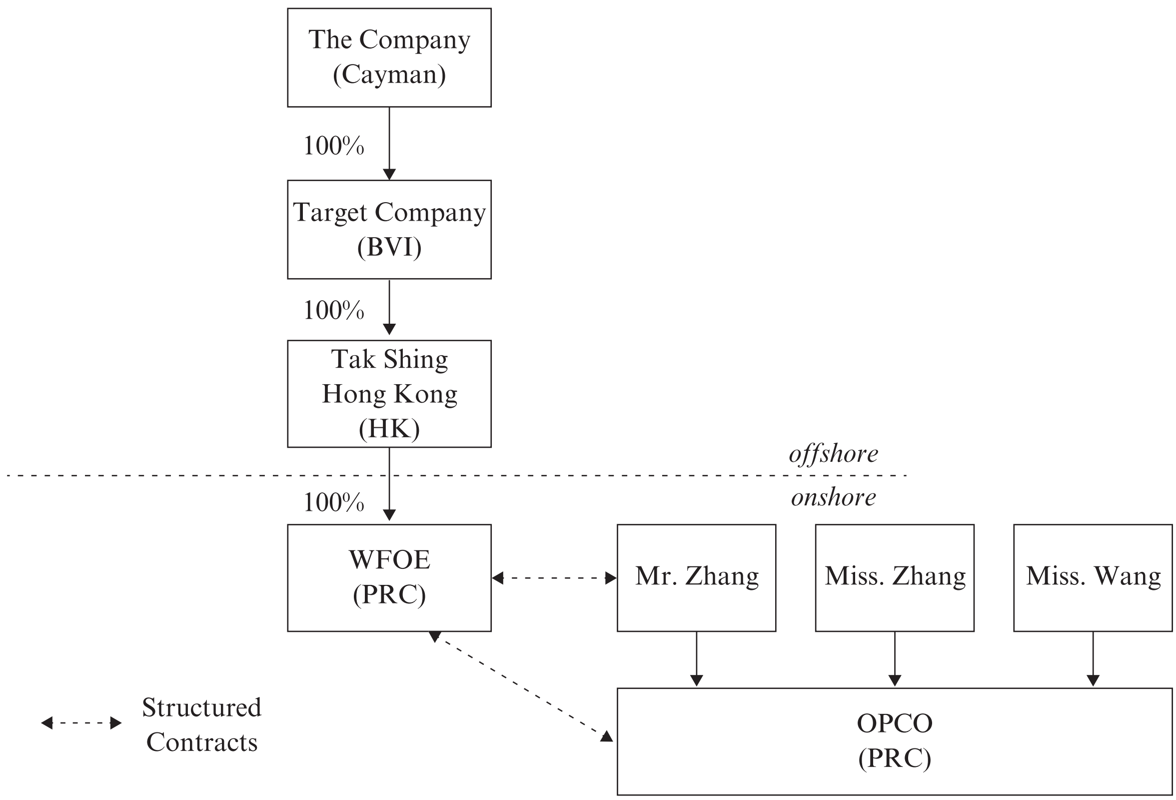
***Shareholding structure prior to Completion***

Set out below is the shareholding structure of the Target Company and its subsidiaries immediately prior to Completion:



***Shareholding structure upon Completion***

Set out below is the shareholding structure of the Target Company and its subsidiaries upon Completion:




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.

**2. The Board's view on the reasons for and benefit 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 Group, 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 flow and financial position of the Group by consolidating the entire economic benefits of the Target Group, please refer to the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular (the "Pro Forma Financial Information") for details;

(iii) The Acquisition allows the Group to have more 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;

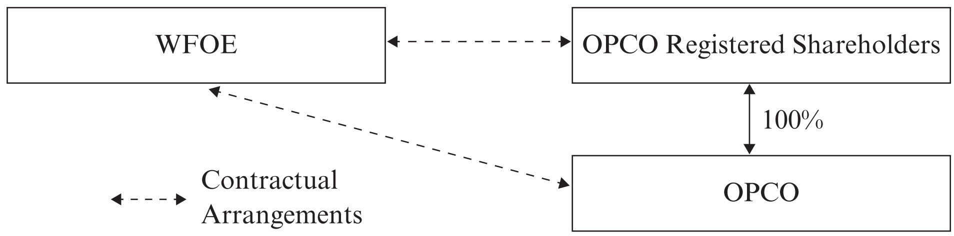
(iv) The Group typically relies on licensed operators to conduct promotional and marketing activities for our games in their respective licensed territories. The Acquisition can reduce the risk that the licensed operator fails and/or is unable to effectively market and promote the games to game players, 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 i) the licensed operators or their associates and ii) the licensed operators' management or their associates.

Taking into account of the above, having considered the strong connectivity between the principal business activities of the Group and the Target Business and the synergy created by pooling the Group's and OPCO's resources in the online gaming industry for the development of the Group's through the Acquisition, we concur with the Directors 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.

**3. Summary of the structure under the Contractual Arrangements**

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




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.

**4. The Contractual Arrangements**

***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 in the PRC. 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 NDRC and the 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.

***Our view***

As stated in the Letter from the Board, as there are ownership restrictions or prohibitions on foreign ownership of online games operating service businesses in the PRC, the Contractual Arrangements will permit the Group to have effective control over licensed business and the finance and operation of the OPCO and to enjoy the entire economic interests and benefits generated by the OPCO.

Based on the above, we are of the view that the Group's strategy to acquire and invest in other online games companies which can enhance the stability and diversity of the Company's revenue with more direct control on distribution channels and access to end-users of its existing browser and mobile game products in the PRC through the Acquisition are in line with its stated prospects in the latest 2019 annual report (i.e. actively explore the possibilities of external strategic investment and cooperation, in particular business opportunities which can enhance the stability and diversity of our revenue, so as to cope with the increasing competition in the industry and the possible impacts caused by the constantly changing policies of the industry on the principal business of the Company), and at the same time will allow the Group to strengthen the earnings, cash flow and financial position of the Group. As such, we are of the view that the Contractual Arrangements are fundamental to the OPCO's legal structure and business operations. Given that the Contractual Arrangements enable the Group to enjoy the economic benefits generated by the OPCO, it is considered that the entering into the Contractual Arrangements is in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group.

***Principal terms of the Contractual Arrangements***

As set out in the Letter of the Board, 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.

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| 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.<br><br>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.

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| 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.<br><br>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*

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| Parties: | (i) Tak Shing (SZ);<br>(ii) OPCO Registered Shareholders; and<br>(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.<br><br>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.<br><br>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:<br><br>(i) 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; |

(ii) the OPCO Registered Shareholders or the OPCO breaching other provisions of the Share Pledge Agreement; and

(iii) 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.

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| 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*

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| 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 OPCO (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, the 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 the PRC Laws***

As stated in the Letter from the Board, 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 the Circular 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, (i) 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 (ii) 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), we noted that 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 the 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.

We also noted that 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 Latest Practicable Date, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

In light of the above, we noted that 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. As a result, the Company confirms that there is no deviation from the guidances respectively set out in HKEX-GL77-14 and HKEX-LD43-3.

**5. Waiver application from strict compliance with relevant requirements under Chapter 14A of the Listing Rules**

As stated in the Letter of the Board, the Company has applied for, and the Stock Exchange has granted, a waiver (the "CCT 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.

***(i) Fixing the term of the Contractual Arrangements***

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.

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, for the purpose 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. Thus, the Contractual Arrangements place the Group in a special position in relation to the connected transactions rules. Notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, such transactions do not fall into the "suspect" category that warrants the protection afforded by the Listing Rules governing connected transactions. Thus, given the Contractual Arrangements represent a long-term arrangement for the Group in operating its principal business, it is impractical and unduly burdensome and adds to the additional cost and administrative burden on the Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

In addition, given that (i) Tak Shing (SZ) is ineligible to operate online games operating service businesses in the PRC due to the legal constraints on the application of the PRC's licence for value-added telecommunications business operation and internet culture operation; (ii) Tak Shing (SZ) is able to exercise effective control and to safeguard the assets of the OPCO through provisions contained in the Contractual Arrangements and internal control measures as disclosed in the Circular; and (iii) the OPCO is currently holding PRC Value-Added Telecommunications Business Operation License and Internet Culture Operation License to legally conduct the relevant businesses, we consider that entering into the Contractual Arrangements allows the Group to be entitled to the economic benefits generated by the OPCO, notwithstanding the lack of equity ownership in the OPCO. The long-term contractual arrangement under the Contractual Arrangements are fundamental and vital to the stability of the business operations and financial performance of the Group. It is commercially desirable and essential for the Tak Shing (SZ) to enter into the Contractual Arrangements without having a fixed term in order to secure a revenue stream from the provision of the third party internet payment services for the Group in the medium to long term until acquisition of the equity interests of the OPCO by Tak Shing (SZ) is permitted under the relevant PRC laws and regulations. In light of the above, the duration of the Contractual Arrangements, requirement of fixing the term of the Contractual Arrangements is not required.

***(ii) Waiver from setting an annual cap for the Contractual Arrangements***

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.

As stated in the Letter from the Board, 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.

Under the Contractual Arrangements, we noted that only the Exclusive Technical Service and Management Consultancy Agreement may involve fee payments between the OPCO and Tak Shing (SZ) which may be subject to the annual cap requirement under Rules 14A.53 of the Listing Rules. As described in the Exclusive Technical Service and Management Consultancy Agreement, 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) is also given 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 and the Service Fee may be paid before or after the provision of the technical and management consultancy services. In addition, 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.

Given all economic benefits will flow to Tak Shing (SZ) under the abovementioned fee arrangement under the Exclusive Technical Service and Management Consultancy Agreement and neither the OPCO Registered Shareholders nor the OPCO will receive any economic benefits under the Contractual Arrangements, this arrangement is equivalent to the Group operating the OPCO as if the OPCO were a wholly-owned subsidiary with no potential conflict of interests with the OPCO Registered Shareholders and the

OPCO. Setting a maximum aggregate annual cap for such service fee is likely to limit the ability of the Group to operate the business and enjoy the economic benefits generated by the OPCO.

Therefore, we are of the view that it is commercially sound for Tak Shing (SZ) not to set an annual cap for the Service Fee payable by the OPCO under the Exclusive Technical Service and Management Consultancy Agreement in order to allow effective operation of the Group, given that the Contractual Arrangements are fundamental to the Group's legal structure and business operations and are driven solely for the purpose of complying with PRC laws and regulations.

***(iii) Conditions of the waiver***

As stated in the Letter from the Board, we noted that the Stock Exchange has agreed to grant the waiver 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 its applies for and obtains a separate wavier 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:

    (1) 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;

    (2) 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;

(3) 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;

(4) 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

(5) 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.

**6. Review on duration and annual cap of comparable Contractual Arrangements**

In assessing the duration of the Contractual Arrangements, on a best effort basis, we have based on the information available from the Stock Exchange's website, identified an exhaustive list of 12 transactions announced by 12 companies listed on the Stock Exchange since 1 January 2018 and including the date of the Sale and Purchase Agreement, being the last 36 months commencing from the date of announcement of the Acquisition (the "Comparables"). For the purpose of our selection of the Comparables, the basis of our selection of the Comparables is the transactions involved Contractual Arrangements adopted by companies listed on the Stock Exchange which enabled the relevant listed company to have obtained/obtain control over a PRC company operating businesses in which foreign investment is restricted or prohibited by relevant PRC laws and regulations.

Based on above criteria, we considered that the Comparables provide a relevant benchmark for the purpose of assessing the normal practice of similar contractual arrangements conducted by other listed companies. We consider the Comparables an exhaustive list of relevant comparable companies based on the said criteria above and the selection of comparable companies within an approximate 36 months period to be sufficient and appropriate for our analysis as it has covered the prevailing market conditions and sentiments in the Hong Kong stock market at the time which the terms of the Contractual Arrangements were determined.

| Number | Date of announcement | Name of Company | Stock code | Duration of Contractual Arrangements | Business under relevant contractual arrangements | Restrictions | Annual Cap under Contractual Arrangement |
|---|---|---|---|---|---|---|---|
| 1 | 04-Jan-18 | V1 Group Limited | 82 | Waiver granted by the Stock Exchange from fixing the term and having a term of not exceeding 3 years pursuant to Rule 14A.52 of the Listing Rules. Exclusive Business Cooperation Agreement: no fixed term; Exclusive Call Option Agreement: 10 years (extended automatically); Shareholders' Voting Right Entrustment Agreement: no fixed term; Equity Pledge Agreement: no fixed term; WFOE's Undertaking | Development and operation of online and/or mobile game application, live streaming platforms and online mobile interactive game application, online information platforms and related products of sports nature in the PRC | Foreign investors are prohibited from holding equity interests in PRC entities conducting the business of mobile game business and online audio-visual programs business and are restricted to conduct value-added telecommunications services in the PRC | Waiver granted by the Stock Exchange from setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE under the relevant VIE Contract |

| Number | Date of announcement | Name of Company | Stock code | Duration of Contractual Arrangements | Business under relevant contractual arrangements | Restrictions | Annual Cap under Contractual Arrangement |
|---|---|---|---|---|---|---|---|
| 2 | 17-Jan-18 | Silver Base Group Holdings Limited | 886 | Waiver granted by the Stock Exchange from fixing the term of not exceeding 3 years pursuant to Rule 14A.52 of the Listing Rules. The Exclusive Consultancy Agreement: no fixed term; The Business Operation Agreement: no fixed term; The Loan Agreement: no fixed term; The Exclusive Purchase Right Agreement: no fixed term; The Equity Pledge Agreement: no fixed term; The Authorisation Agreement: no fixed term; The Commitment Letters; The Spousal Consent Letters | Distribution of China's high-end liquor series, wine and foreign liquor series in the PRC and Hong Kong | Foreign investors are restricted from holding more than 50% equity interests in PRC entities conducting the business of the information service business and value-added telecommunications business (other than the e-commerce) | Waiver granted by the Stock Exchange from setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE and the amount of loans to be made available by the WFOE to the OPCO and the PRC Equity Owners under the relevant VIE Agreements, subject to certain conditions |
| 3 | 05-May-18 | Madison Holdings Group Limited | 8057 | No waiver is required as it is not a continuing connected transaction. Management services agreement: no fixed term; irrevocable option agreement: no fixed term; Equity pledge agreement: no fixed term; power of attorney: no fixed term; undertaking letters; declaration letters; PRC shareholders' confirmations | Mobile internet technology and blockchain application software products | Foreign investors are prohibited from holding equity interests in PRC entities conducting the business of mobile game operating business in the PRC | No waiver is required as it is not a connected transaction/continuing connected transaction |

| Number | Date of announcement | Name of Company | Stock code | Duration of Contractual Arrangements | Business under relevant contractual arrangements | Restrictions | Annual Cap under Contractual Arrangement |
|---|---|---|---|---|---|---|---|
| 4 | 31-May-18 | Ourgame International Holdings Limited | 6899 | Waiver confirmed by the Stock Exchange from limiting the term of the new VIE structure to 3 years or less pursuant to Rule 14A.52 of the Listing Rules. Master exclusive service agreement, business cooperation agreement, exclusive option agreement, share pledge agreement, proxy agreement and power of attorney: no fixed term | The e-sports, sports commerce business and other non-card-and-board games new internet businesses | Foreign investors are prohibited from holding equity interest in an entity conducting online game business and are restricted to conduct value-added telecommunications services | Waiver confirmed by the Stock Exchange from setting an annual cap for the fees payable to the WFOE under the new VIE Structure pursuant to Rule 14A.53 of the Listing Rules |
| 5 | 23-Aug-18 and 26-Oct-16 | China Art Financial Holdings Limited | 1572 | Waiver granted by the Stock Exchange from fixing the term of the structured contracts to three years or less. Exclusive operation services agreement, exclusive call option agreement, equity entrustment agreement, equity pledge agreement: no fixed term | Provision of pawn loan services secured by artworks and assets as collaterals and online art auction operation | Foreign investors are prohibited for the operation of online art auction in PRC. For the operation of the pawn loan business, there is no legal basis to process the application for foreign investment in any pawn loan entities established in PRC | Waiver granted by the Stock Exchange from setting an annual cap for the fees payable under Rule 14A.53 of the Listing Rules |
| 6 | 02-Oct-18 | Wan Kei Group Holdings Limited | 1718 | No waiver is required as it is not a continuing connected transaction. Exclusive call option agreement: 10 years exclusive business cooperation agreement: 10 years (automatically extended); share pledge agreement, shareholders' voting right entrustment agreement and power of attorney, spousal Consent Letters: no fixed term | Businesses of operation of e-sports events and production of related events videos, among which the production of videos of e-sports events and dramas broadcast online, and organising cultural and artistic performances during e-sports events | Foreign investors are prohibited and restricted from holding equity interest in business engaging in (i) television program production and business operation; and (ii) commercial performance respectively | No waiver is required as it is not a continuing connected transaction |

| Number | Date of announcement | Name of Company | Stock code | Duration of Contractual Arrangements | Business under relevant contractual arrangements | Restrictions | Annual Cap under Contractual Arrangement |
|---|---|---|---|---|---|---|---|
| 7 | 28-Dec-18 | IGG Inc | 799 | Waiver granted by the Stock Exchange from setting a term of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules. Call option agreement, exclusive technical consulting service agreement, equity pledge agreement, powers of attorney, online game licensing agreement, spouse undertakings, settlement of dispute, potential conflicts of interests, liquidation: no fixed term | Operated the licensing and publishing of self-developed browser games and client-based games in the PRC | Foreign investors are restricted from holding equity interest in PRC entities conducting value-added telecommunication, Internet content and information services, and online games in the PRC | Waiver granted by the Stock Exchange from setting annual caps for the fees payable under new VIE structure under Rule 14A.53(1) of the Listing Rules |
| 8 | 26-Apr-19 and 25-Jun-17 | Forgame Holdings Limited | 484 | No waiver is required as it is not a continuing connected transaction. Exclusive option agreements, exclusive business cooperation agreements, equity pledge agreements, irrevocable power of attorney and spousal consent letter: no fixed term | Financial information service in the PRC through the operations of websites and mobile phone applications | Foreign investors are restricted from holding equity interest in PRC entity in the value-added telecommunications business (Information Service via Internet and mobile network) | No waiver is required as it is not a continuing connected transaction |
| 9 | 14-Jul-19 | Inke Limited | 3700 | Waiver granted by the Stock Exchange from limiting contractual term to three years or less under Chapter 14A of the Listing Rules. Exclusive consulting and service agreement: 10 years (extendable); exclusive call option agreements, equity pledge agreements, powers of attorney, confirmation from the spouse of each of the other shareholders: no fixed term | Developing and operating internet social network platforms for people with similar interests to meet and interact with each other | Foreign investment in the business of internet cultural activities in the PRC is prohibited | Waiver granted from setting annual cap under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the VIE Agreements |

| Number | Date of announcement | Name of Company | Stock code | Duration of Contractual Arrangements | Business under relevant contractual arrangements | Restrictions | Annual Cap under Contractual Arrangement |
|---|---|---|---|---|---|---|---|
| 10 | 21-Oct-19 | Zhi Sheng Group Holdings Limited | 8370 | No waiver is required as it is not a continuing connected transaction. Exclusive consultation and services agreement: 10 years (renewable), exclusive call option agreement: 10 years (automatically extended), shareholders' voting right entrustment agreement, equity pledge agreement and WFOE's undertaking: no fixed terms | Data centre business in Shanghai, the PRC, which includes the provision of data centre, facilities management and value-added services, installation and maintenance services | Foreign investors are restricted from holding equity interest more than 50% in entity in the operation of the data centre business in the PRC | No waiver is required as it is not a continuing connected transaction |
| 11 | 05-Jun-20 | China Youzhan Limited | 8083 | No waiver is required as it is not a continuing connected transaction. Exclusive business cooperation agreement, exclusive call option agreement, equity pledge agreement, powers of attorney: no fixed term | Operating a live streaming platform which facilitates product promotion for businesses | Foreign investors are prohibited from holding equity interest in entities engaging in the provision of value-added telecommunications services, internet cultural services, online audio and video program services and talent agency services in the PRC | No waiver is required as it is not a continuing connected transaction |

| Number | Date of announcement | Name of Company | Stock code | Duration of Contractual Arrangements | Business under relevant contractual arrangements | Restrictions | Annual Cap under Contractual Arrangement |
|---|---|---|---|---|---|---|---|
| 12 | 16-Jun-20 | CA Cultural Technology Group Limited | 1566 | No waiver is required as it is not a continuing connected transaction. Exclusive call option agreement: no fixed term; exclusive business cooperation agreement: 20 years (extendable); share pledge agreement, shareholders' voting right entrustment agreement, spousal consent letter: no fixed term | Production and sales of toys and gifts, developing of VR technology and its application in, among others, on-line game and on-line shopping, and developing and promoting on-line game with enhanced visual stimulation supported by VR technology | Foreign investors are prohibited from holding no more than 50% equity interests in PRC entities conducting the on-line game business and value-added telecommunications business as an Internet content provider. In addition, the operation of the on-line game business is also subject to the regulatory requirements with respect to on-line publication business and/or on-line game operation business under the prohibited category, pursuant to which foreign investors are prohibited from holding any equity interest in any enterprise engaging in such businesses | No waiver is required as it is not a continuing connected transaction |

As shown above, each Comparable entered into a series of Contractual Arrangements with relevant operation company(ies) and its/their shareholder(s) such that the Comparables can effectively control the operation company(ies) and is therefore able to consolidate the financial results of the operation company(ies) into its consolidated financial statements.

The durations of the contractual arrangements entered into by the Comparables ranged from 10 years to an indefinite term. Among the 12 Comparables, 5 of them have individual agreements under the Contractual Arrangements with durations of over three years (excluding those individual contractual arrangements with no specified fixed term for all agreements thereunder). In view of the above, we consider that it is a normal business practice for contracts of similar nature to the Contractual Arrangements to be of a term of more than three years.

For setting annual cap under contractual arrangements, among the 12 Comparables, except 6 of them which were not classified as continuing connected transaction under Listing Rules, all other Comparables have been granted waiver from strict compliance with the annual cap requirement pursuant to Chapter 14A of the Listing Rules. As a result, we consider that it is a normal business practice for not setting annual cap for the Contractual Arrangements.

## RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the entering into of the Contractual Arrangements are conducted in the ordinary and usual course of business of the Group, and the terms of the Contractual Arrangements of (i) not having a fixed term and (ii) without setting any annual cap are normal business practice, on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Yours faithfully,
For and on behalf of
**Draco Capital Limited**
**Kevin Choi** **Ivan Chan**
*Managing Director* *Director*

*Notes:*

(i) Mr. Kevin Choi is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has approximately 10 years of experience in corporate finance.

(ii) Mr. Ivan Chan is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has approximately 4 years of experience in corporate finance.

## 1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the three years ended 31 December, 2019 and the six months period ended 30 June, 2019 and 2020 are disclosed in the Company's annual report for the year ended 31 December, 2017, 2018 and 2019 as well as the interim report for the 6 months ended 30 June, 2019 and 2020. The said annual report and interim report of the Company are available on the website of the Stock Exchange set out below:

- Annual report of the Company for the year ended 31 December 2017 published on 29 March 2018 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/gem/2018/0329/gln20180329407.pdf)

- Annual report of the Company for the year ended 31 December 2018 published on 21 March 2019 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/gem/2019/0321/gln20190321019.pdf)

- Annual report of the Company for the year ended 31 December 2019 published on 12 March 2020 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0312/2020031200005.pdf)

- Interim report of the Company for the 6 months ended 30 June 2019 published on 27 August 2019 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0827/ltn20190827013.pdf)

- Interim report of the Company for the 6 months ended 30 June 2020 published on 4 September 2020 (hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0904/2020090400845.pdf)

The above annual reports are also available at the website of the Company at http://www.firerock.hk/.

## 2. STATEMENT OF INDEBTEDNESS

As at 30 November 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the following table sets out the Enlarged Group's indebtedness excluding contingent liabilities:

| | As at 30 November 2020 *RMB'000* (unaudited) |
|---|---|
| **Current** | |
| Lease liabilities | 2,365 |
| **Non-current** | |
| Lease liabilities | 5,745 |
| | 8,110 |

The Enlarged Group had lease liabilities of approximately RMB8.1 million relating to office premises leased by the Enlarged Group as lessee.

Save as disclosed above and apart from intra-group liabilities and trade payables in the normal course of business, the Enlarged Group did not have any outstanding debentures issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, material hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding at the close of business on 30 November 2020, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular.

## 3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or operating position of the Group since 31 December, 2019 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

## 4. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, and after taking into account the completion of the transaction, the Enlarged Group's internal resources and cash flow from operations, are of the opinion that the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular.

## 5. INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2017, 2018, 2019 and 30 June 2020, the Group had 101, 109, 181 and 190 employees respectively, mainly worked and are located in the PRC.

The total remuneration of the employees of the Group was approximately RMB9.9 million, RMB18.2 million, RMB22.6 million and RMB10.4 million for the year ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020 respectively.

The Company has established the Remuneration Committee with written terms of reference in compliance with Chapter 3 of the Listing Rules.

The Remuneration Committee will regularly review and recommend to the Board from time to time on the remuneration and compensation of the Directors and senior management of the Group.

The Group offers competitive remuneration package commensurate with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus. In determining staff remuneration, the Group takes into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The staff remuneration is reviewed regularly.

The Directors believe that maintaining a stable and motivated employee force is critical to the success of the Group's business. As a fast growing company, the Company is able to provide its employees with ample career development choices and opportunities of advancement. The Group organises various training programs on a regular basis for its employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team building.

Given the intense competition of the industry, in order to maintain the core competence for future development, management of the Group is considering a series of measures to reward and retain outstanding employees. Such measures include improving remuneration packages and providing various benefits, so as to enhance the company's capability for sustainable development and maintain a leading position in the industry.

## 6. GEARING RATIOS

The gearing ratio of the Group (calculated as total liabilities divided by total assets) was approximately 9.9%, 9.9%, 10.5% and 7.3% as at 31 December, 2017, 31 December, 2018, 31 December, 2019 and 30 June, 2020 respectively.

## 7. CONTINGENT LIABILITIES

As at 31 December, 2017, 31 December, 2018, 31 December, 2019 and 30 June, 2020, the Group did not have any significant contingent liabilities.

## 8. FOREIGN CURRENCIES

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR, JPY, THB and HKD. For each of the financial years ended 31 December, 2017, 2018 and 2019 and each of the six months ended 30 June, 2019 and 2020, approximately 6.9%, 0.8%, 4.6%, 0.5% and 9.7% of the revenue are denominated in currencies other than the functional currency respectively. Foreign exchange risk primarily arose from recognised assets in the Group when receiving or to receive foreign currencies from overseas cooperated counter parties.

For each of the financial years ended 31 December, 2017, 2018 and 2019 and each of the six months ended 30 June, 2019 and 2020, approximately 93.1%, 99.2%, 95.4%, 99.5% and 90.3% of the transactions of the Group are denominated and settled in its functional currency, RMB. The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in USD, EUR, HKD and THB.

The Group currently does not have any hedging policy in respect of the foreign currency risk. However, the management team closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this respect, the Group are not exposed to any significant foreign currency exchange risk in its operation.

## 9. CHARGES ON GROUP'S ASSETS

As at 31 December 2017, 2018, 2019 and 30 June 2020, no assets of the Group was pledged as a security for bank borrowings or any other financing facilities.

## 10. CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on 18 February 2016. The listing of the Company's shares had been transferred from GEM to the Main Board since 27 June 2019. The capital structure of the Group comprised issued share capital and reserves.

## 11. LIQUIDITY AND FINANCIAL RESOURCES

For each of the financial years ended 31 December, 2017, 2018 and 2019 and for the six months ended 30 June, 2020, the Group mainly financed its business with cash generated from its operating activities. The Group intend to fund its expansion and business operations through internal resources and on-going internal growth.

## 12. TREASURY POLICY

For each of the financial years ended 31 December, 2017, 2018 and 2019 and for the six months ended 30 June, 2020, the Group deposited its idle capital with commercial banks in the PRC and Hong Kong as short-term time deposits to allow inactive capital of the Group to generate certain return and did not engage in any investments with high risks or speculative derivative instruments.

## 13. FINANCIAL AND OPERATING PROSPECTS OF THE GROUP

As set out in the Group's 2020 Interim Report, the Group will continue to grow its strengths in research and development so as to develop exquisite mobile games with higher quality, longer life-cycle and innovative game types. The Group will upgrade and optimise existing games, and keep on investing substantial resources in the research and development of mobile games. In the future, the Group also intends to increase its research and development efforts, thoroughly explore users' game preferences and needs, develop unique style and content, and develop browser games of higher quality using H5 technology or other new technologies in order to maintain its core competitiveness in the research and development of browser games. Besides, the Group also actively seeks to achieve all-round development of the game industry chain capitalising on its advantages in research and development, so as to directly access players and understand their needs.

With presence in the Chinese game market, the Group will actively expand into overseas markets and promote its games to new potential areas and regions. By further strengthening its position in major global markets, the Group strive to promote its competitiveness to the next level.

Leveraging on its extensive experience and strong capacity in the development of internet application technology as well as its outstanding technical team, the Group will continue to put in more effort in the research and development of intellectual property rights (computer software) and launch novel internet application technology and products, as well as providing premium intellectual property rights (computer software) licensing services for its business partners (including licensed operators), so as to enable a closer relationship with its business partners. the Group believe employing intellectual property rights shall be an integral part of the Group's future development.

Besides, the Company will actively explore the possibilities of external strategic investment, cooperation and acquisition, in particular business opportunities which can enhance the stability and diversity of its revenue, so as to cope with the increasing competition in the industry and the possible impacts caused by the constantly changing policies of the industry on the principal business of the Company.

In view of the potential future prospects offered by the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" in this circular, the Directors are optimistic regarding the potential benefits and business synergies that the Acquisition will bring to the Enlarged Group. It is expected that the income from the Group could enrich the Group's income stream and promote growth in its revenue and profits which will be beneficial to the Shareholders.

## 14. SEGMENT INFORMATION

Details of the segment reporting of the Group for the financial years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020 are set out in note 6(a) of the annual report of the Company for the year ended 31 December 2017, 2018 and 2019; and note 3(a) of the interim report of the Company for the six months ended 30 June 2019 and 2020 respectively.

## 15. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 December 2017, 2018, 2019 and for the six months ended 30 June 2020, respectively.

**For the six months ended 30 June 2020**

During the six months ended 30 June 2020, the Group's revenue increased by approximately 177.4% from approximately RMB102.8 million for the six months ended 30 June 2019 to approximately RMB285.2 million for the six months ended 30 June 2020. The increase in revenue was mainly due to the increase in revenue brought by the successive launch of several mobile game series from 2017 to 2019, being the Sweeties Fighting (零食大亂鬥) series, the Fish Catching Contest (捕魚大亂鬥) series, the Royal Tycoon (皇家大亨) series, the Super Diglett Fighting (超級地鼠大亂鬥) series and so on.

Profit attributable to owners of the Company increased by approximately 213.2% from approximately RMB61.3 million for the six months ended 30 June 2019 to approximately RMB192.0 million for the six months ended 30 June 2020 which was in line with the significant increase in revenue.

**For the year ended 31 December 2019**

The Group's revenue increased by 89.2% from approximately RMB160.7 million for 2018 to approximately RMB304.0 million for 2019, of which the revenue of mobile games amounted to approximately RMB297.8 million, representing an increase of approximately 92.3% as compared to the same period in 2018. Revenue of mobile games amounted to 98.0% of the total revenue. The increase was mainly attributable by the 5 leading game series as follows: the mobile version of the Fish Catching Contest (捕魚大亂鬥) series commercially launched in December 2017 reported revenue of approximately RMB141.4 million for the year ended 31 December 2019, accounting for approximately 46.5% of the total revenue; the mobile version of the Sweeties Fighting (零食大亂鬥) series commercially launched in May 2017 reported revenue of approximately RMB93.2 million for the year ended 31 December 2019, accounting for approximately 30.7% of the total revenue; the mobile version of the Super Diglett Fighting (超級地鼠大亂鬥) series commercially launched in July 2019 reported revenue of approximately RMB21.7 million for the year ended 31 December 2019, accounting for approximately 7.1% of the total revenue; the mobile version of the Shaky Battle (晃晃大作戰) series commercially launched in July 2018 reported revenue of approximately RMB19.0 million for the year ended 31 December 2019, accounting for approximately 6.3% of the total revenue; the mobile version of the Royal Tycoon (皇家大亨) series self-operated through commercial launch in July 2019 reported revenue of approximately RMB11.9 million for the year ended 31 December 2019, accounting for approximately 3.9% of the total revenue.

Profit attributable to owners of the Company increased by approximately 132.5% from approximately RMB89.8 million for 2018 to approximately RMB208.8 million for 2019 which was in line with the significant increase in revenue.

**For the year ended 31 December 2018**

During the year ended 31 December 2018, the Group's revenue increased by approximately 100.1% from approximately RMB80.3 million for the year ended 31 December 2017 to approximately RMB160.7 million for the year ended 31 December 2018. The increase in revenue was mainly due to the increase in revenue brought by the launch of more than ten mobile game series successively since 2017, being Number Drop series, G-game series, Sweeties Fighting (零食大亂鬥) series, War of the Sulfulons (薩弗隆戰紀) series, Super Tycoon (超級大亨) series, Forest Gala (森林大聯歡) series, Fish Catching Contest (捕魚大亂鬥) series, Super Cute Monster (超級逗萌獸) series, Super Rich (超級大富翁) series, Age of Star Wars (星戰紀) series and Shaky Battle (晃晃大作戰) series.

Profit increased by 106.9% from approximately RMB43.4 million for 2017 to approximately RMB89.8 million for 2018 which was in line with the significant increase in revenue.

**For the year ended 31 December 2017**

For the year ended 31 December 2017, revenue increased by 78.4% from approximately RMB45.0 million for 2016 to approximately RMB80.3 million for 2017, of which the revenue of mobile games amounted to approximately RMB67.0 million, represented an increase of approximately 270.2% as compared to the same period in 2016. Revenue of mobile games amounted to 83.4% of the total revenue. Profit increased by 97.3% from approximately RMB22.0 million for 2016 to approximately RMB43.4 million for 2017. The increase in revenue was mainly due to the increase in revenue brought by the commercial launch of eight mobile game series in 2017, including Number Drop game series, G-game game series, Sweeties Fighting (零食大亂鬥) game series, War of the Sulfulons (薩弗隆戰記) game series, Super Tycoon (超級大亨) game series, Forest Gala (森林大聯歡) game series, Fish Catching Contest (捕魚大亂鬥) game series and Super Cute Monster (超級逗萌獸) game series.

Profit attributable to owners of the Company increased by approximately 97.3% from approximately RMB22.0 million for 2016 to approximately RMB43.4 million for 2017 which was in line with the significant increase in revenue.

## 16. SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

**For the six months ended 30 June 2020**

There was no significant investment, material acquisition and disposal by the Company or its subsidiaries during the six months ended 30 June 2020.

**For the year ended 31 December 2019**

On 29 November 2019, the Group transferred 3,150,000 shares (represented 45% of the issued share capital) of Newbie Media Co., Ltd ("Newbie Media", an associated company of the Group in Thailand) held by it to Company A. Company A and its ultimate beneficial owners are third parties independent of the Group and its connected persons. The consideration of the Transfer was THB15,750,000, which was determined by the parties through arm's length negotiation and with reference to the historical acquisition price, the current net assets value and the financial performance for the past financial years of Newbie Media. As all the applicable percentage ratios of the Transfer Agreement were below 5%, the transactions contemplated under the agreement did not constitute a notifiable transaction for the Company under Chapter 14 of Main Board Listing Rules, the requirements of reporting and announcement under Chapter 14 of the Main Board Listing Rules are not applicable.

Save for the investments mentioned above, there was no other significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

**For the year ended 31 December 2018**

During the year ended 31 December 2018, the Group invested in two companies in Thailand so as to expand in overseas markets, through which the Group can keep abreast of the information and trends of the Thai market. Meanwhile, the Group is looking for qualified agents to develop and promote its game products. In addition, the Group established a wholly-owned subsidiary in Shenzhen, the PRC, during the year ended 31 December 2018 to engage in research and development of game products for the better management of the game development project team. Save for the investments mentioned above, there was no other significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

**For the year ended 31 December 2017**

During the year ended 31 December 2017, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

## 17. FUTURE PLANS FOR MATERIAL INVESTMENTS

As at the Latest Practicable Date, the Group does not have any future plans for material investments or acquisitions of capital assets.

*The following is the text of a report received from the Company's independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.*

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FIRE ROCK HOLDINGS LIMITED

### Introduction

We report on the historical financial information of Tak Shing International Holdings Limited (the "Target Company") and its subsidiaries (hereinafter collectively as the "Target Group") set out on pages II-4 to II-59, which comprises the combined statements of financial position of the Target Group as at 31 December 2017, 2018, 2019 and 31 July 2020 and the statements of financial position of the Target Company as at 31 July 2020, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for each of the three years ended 31 December 2017, 2018, 2019 and the seven months ended 31 July 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-59 forms an integral part of this report, which has been prepared for inclusion in the circular of Fire Rock Holdings Limited (the "Company") dated 13 January 2021 in connection with the proposed acquisition of the entire issued share capital of the Target Company (the "Acquisition").

### Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2017, 2018, 2019 and 31 July 2020 and the Target Company's financial position as at 31 July 2020, and of the Target Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information.

**Review of stub period comparative historical financial information**

We have reviewed the stub period comparative historical financial information of the Target Group which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the seven months ended 31 July 2019 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

***Adjustments***

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

**BDO Limited**
*Certified Public Accountants*
Leung Tze Wai
Practising Certificate Number: P06158

Hong Kong, 13 January 2021

## I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

### Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Group for the Track Record Period, on which the Historical Financial Information is based, were prepare in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements") and were audited by BDO Limited.

The Historical Financial Information is presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## COMBINED STATEMENTS OF COMPREHENSIVE INCOME

| | | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|---|
| | | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| **Continuing operations** | | | | | | |
| **Revenue** | *7* | 536,736 | 434,267 | 596,270 | 357,623 | 493,229 |
| Direct costs | | (71,615) | (160,961) | (244,957) | (120,612) | (350,299) |
| **Gross profit** | | 465,121 | 273,306 | 351,313 | 237,011 | 142,930 |
| Other income | *7* | 13,374 | 23,094 | 29,608 | 19,987 | 10,491 |
| Distribution costs | | (76,490) | (65,369) | (71,749) | (35,392) | (27,495) |
| Administrative expenses | | (190,246) | (76,180) | (60,639) | (29,521) | (21,716) |
| Expected credit losses on financial assets | *20* | (202,586) | (23,679) | (37,992) | (38,416) | — |
| Share of results of associates | *19* | (40) | (517) | (325) | (341) | — |
| Finance costs | *8* | (274) | (248) | (96) | (87) | (17) |
| **Profit before income tax** | *9* | 8,859 | 130,407 | 210,120 | 153,241 | 104,193 |
| Income tax expense | *10* | — | (11,570) | (21,309) | (17,321) | (16,759) |
| Profit from continuing operations | | 8,859 | 118,837 | 188,811 | 135,920 | 87,434 |
| Profit from discontinued operation | *13* | 26,868 | 14,739 | 18,255 | 9,689 | — |
| **Profit for the year/period** | | 35,727 | 133,576 | 207,066 | 145,609 | 87,434 |
| Other comprehensive income for the year/period | | — | — | — | — | — |
| **Total comprehensive income for the year/period** | | 35,727 | 133,576 | 207,066 | 145,609 | 87,434 |
| **Profit attributable to:** | | | | | | |
| Owners of the Target Company | | 35,896 | 133,749 | 207,327 | 145,728 | 87,434 |
| Non-controlling interests | | (169) | (173) | (261) | (119) | — |
| | | 35,727 | 133,576 | 207,066 | 145,609 | 87,434 |
| **Total comprehensive income attributable to:** | | | | | | |
| Owners of the Target Company | | 35,896 | 133,749 | 207,327 | 145,728 | 87,434 |
| Non-controlling interests | | (169) | (173) | (261) | (119) | — |
| | | 35,727 | 133,576 | 207,066 | 145,609 | 87,434 |

## COMBINED STATEMENTS OF FINANCIAL POSITION

| | | As at 31 December | | | As at 31 July |
|---|---|---|---|---|---|
| | | 2017 | 2018 | 2019 | 2020 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **ASSETS AND LIABILITIES** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *15* | 5,231 | 4,050 | 2,699 | 2,148 |
| Intangible assets | *16* | 9,681 | 6,915 | 4,000 | 2,425 |
| Right-of-use assets | *17* | 6,627 | 3,761 | 199 | 991 |
| Financial assets at fair value through profit or loss | *18* | 36,800 | 69,250 | — | — |
| Interests in associates | *19* | 960 | 146 | — | — |
| Prepayment, deposits and other receivables | *20* | 198,833 | 290,515 | — | 5,833 |
| Deferred tax assets | *21* | — | 838 | 2,151 | 3,842 |
| | | 258,132 | 375,475 | 9,049 | 15,239 |
| **Current assets** | | | | | |
| Trade receivables | *22* | 2,546 | 3,888 | 9,174 | 8,521 |
| Prepayment, deposits and other receivables | *20* | 40,992 | 65,507 | 9,544 | 17,839 |
| Tax recoverable | | — | 3,071 | 2,708 | 3,539 |
| Financial assets at fair value through profit or loss | *18* | 19,654 | 8,978 | — | — |
| Amount due from a related party | *23* | — | — | — | 59,978 |
| Short-term bank deposits | *24* | 200,000 | 200,000 | 200,000 | — |
| Cash and cash equivalents | *24* | 131,462 | 27,990 | 37,189 | 62,487 |
| | | 394,654 | 309,434 | 258,615 | 152,364 |
| **Current liabilities** | | | | | |
| Lease liabilities | *17* | 2,657 | 2,124 | 110 | 372 |
| Financial liabilities at fair value through profit or loss | *19* | 63,131 | — | — | — |
| Trade and other payables | *25* | 49,417 | 75,516 | 111,398 | 86,917 |
| Deferred revenue | *26* | 37,231 | 41,529 | 45,903 | 57,173 |
| Dividend payables | | 20,000 | — | 80,200 | — |
| | | 172,436 | 119,169 | 237,611 | 144,462 |
| **Net current assets** | | 222,218 | 190,265 | 21,004 | 7,902 |

| | | As at 31 December | | | As at 31 July |
|---|---|---|---|---|---|
| | | 2017 | 2018 | 2019 | 2020 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Total assets less current liabilities** | | 480,350 | 565,740 | 30,053 | 23,141 |
| **Non-current liabilities** | | | | | |
| Lease liabilities | *17* | 3,753 | 1,567 | 10 | 593 |
| **Net assets** | | 476,597 | 564,173 | 30,043 | 22,548 |
| **EQUITY** | | | | | |
| Combined capital | *27* | 12,000 | 12,000 | 10,800 | 10,871 |
| Reserves | *28* | 464,857 | 552,606 | 19,243 | 11,677 |
| Equity attributable to owners of the Target Company | | 476,857 | 564,606 | 30,043 | 22,548 |
| Non-controlling interests | | (260) | (433) | — | — |
| **Total equity** | | 476,597 | 564,173 | 30,043 | 22,548 |

## STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

| | | As at 31 July 2020 |
|---|---|---|
| | *Note* | *RMB'000* |
| **ASSETS AND LIABILITIES** | | |
| **Non-current asset** | | |
| Investment in a subsidiary | | 9 |
| **Current asset** | | |
| Cash and cash equivalents | | 62 |
| **Net assets** | | 71 |
| **EQUITY** | | |
| Share capital | *27* | 71 |
| Reserve | | — |
| **Shareholders' funds** | | 71 |

## COMBINED STATEMENTS OF CHANGES IN EQUITY

| | Equity attributable to owners of the Target Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve* | Retained profits* | Total | Non-controlling interests | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | 12,000 | — | 448,961 | 460,961 | (91) | 460,870 |
| Profit and total comprehensive income for the year | — | — | 35,896 | 35,896 | (169) | 35,727 |
| Dividends *(note 30(b))* | — | — | (20,000) | (20,000) | — | (20,000) |
| Appropriation to statutory reserve | — | 6,000 | (6,000) | — | — | — |
| **At 31 December 2017 and 1 January 2018** | 12,000 | 6,000 | 458,857 | 476,857 | (260) | 476,597 |
| Profit and total comprehensive income for the year | — | — | 133,749 | 133,749 | (173) | 133,576 |
| Dividends *(note 30(b))* | — | — | (46,000) | (46,000) | — | (46,000) |
| **At 31 December 2018 and 1 January 2019** | 12,000 | 6,000 | 546,606 | 564,606 | (433) | 564,173 |
| Profit and total comprehensive income for the year | — | — | 207,327 | 207,327 | (261) | 207,066 |
| Capital injection *(note 27(a))* | 9,600 | — | — | 9,600 | — | 9,600 |
| Dividends *(note 30(b))* | — | — | (295,000) | (295,000) | — | (295,000) |
| Derecognition of subsidiaries, assets and liabilities *(note 33)* | (10,800) | (3,000) | (442,690) | (456,490) | 694 | (455,796) |
| Appropriation to statutory reserve | — | 2,400 | (2,400) | — | — | — |
| **At 31 December 2019 and 1 January 2020** | 10,800 | 5,400 | 13,843 | 30,043 | — | 30,043 |
| Profit and total comprehensive income for the period | — | — | 87,434 | 87,434 | — | 87,434 |
| Issue of share capital *(note 27(b))* | 71 | — | — | 71 | — | 71 |
| Dividends *(note 30(b))* | — | — | (95,000) | (95,000) | — | (95,000) |
| **At 31 July 2020** | 10,871 | 5,400 | 6,277 | 22,548 | — | 22,548 |
| **At 1 January 2019** | 12,000 | 6,000 | 546,606 | 564,606 | (433) | 564,173 |
| Profit and total comprehensive income for the period | — | — | 145,728 | 145,728 | (119) | 145,609 |
| Capital injection *(note 27(a))* | 9,600 | — | — | 9,600 | — | 9,600 |
| Dividends *(note 30(b))* | — | — | (110,000) | (110,000) | — | (110,000) |
| **At 31 July 2019 (Unaudited)** | 21,600 | 6,000 | 582,334 | 609,934 | (552) | 609,382 |

* *The total of these equity accounts as at the end of each of the Track Record Period represent "Reserves" in the respective combined statements of financial position.*

## COMBINED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **Cash flows from operating activities** | | | | | |
| Profit before income tax: | | | | | |
| From continuing operations | 8,859 | 130,407 | 210,120 | 153,241 | 104,193 |
| From discontinuing operations | 26,868 | 16,918 | 20,290 | 10,934 | — |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 3,576 | 1,998 | 2,609 | 1,170 | 864 |
| Depreciation of right-of-use assets | 2,014 | 2,734 | 2,066 | 1,362 | 300 |
| Amortisation of intangibles assets | 2,649 | 2,766 | 2,766 | 1,614 | 1,575 |
| Loss/(Gain) on lease modification | — | 95 | (130) | — | — |
| Fair value loss/(gain) on financial assets at fair value through profit or loss | 10,346 | 11,147 | (1,376) | (1,755) | — |
| Expected credit losses on financial assets | 202,586 | 23,679 | 37,992 | 38,416 | — |
| Interest income | (13,229) | (19,495) | (22,367) | (13,729) | (1,973) |
| Gain on bargain purchase | — | (99) | — | — | — |
| Share of results of associates | 40 | 517 | 325 | 341 | — |
| Impairment loss on interest in associates | 37,500 | 1,297 | 759 | 795 | — |
| Finance costs | 290 | 254 | 96 | 87 | 17 |
| Fair value loss on financial liabilities of fair value through profit or loss | 63,131 | — | — | — | — |
| Operating profit before working capital changes | 344,630 | 172,218 | 253,150 | 192,476 | 104,976 |
| Decrease/(Increase) in trade receivables | 168,034 | (1,342) | (7,602) | 829 | 653 |
| Decrease/(Increase) in prepayment, deposits and other receivables | 1,111 | (4,297) | 12,770 | 5,455 | (14,128) |
| (Decrease)/Increase in trade and other payables | (6,457) | 3,007 | 41,417 | 7,060 | (24,481) |
| Increase/(Decrease) in deferred revenue | 12,593 | (5,446) | 6,951 | 3,880 | 11,270 |
| Cash generated from operations | 519,911 | 164,140 | 306,686 | 209,700 | 78,290 |
| Tax refund/(paid) | 16,232 | (17,658) | (25,391) | (23,748) | (19,281) |
| Net cash used in operating activities | 536,143 | 146,482 | 281,295 | 185,952 | 59,009 |

| | Notes | Year ended 31 December 2017 RMB'000 | 2018 RMB'000 | 2019 RMB'000 | Seven months ended 31 July 2019 RMB'000 (unaudited) | 2020 RMB'000 |
|---|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | | |
| Interest received | | 2,928 | 6,898 | 5,741 | 4,735 | 1,973 |
| Increase in loan receivables | | (380,300) | (110,568) | (63,659) | (38,500) | — |
| Increase in amount due from a related party | | — | — | — | — | (59,978) |
| Acquisition of interests in associates | 19 | (38,500) | (1,000) | (1,000) | (1,000) | — |
| Settlement of financial liabilities at fair value through profit or loss | 19 | — | (63,131) | — | — | — |
| Cash inflows of acquisition of a subsidiary | 32 | — | 20,521 | — | — | — |
| Acquisition of financial assets at fair value through profit or loss | | (66,800) | (40,450) | — | — | — |
| Proceeds from disposal of financial assets at fair value through profit or loss | | — | 7,529 | — | — | — |
| Addition of intangible assets | | (6,330) | — | (4,085) | (2,675) | — |
| Acquisition of property, plant and equipment | | (5,131) | (817) | (1,588) | (1,218) | (313) |
| (Increase)/Decrease in short-term bank deposits | | (200,000) | — | — | — | 200,000 |
| Net cash (used in)/generated from investing activities | | (694,133) | (181,018) | (64,591) | (38,658) | 141,682 |
| **Cash flows from financing activities** | | | | | | |
| Dividend paid | | — | (66,000) | (205,200) | (100,400) | (175,200) |
| Derecognition of subsidiaries, assets and liabilities | 33 | — | — | (264) | — | — |
| Repayments of principal portion of lease liabilities | 31 | (2,370) | (2,682) | (1,945) | (1,310) | (247) |
| Repayments of interest of lease liabilities | 31 | (290) | (254) | (96) | (87) | (17) |
| Issue of share capital | 27 | — | — | — | — | 71 |
| Net cash used in financing activities | | (2,660) | (68,936) | (207,505) | (101,797) | (175,393) |
| **Net (decrease)/increase in cash and cash equivalents** | | (160,650) | (103,472) | 9,199 | 45,497 | 25,298 |
| Cash and cash equivalents at the beginning of year | | 292,112 | 131,462 | 27,990 | 27,990 | 37,189 |
| Cash and cash equivalents at the end of year | | 131,462 | 27,990 | 37,189 | 73,487 | 62,487 |
| **Analysis of cash and cash equivalents** | | | | | | |
| Cash at banks and on hand | | 131,462 | 27,990 | 37,189 | 73,487 | 62,487 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. INFORMATION ABOUT THE TARGET COMPANY

The Company proposed to acquire the game operating business on a platform, namely 親朋遊戲 (www.qpgame.com) in the People's Republic of China (the "PRC") through the Acquisition. The Target Company was incorporated in the British Virgin Islands (the "BVI") on 23 April 2020 under the laws of BVI with limited liability and is indirectly owned as to approximately 50.00%, 44.44% and 5.56% by Mr Zhang Zhenhua, Ms Zhang Xiaojuan and Ms Wang Yeqiong, respectively.

During the Track Record Period, the game operating business was carried out by 深圳維京人網絡科技有限公司 (the "OPCO"), which is a private company with limited liability established in the PRC. The OPCO was directly controlled by Mr Zhang Zhenhua, Ms Zhang Xiaojuan and Ms Wang Yeqiong.

Prior to 18 October 2019, the OPCO and its subsidiaries were engaged in the development, operation and publishing of mobile and browser games in the PRC. Pursuant to a demerger agreement dated 18 October 2019, the game development, the browser and mobile games operating business on a game platform, namely 冠通棋牌, investments in subsidiaries and associate, investment in financial instruments together with certain assets and liabilities were spin off from the OPCO and for such operations, investments, certain assets and liabilities were allocated to a new entity which is owned by Mr Zhang Zhenhua, Ms Zhang Xiaojuan and Ms Wang Yeqiong. On 13 December 2019, 深圳市重華網絡科技有限公司 was established for the derecognition process and the transaction was completed on 31 December 2019.

Further details of the above derecognition and transfers are included in note 33.

### 2. REORGANISATION AND BASIS OF PRESENTATION

As mentioned above, the OPCO was directly controlled by Mr Zhang Zhenhua, Ms Zhang Xiaojuan and Ms Wang Yeqiong. For recognising the corporate structure in connection with the Acquisition, a reorganisation (the "Reorganisation") was underwent. Upon completion of the Reorganisation, the Target Group would take over the game operating business as below:

(a) As explained in note 1 above, the Target Company was incorporated in the BVI, and paid-up capital of US$10,000 on 23 April 2020 and is indirectly owned as to approximately 50.00%, 44.44% and 5.56% by Mr Zhang Zhenhua, Ms Zhang Xiaojuan and Ms Wang Yeqiong, respectively.

(b) On 8 May 2020, Tak Shing Group Hong Kong Limited ("Tak Shing HK") was incorporated in Hong Kong and is wholly owned by the Target Company.

(c) On 3 September 2020, 深圳德城科技有限公司 (the "WFOE") was incorporated in the PRC with limited liability and is wholly owned by Tak Shing HK.

(d) On 8 September 2020, the WFOE entered into a series of contractual agreements (collectively referred to the "Contractual Arrangements" and detailed in the section headed "LETTER FROM THE BOARD" on pages 31 to 53 in this circular) with the OPCO and its respectively equity holders. Pursuant to the Contractual Arrangements, the WFOE is able to effectively control the operating and financing decisions and receive substantially all the economic benefits of the business and operation of the OPCO. Accordingly, the OPCO is regarded as the indirectly owned subsidiary of the WFOE under HKFRS 10 *"Consolidated Financial Statements"* and combined in the Historical Financial Information.

The shareholding structure of the Target Group prior to the completion of the Acquisition are set out in section headed "LETTER FROM THE BOARD" on page 65 in this circular of the Company date 13 January 2021.

Immediate prior to and after the Reorganisation, the game operating business is held by the OPCO. Upon completion of the Reorganisation, the OPCO together with its business is controlled by the Target Company through the Contractual Arrangements.

Pursuant to the Contractual Arrangements, the Target Company and those companies newly set up during the Reorganisation became the holding company of the OPCO. They have not been involved in any other business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a reorganisation for the Acquisition and does not result in any changes in business substance. Accordingly, the Historical Financial Information has been prepared using the merger basis of accounting as if the Target Group had always been in existence.

As at the date of this report, no audited statutory financial statements have been prepared for the Target Company, Tak Shing HK and the WFOE, as they are either have not carried on any business since their respective dates of incorporation or are investment holding companies or the statutory financial statements for the Track Record Period have not been issued up to the date of the Historical Financial Information or are not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation. The financial statements of the companies comprising the Target Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to the entities in the countries in which they were incorporated.

Up to the date of this report, the companies comprising the Target Group are set out as follows:

| Company name | Place and date of incorporation and type of legal entity | Particulars of registered/issued and paid-up capital | Effective interest held by the Target Company Directly | Effective interest held by the Target Company Indirectly | Principal activities | Name of statutory auditor |
|---|---|---|---|---|---|---|
| Tak Shing HK | Hong Kong/Limited liability company/ 8 May 2020 | HK$10,000 | 100% | — | Investment holding | N/A |
| The WFOE | The PRC/Wholly foreign-owned enterprise/ 3 September 2020 | registered capital of RMB5,000,000<br>paid-up capital: nil | — | 100% | Investment holding | N/A |
| The OPCO | The PRC/Limited liability company/ 5 August 2011 | RMB10,800,000 | — | 100% | Browser and mobile game operation | 深圳長江會計師事務所（普通合夥） |

All companies now comprising the Target Group have adopted 31 December as their financial year end date.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of preparation**

The Historical Financial Information has been prepared in accordance with the basis of presentation set out in note 2 and the accounting policies set out below which conform with HKFRSs (which collective term includes Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Target Group and became effective during the Track Record Period. In preparing the Historical Financial Information, the Target Group has adopted all relevant new or revised HKFRSs effective for annual period beginning on 1 January 2020, together with the relevant transition provisions, consistently throughout the Track Record Period.

HKFRS 9 "*Financial Instruments*" ("HKFRS 9") replaces the provisions of HKAS 39 "*Financial Instruments*" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

HKFRS 15, "*Revenue from Contracts with Customers*" ("HKFRS 15") replaces the previous revenue standards of HKFRS 18 "*Revenue*" and HKAS 11 "*Construction Contracts*" and related interpretations.

HKFRS 16 "*Leases*" ("HKFRS 16") replaces the previous HKAS 17 "*Leases*" and related interpretations.

HKFRS 9 and HKFRS 15 are mandatorily effective for financial year beginning on or after 1 January 2018 and HKFRS 16 is mandatorily effective for financial year beginning on or after 1 January 2019. In preparation of the Historical Financial Information, they are applied consistently throughout the Track Record Period.

At the date of this report, certain new or revised HKFRSs have been issued by the HKICPA but are not yet effective and have not been early adopted by the Target Group. Details of which are set out in note 4.

The Historical Financial Information has been prepared under the historical cost basis except for investment in financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The Historical Financial Information is presented in RMB, which is the same as the functional currency of the Company and its major subsidiary.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately different from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 5.

**(b) Basis of combination**

The Historical Financial Information incorporates the financial statements of the Target Company and its subsidiaries comprising the Target Group for the Track Record Period. As explained in note 2 above, the Reorganisation is accounted for using merger basis of accounting.

Intra-group balances, transactions and cash flows and unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

**(c) Subsidiaries**

A subsidiary is an entity (including a structured entity) over which the Target Company is able to exercise control directly or indirectly. The Target Company controls an entity if all three of the following elements are present: power over the equity, exposure, or rights, to variable returns from the equity, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

*Subsidiaries arising from the Reorganisation*

The OPCO have entered into Contractual Arrangements with, among others, the WFOE, the legal equity holders of the OPCO (the "Legal Equity Holders"). The Contractual Arrangements became effective on 8 September 2020. In particular, the WFOE undertakes to provide the OPCO with certain technical and consultation services as required to support its operations. In return, the WFOE is entitled to substantially all of the operating profits and residual benefits generated by the OPCO through intercompany charges levied on these services rendered. The Legal Equity Holders are also required to transfer their interests in the OPCO to the WFOE or the designee appointed by the WFOE upon a request made by the WFOE when permitted by the PRC laws for a consideration. The ownership interests in the OPCO have also been pledged by the Legal Equity Holders to the WFOE in respect of the continuing obligations of the OPCO. The WFOE has not provided any financial support that it was not previously contractually required to do so to the OPCO during the Track Record Period. The WFOE intends continuously to provide to or assist the OPCO in obtaining financial support when deemed necessary. Accordingly, the Target Group has rights to variable returns from its involvement with the OPCO and has the ability to affect those returns through its power, and thus control over the OPCO.

**(d) Associates**

An associate is an entity in which the Target Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Target Group's investments in associates are stated in the combined statements of financial position at the Target Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Target Group's share of the post-acquisition results and other comprehensive income of associates is included in the combined statements of comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Target Group recognises its share of any changes, when applicable, in the combined statements of changes in equity. Unrealised gains and losses resulting from transactions between the Target Group and its associates are eliminated to the extent of the Target Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Target Group's investments in associates.

Upon loss of significant influence over the associates, the Target Group measures and recognises any retained investments at their fair values. Any difference between the carrying amounts and the fair values of the retained investment and proceeds from disposal is recognised in profit or loss.

**(e) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

| | |
|---|---|
| Office equipment | 3 years |
| Leasehold improvement | Over the lease term |
| Motor vehicles | 5 years |

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 3(m)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

**(f) Leasing**

All leases are required to be capitalised in the combined statements of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Target Group has elected not to recognise right-of-use assets and lease liabilities for which at the commencement date have a lease term of 12 months or less. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

***(i) Right-of-use asset***

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease. The Target Group measures the right-of-use assets applying a cost model. Under cost model, the right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

***(ii) Lease liability***

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, management uses the Target Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Target Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

**(g) Intangible assets**

***(i) Research and development costs***

Costs associated with research activities are expensed in profit or loss as incurred. Costs that are directly attributable to development activities (relating to the design and testing of new or improved products controlled by the Target Group) are recognised as intangible assets provided that they meet the following recognition requirements:

- demonstration of technical feasibility of completing the prospective product for internal use or sale;
- there is intention to complete the intangible asset and use or sell it;
- the Target Group's ability to use or sell the intangible asset is demonstrated;
- how the intangible asset will generate future economic benefits through internal use or sale;
- sufficient technical, financial and other resources are available for completion and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use on a straight-line basis over their estimated useful lives not exceeding 2 years.

***(ii) Software and trademark***

Acquired software and trademark are capitalised on the basis of the costs incurred to acquire and bring to use them. These costs are amortised over their estimated useful lives of three to five years on a straight-line basis, and recorded in amortisation within operating expenses in the combined statements of comprehensive income. Length of estimated useful life is determined to be the shorter of the period of estimated period during which such software and trademark can bring economic benefits to the Target Group.

**(h) Financial instruments**

***(i) Financial assets***

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Target Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

***(ii) Impairment on financial assets***

The Target Group has elected to measure loss allowances for trade receivables using the simplified approach in HKFRS 9 and has calculated expected credit losses ("ECLs") based on lifetime ECLs. The Target Group has established a provision matrix that is based on the Target Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Target Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Target Group's historical experience and informed credit assessment and including forward-looking information.

The Target Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Target Group considers a financial asset to be credit-impaired or a default event occur when: (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as recognise security (if any is held); or (ii) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

The gross carrying amount of a financial asset is written off to the extent that there is no reasonable expectation of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

***(iii) Financial liabilities***

The Target Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at FVTPL*

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Target Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the consolidated statement of profit or loss and other comprehensive income. The net fair value gain or loss recognised in the statement of profit or loss and other comprehensive income does not include any interest charged on these financial liabilities.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade and other payables, dividend payables and lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

***(iv) Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

***(v) Equity instruments***

Equity instruments issued by the Target Group are recorded at the proceeds received, net of direct issue costs.

***(vi) Derecognition***

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

**(i) Revenue recognition**

The Target Group operates browser and mobile games under free-to-play model. Game players purchase game credits which are virtual currency for acquisition of in-game virtual items for better in-game experience. The Target Group sells prepaid game credits through its own game platform and cooperation with various third party payment channels.

The Target Group has evaluated the respective roles and responsibilities of the Target Group, third-party game developers and third-party payment channels in the delivery of game experiences to the paying players (the "Paying Players") in determining if the Target Group is acting as principal or as an agent in the arrangement. The Target Group is responsible for the hosting and maintenance of game services for running the games, providing customers' services to game players, determining the selling price of the in-game token, selection of distribution and payment channels and preventing, detecting and resolving cheating and hacking activities. The Target Group has evaluated and determined that it is the primary obligor in the rendering services to game players. Accordingly, the Target Group considers that the Paying Players as their customers and the game operation income reported in the combined financial statements are on gross basis. Payment to third-party game developers and service charges by the third-party payment channels are recorded as direct costs. Third-party payment channels collect the payment from the Paying Players and remit the cash net of commission charges which are pre-determined according to the relevant terms entered into between the Target Group and the third-party payment channels.

Upon the sales of game credits or in-game virtual items, the Target Group typically has an implied obligation to provide the services which enable the game credits or in-game virtual items to be displayed, used or converted into in-game virtual currencies/items in the games. As a result, the proceeds received from sales of game credits or in-game virtual items are initially recorded as deferred revenue. The attributable portion of the deferred revenue relating to values of the game credits consumed and in-game virtual items converted are recognised as revenue upon the consumption of game credits and virtual items by the Paying Players.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

**(j) Cash and cash equivalents and short-term bank deposits**

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and are subject to an insignificant risks of change in value. Short-term deposits comprise deposits with banks with original maturities of more than three months.

**(k) Income taxes**

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is unrealised or settled and that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

**(l) Employee benefits**

***(i) Retirement benefit costs***

The employees of the OPCO which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of employees' salaries to the central pension scheme.

Contributions are recognised as an expense in profit or loss when the services are rendered by the employees. The Target Group's obligations under these plans are limited to the fixed percentage contributions payable.

***(ii) Short-term employee benefits***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

**(m) Impairment of other assets**

At the end of each reporting period, the Target Group reviews the carrying amounts of its property, plant and equipment, intangible assets and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**(n) Government grants**

Government grants are recognised when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

**(o) Provisions and contingent liabilities**

Provisions are stated at amortised cost and recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(p) Segment reporting**

The Target Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Target Group's business components and for their review of the performance of those components.

**(q) Related parties**

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions apply:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

## 4. NEW OR REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The following new or revised HKFRSs, potentially relevant to the Target Group, have been issued, but are not yet effective and have not been early adopted by the Target Group in the preparation of the Historical Financial Information.

| | |
|---|---|
| Amendments to HKAS 1 (Revised) and HKAS 8 | Definition of Material[1] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-Current[5] |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract[4] |
| Amendments to HKFRS 3 | Definition of a Business[1] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7 | Interest Rate Benchmark Reform[1] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform — Phase 2[3] |
| Amendments to HKFRS 16 | Covid-19-Related Rent Concessions[2] |
| Annual Improvements to HKFRSs2018–2020 Cycle | Amendments to HKFRS 9 Financial Instruments; HKFRS 16 Leases[4] |

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 June 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after 1 January 2022
5 Effective for annual periods beginning on or after 1 January 2023

The Target Group is in the process of making an assessment of what the impact of the new or revised HKFRSs as listed above are expected to be in the period of initial application. So far it has concluded that the adoption of the new or revised HKFRSs are unlikely to have a significant impact on the combined financial information of the Target Group.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, the directors of the Target Group are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**(i) Estimated useful lives of property, plant and equipment and intangible assets**

Management determines the useful lives and the related depreciation or amortisation charges for its property, plant and equipment and intangible assets. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation or amortisation charges where useful lives are subsequently assessed to be less than previously estimated lives. It will write off or write down the technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from the estimated useful lives. Periodic review could result in a change in depreciable or amortised lives and therefore affect the depreciation or amortisation charges in future periods.

**(ii) Impairment of property, plant and equipment**

The Target Group assesses whether there are any indicators of impairment for property, plant and equipment at the end of each reporting period. The property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposal of the asset. When value in use calculation is undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**(iii) Principal versus agent considerations**

The management determines whether to record revenue earned from game publishing and operation arrangements signed between the Target Group and the third party game developers using gross or net basis is based on an assessment of various factors, including but not limited to whether the Target Group (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine payment channels.

**(iv) Expected credit losses on receivables**

The Target Group makes allowance for impairment on trade and other receivables based on assumptions about probability of default and loss given default. Management uses judgement in making these assumptions and selecting the inputs to the ECLs calculations, based on the Target Group's historical credit loss experience, existing market conditions as well as forward-looking estimates at the end of the reporting period.

**(v) Income taxes**

The Target Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax liabilities in the period in which such determination is made.

The OPCO was entitled to a preferential enterprise income tax rate for a specified period subject to certain conditions. Management generally applies the applicable preferential tax rate to calculate current income tax on the assumption that the OPCO will meet the conditions and any change in the applicable tax rate is adjusted in the year in which the information becomes known.

**(vi) Leases — estimating the incremental borrowing rate**

The Target Group cannot readily determine the interest rate implication a lease, and therefore, it uses an incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Target Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Target Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Target Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiaries' stand-alone credit rating).

**6. SEGMENT INFORMATION**

The Target Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors of the Target Group, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance. The business components in the internal financial information reported to the chief operating decision makers are based on the Target Group's major product and services lines. For the years ended 31 December 2017, 2018 and 2019 and seven months ended 31 July 2019, the Target Group has identified the following operating segments:

(i) 親朋 segment (*Continuing operations*) — operate browser and mobile games in 親朋遊戲 platform in Shenzhen, the PRC; and

(ii) 冠通 segment (*Discontinued operation*) — operate browser and mobile games in 冠通棋牌 platform in Daqing, the PRC

Each of these operating segments is managed separately as the resources requirement of each of them is different. For the year ended 31 December 2018, the Target Group also operated browser and mobile games through 深圳市星浩網絡科技有限公司 ("SZ Xinghao"), one of the subsidiaries (note 19(b)), since the revenue from SZ Xinghao individually does not meet the quantitative thresholds to be separately reported, it is aggregated with 親朋 segment because they have similar economic characteristics. SZ Xinghao became inactive after the year ended 31 December 2018.

Revenue of operating income from the games developed by the OPCO and licensed games are allocated to 親朋 segment and 冠通 segment in which those games operated. The operating expenses are allocated to the operating segments with reference to the expenses incurred by those segments.

Corporate income mainly included government grants and subsidies. Corporate expenses mainly included distribution costs. Corporate assets and liabilities mainly included loan and interest receivables, financial assets at fair value through profit or loss, interests in associates, deferred tax assets, certain receivables, tax recoverable, short-term bank deposits, cash and cash equivalents, certain payables, dividend payables and financial liabilities at fair value through profit or loss.

After the completion of derecognition process as set out in note 1 on 31 December 2019, 冠通 segment, the function of game development, investments in subsidiaries and associates, investments in financial instruments and certain assets and liabilities were spun off from the Target Group. Therefore, the executive directors of the Target Group have determined that the Target Group has only one single reportable segment which carried out in 親朋遊戲 platform in Shenzhen, the PRC. Therefore, no analysis of segment results and geographical location is presented for the seven months ended 31 July 2020 and no analysis of segment assets and liabilities is presented as at 31 July 2020.

The following is an analysis of the Target Group's revenue and results by operating segments:

| | Continuing operations | | Discontinued operation | |
|---|---|---|---|---|
| | **親朋 segment** | **Subtotal** | **冠通 segment** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **For the year ended 31 December 2017** | | | | |
| Segment revenue | 536,736 | 536,736 | 41,568 | 578,304 |
| Segment results | 394,321 | 394,321 | 26,868 | 421,189 |
| Interest income | | 13,229 | | |
| Finance costs | | (274) | | |
| Impairment loss on interest in associates | | (37,500) | | |
| Fair value loss on financial assets at fair value through profit and loss | | (10,346) | | |
| Expected credit losses | | (202,586) | | |
| Fair value loss on financial liabilities at fair value through profit or loss | | (63,131) | | |
| Share of result of associates | | (40) | | |
| Corporate income | | 145 | | |
| Corporate expenses | | (84,959) | | |
| Profit before income tax expense | | 8,859 | | |
| **For the year ended 31 December 2018** | | | | |
| Segment revenue | 434,267 | 434,267 | 28,410 | 462,677 |
| Segment results | 227,316 | 227,316 | 16,918 | 244,234 |
| Interest income | | 19,495 | | |
| Finance costs | | (248) | | |
| Impairment loss on interest in associates | | (1,297) | | |
| Fair value loss on financial assets at fair value through profit and loss | | (11,147) | | |
| Expected credit losses | | (23,679) | | |
| Share of result of associates | | (517) | | |
| Corporate income | | 3,598 | | |
| Corporate expenses | | (83,114) | | |
| Profit before income tax expense | | 130,407 | | |

| | Continuing operations 親朋 segment *RMB'000* | Continuing operations Subtotal *RMB'000* | Discontinued operation 冠通 segment *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | |
| Segment revenue | 596,270 | 596,270 | 28,365 | 624,635 |
| Segment results | 303,881 | 303,881 | 20,290 | 324,171 |
| Interest income | | 22,367 | | |
| Finance costs | | (96) | | |
| Impairment loss on interest in associates | | (759) | | |
| Fair value gain on financial assets at fair value through profit and loss | | 1,376 | | |
| Expected credit losses | | (37,992) | | |
| Share of result of associates | | (325) | | |
| Corporate income | | 5,865 | | |
| Corporate expenses | | (84,197) | | |
| Profit before income tax expense | | 210,120 | | |
| **For the seven months ended 31 July 2019 (Unaudited)** | | | | |
| Segment revenue | 357,623 | 357,623 | 14,951 | 372,574 |
| Segment results | 215,747 | 215,747 | 10,934 | 226,681 |
| Interest income | | 13,729 | | |
| Finance costs | | (87) | | |
| Impairment loss on interest in associates | | (795) | | |
| Fair value gain on financial assets at fair value through profit and loss | | 1,755 | | |
| Expected credit losses | | (38,416) | | |
| Share of result of associates | | (341) | | |
| Corporate income | | 4,503 | | |
| Corporate expenses | | (42,854) | | |
| Profit before income tax expense | | 153,241 | | |

The following is an analysis of the Target Group's assets and liabilities by operating segments:

| | **Continuing operations 親朋 segment** *RMB'000* | **Discontinued operation 冠通 segment** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| **As at 31 December 2017** | | | |
| Segment assets | 34,556 | 266 | 34,822 |
| Corporate assets | | | 617,964 |
| Combined total assets | | | 652,786 |
| Segment liabilities | 55,344 | 5,794 | 61,138 |
| Corporate liabilities | | | 115,051 |
| Combined total liabilities | | | 176,189 |
| **As at 31 December 2018** | | | |
| Segment assets | 29,835 | 133 | 29,968 |
| Corporate assets | | | 654,941 |
| Combined total assets | | | 684,909 |
| Segment liabilities | 93,476 | 4,380 | 97,856 |
| Corporate liabilities | | | 22,880 |
| Combined total liabilities | | | 120,736 |
| **As at 31 December 2019** | | | |
| Segment assets | 25,615 | — | 25,615 |
| Corporate assets | | | 242,049 |
| Combined total assets | | | 267,664 |
| Segment liabilities | 138,036 | — | 138,036 |
| Corporate liabilities | | | 99,585 |
| Combined total liabilities | | | 237,621 |

Other segment information of amounts included in the measure of segment results or segment assets are as follows:

| | Continuing operations 親朋 segment *RMB'000* | Discontinued operation 冠通 segment *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| **For the year ended 31 December 2017** | | | |
| Additions to non-current assets* | 10,505 | — | 10,505 |
| Depreciation | 5,455 | 133 | 5,588 |
| Amortisation of intangible assets | 2,649 | — | 2,649 |
| Staff costs | 45,947 | 344 | 46,291 |
| **For the year ended 31 December 2018** | | | |
| Additions to non-current assets* | 885 | — | 885 |
| Depreciation | 4,597 | 133 | 4,730 |
| Amortisation of intangible assets | 2,766 | — | 2,766 |
| Staff costs | 48,151 | 760 | 48,911 |
| **For the year ended 31 December 2019** | | | |
| Additions to non-current assets* | 1,551 | — | 1,551 |
| Depreciation | 4,535 | 133 | 4,668 |
| Amortisation of intangible assets | 2,766 | — | 2,766 |
| Staff costs | 38,483 | 824 | 39,307 |
| **For the seven months ended 31 July 2019 (Unaudited)** | | | |
| Additions to non-current assets* | — | — | — |
| Depreciation | 2,452 | 78 | 2,530 |
| Amortisation of intangible assets | 1,614 | — | 1,614 |
| Staff costs | 22,456 | 375 | 22,831 |

The Target Group's non-current assets by geographical location are detailed below:

| | As at 31 December | | |
|---|---|---|---|
| | **2017** *RMB'000* | **2018** *RMB'000* | **2019** *RMB'000* |
| Non-current assets as at* | | | |
| — Shenzhen, the PRC | 11,592 | 7,678 | 2,898 |
| — Daqing, the PRC | 266 | 133 | — |
| | 11,858 | 7,811 | 2,898 |

* *Non-current assets represented property, plant and equipment and right-of-use assets.*

During the years ended 31 December 2017, 2018, 2019 and the seven months ended 31 July 2019 and 2020, no revenue from a single customer accounted for 10% or more of the total revenue of the Target Group in the respective years/periods.

Disaggregation of revenue of the Target Group are as follows:

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| *Continuing operations* | | | | | |
| Games developed by the OPCO operated in 親朋遊戲 platform | 418,361 | 79,417 | 149,667 | 100,239 | — |
| Licensed games operated in 親朋遊戲 platform | 118,375 | 354,850 | 446,603 | 257,384 | 493,229 |
| | 536,736 | 434,267 | 596,270 | 357,623 | 493,229 |
| *Discontinued operation* | | | | | |
| Games developed by the OPCO operated in 冠通棋牌 platform | 35,403 | 26,794 | 27,792 | 14,537 | — |
| Licensed games operated in 冠通棋牌 platform | 6,165 | 1,616 | 573 | 414 | — |
| | 41,568 | 28,410 | 28,365 | 14,951 | — |

## 7. REVENUE AND OTHER INCOME

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| *Continuing operations* | | | | | |
| **Revenue** | | | | | |
| Game operation income | 536,736 | 434,267 | 596,270 | 357,623 | 493,229 |
| **Other income** | | | | | |
| Government grants and subsidies *(note)* | 142 | 3,412 | 4,326 | 4,036 | 5,628 |
| Interest income | 13,229 | 19,495 | 22,367 | 13,729 | 1,973 |
| Fair value change on financial assets at fair value through profit or loss | — | — | 1,376 | 1,755 | — |
| Others | 3 | 187 | 1,539 | 467 | 2,890 |
| | 13,374 | 23,094 | 29,608 | 19,987 | 10,491 |

The game operation income is recognised at a point in time upon the consumption of game credits and virtual items by the Paying Players.

*Note:* Various government grants and subsidies have been received from local government authorities in the PRC. There are no unfulfilled conditions and other contingencies relating to these grants and subsidies.

## 8. FINANCE COSTS

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| *Continuing operations* | | | | | |
| Interest on lease liabilities | 274 | 248 | 96 | 87 | 17 |

## 9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging and (crediting):

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) | |
| *Continuing operations* | | | | | |
| Amortisation of intangible assets | 2,649 | 2,766 | 2,766 | 1,614 | 1,575 |
| Auditor's remuneration | 56 | 54 | 68 | 62 | 62 |
| Depreciation: | | | | | |
| — Property, plant and equipment* | 3,576 | 1,998 | 2,609 | 1,170 | 864 |
| — Right-of-use assets* | 1,881 | 2,601 | 1,933 | 1,284 | 300 |
| Fair value loss/(gain) on financial assets at fair value through profit or loss | 10,346 | 11,147 | (1,376) | (1,755) | — |
| Fair value loss on financial liabilities at fair value through profit or loss* *(notes 19 and 32)* | 63,131 | — | — | — | — |
| Gain from a bargain purchase *(note 32)* | — | (99) | — | — | — |
| Impairment loss on interests in associates* | 37,500 | 1,297 | 759 | 795 | — |
| Loss/(Gain) on lease modification | — | 95 | (130) | — | — |
| Research costs* | 50,431 | 35,120 | 33,041 | 13,471 | 9,587 |
| Short-term lease expenses | 822 | 278 | 1,814 | 1,120 | 13 |
| Staff costs *(note 11)* | 46,385 | 49,437 | 39,313 | 22,735 | 20,127 |

* *Included in administrative expenses in the combined statements of comprehensive income*

## 10. INCOME TAX EXPENSE

The amount of income tax expense in the combined statements of comprehensive income represents:

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| *Continuing operations* | | | | | |
| Current year/period — PRC Enterprise Income Tax | | | | | |
| — Tax for the year/period | — | 12,408 | 22,622 | 18,171 | 18,450 |
| Deferred tax credit *(note 21)* | — | (838) | (1,313) | (850) | (1,691) |
| Income tax expense | — | 11,570 | 21,309 | 17,321 | 16,759 |

Pursuant to the rules and regulations of the BVI, the Target Company is not subject to any income tax in the BVI.

No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Target Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the Track Record Period.

Provision for the Enterprise Income Tax (the "EIT") in the PRC is calculated at the applicable rate of 25% in accordance with the relevant laws and regulation in the PRC.

During the year ended 31 December 2017, the OPCO was qualified as an enterprise of Software and Integrated Circuit Industries (軟件產業和集成電路產業) in the PRC and was exempted from the EIT. During the years ended 31 December 2018, 2019 and the seven months ended 31 July 2019, the OPCO has been qualified as an enterprise of National Important Software Enterprise (重點軟件企業) and enjoyed a preferential tax rate of 10%. For the seven months ended 31 July 2020, the OPCO entitled to a preferential tax rate of 15% as it is also qualified as "high and new technology enterprise" (高新科技企業).

Details of deferred taxation are set out in note 21.

The income tax expense for the Track Record Period can be reconciled to the profit before income tax per the combined statements of comprehensive income as follows:

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| *Continuing operations* | | | | | |
| Profit before income tax | 8,859 | 130,407 | 210,120 | 153,241 | 104,193 |
| Tax on profit before income tax, calculated at the applicable rate of 25% | 2,215 | 32,602 | 52,530 | 38,310 | 26,048 |
| Tax effect of non-deductible expenses | 78,775 | 10,434 | 11,762 | 11,124 | 2,008 |
| Tax effect of non-taxable income | (3,141) | (9,503) | (6,546) | (4,581) | (1,407) |
| Tax credit on research and development costs | (6,305) | (5,890) | (6,156) | (2,492) | — |
| Effect of preferential tax rates granted to the subsidiary operated in the PRC | (71,544) | (16,073) | (30,281) | (25,040) | (9,890) |
| Income tax expense | — | 11,570 | 21,309 | 17,321 | 16,759 |

## 11. STAFF COSTS

| | Year ended 31 December | | | Seven months ended 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| *Continuing operations* | | | | | |
| Salaries, allowance and benefits in kind | 44,815 | 47,378 | 37,469 | 21,711 | 19,797 |
| Contribution to defined retirement pension scheme *(note)* | 1,570 | 2,059 | 1,844 | 1,024 | 330 |
| | 46,385 | 49,437 | 39,313 | 22,735 | 20,127 |

*Note:* The employees of the OPCO and its subsidiaries in the PRC participated in defined contribution retirement benefit schemes managed by the local government authorities, whereby the Target Group is required to contribute to the schemes at a rate ranged from 25% to 33% of the employees' basic salaries. Employees of the Target Group are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

The Target Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

## 12. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

The directors of the Company consider the presentation of such information is not meaningful for the purpose of this report.

### (b) Five highest paid individuals

The directors of the Company consider the presentation of such information is not meaningful for the purpose of this report.

## 13. DISCONTINUED OPERATION

During the year ended 31 December 2019, the browser and mobile games operation carried out on the platform of 冠通棋牌 had been derecognised as set out in note 1. This operation is presented a discontinued operation in accordance with HKFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*". The results of this operation for the years ended 31 December 2017, 2018 and 2019 and for the seven months ended 31 July 2019 are presented as a discontinued operation.

The results of the discontinued operation were as follows:

| | Year ended 31 December | | | Seven months ended 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) |
| Revenue | 41,568 | 28,410 | 28,365 | 14,951 |
| Direct costs | (8,790) | (6,068) | (6,206) | (2,818) |
| Gross profit | 32,778 | 22,342 | 22,159 | 12,133 |
| Distribution costs | (5,781) | (5,056) | (1,649) | (1,076) |
| Administrative expenses | (113) | (362) | (220) | (123) |
| Finance costs | (16) | (6) | — | — |
| Profit before income tax | 26,868 | 16,918 | 20,290 | 10,934 |
| Income tax expense | — | (2,179) | (2,035) | (1,245) |
| Profit from discontinued operation | 26,868 | 14,739 | 18,255 | 9,689 |

Profit from discontinued operation includes the following:

| | | | | |
|---|---|---|---|---|
| Depreciation: | | | | |
| — Right-of-use assets | 133 | 133 | 133 | 78 |
| Staff costs | 344 | 760 | 824 | 375 |

The cash flows of the discontinued operation were as follows:

| | Year ended 31 December | | | Seven months ended 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (Unaudited) |
| Operating cash flows | 450 | 130 | — | — |
| Financing cash flows | (450) | (130) | — | — |
| | — | — | — | — |

**14. EARNINGS PER SHARE**

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful having regard to the Reorganisation and the preparation of the results for the Track Record Period on a combined basis as set out in note 2.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Office equipment *RMB'000* | Leasehold improvement *RMB'000* | Motor vehicles *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 1,286 | — | 2,829 | 4,115 |
| Additions | 3,891 | 1,240 | — | 5,131 |
| At 31 December 2017 and 1 January 2018 | 5,177 | 1,240 | 2,829 | 9,246 |
| Additions | 758 | 59 | — | 817 |
| At 31 December 2018 and 1 January 2019 | 5,935 | 1,299 | 2,829 | 10,063 |
| Additions | 1,588 | — | — | 1,588 |
| Derecognition of subsidiaries, assets and liabilities *(note 33)* | (1,717) | — | — | (1,717) |
| At 31 December 2019 and 1 January 2020 | 5,806 | 1,299 | 2,829 | 9,934 |
| Additions | 313 | — | — | 313 |
| At 31 July 2020 | 6,119 | 1,299 | 2,829 | 10,247 |
| **Accumulated depreciation** | | | | |
| At 1 January 2017 | 166 | — | 273 | 439 |
| Charge for the year | 2,874 | 165 | 537 | 3,576 |
| At 31 December 2017 and 1 January 2018 | 3,040 | 165 | 810 | 4,015 |
| Charge for the year | 1,212 | 248 | 538 | 1,998 |
| At 31 December 2018 and 1 January 2019 | 4,252 | 413 | 1,348 | 6,013 |
| Charge for the year | 1,210 | 886 | 513 | 2,609 |
| Derecognition of subsidiaries, assets and liabilities *(note 33)* | (1,387) | — | — | (1,387) |
| At 31 December 2019 and 1 January 2020 | 4,075 | 1,299 | 1,861 | 7,235 |
| Charge for the period | 593 | — | 271 | 864 |
| At 31 July 2020 | 4,668 | 1,299 | 2,132 | 8,099 |
| **Net carrying value** | | | | |
| At 31 December 2017 | 2,137 | 1,075 | 2,019 | 5,231 |
| At 31 December 2018 | 1,683 | 886 | 1,481 | 4,050 |
| At 31 December 2019 | 1,731 | — | 968 | 2,699 |
| At 31 July 2020 | 1,451 | — | 697 | 2,148 |

**16. INTANGIBLE ASSETS**

| | Development costs | Games, software and trademarks | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | |
| At 1 January 2017 | — | 7,500 | 7,500 |
| Additions | — | 6,330 | 6,330 |
| At 31 December 2017 and 1 January 2018 | — | 13,830 | 13,830 |
| Additions | — | — | — |
| At 31 December 2018 and 1 January 2019 | — | 13,830 | 13,830 |
| Additions | 4,085 | — | 4,085 |
| Derecognition of subsidiaries, assets and liabilities *(note 33)* | (4,085) | (330) | (4,415) |
| At 31 December 2019, 1 January 2020 and 31 July 2020 | — | 13,500 | 13,500 |
| **Accumulated amortisation** | | | |
| At 1 January 2017 | — | 1,500 | 1,500 |
| Charge for the year | — | 2,649 | 2,649 |
| At 31 December 2017 and 1 January 2018 | — | 4,149 | 4,149 |
| Charge for the year | — | 2,766 | 2,766 |
| At 31 December 2018 and 1 January 2019 | — | 6,915 | 6,915 |
| Charge for the year | — | 2,766 | 2,766 |
| Derecognition of subsidiaries, assets and liabilities *(note 33)* | — | (181) | (181) |
| At 31 December 2019 and 1 January 2020 | — | 9,500 | 9,500 |
| Charge for the period | — | 1,575 | 1,575 |
| At 31 July 2020 | — | 11,075 | 11,075 |
| **Net carrying value** | | | |
| At 31 December 2017 | — | 9,681 | 9,681 |
| At 31 December 2018 | — | 6,915 | 6,915 |
| At 31 December 2019 | — | 4,000 | 4,000 |
| At 31 July 2020 | — | 2,425 | 2,425 |

## 17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Target Group leases a number of office premises in the PRC for own use. The leases of buildings comprise only fixed payments over the lease terms ranging from one to five years.

**Right-of-use assets**

| | *RMB'000* |
|---|---|
| **Cost** | |
| At 1 January 2017 | 3,267 |
| Additions | 5,374 |
| At 31 December 2017 and 1 January 2018 | 8,641 |
| Additions | 68 |
| Write off | (800) |
| At 31 December 2018 and 1 January 2019 | 7,909 |
| Write off | (2,952) |
| At 31 December 2019 and 1 January 2020 | 4,957 |
| Additions | 1,092 |
| At 31 July 2020 | 6,049 |
| **Accumulated depreciation** | |
| At 1 January 2017 | — |
| Charge for the year | 2,014 |
| At 31 December 2017 and 1 January 2018 | 2,014 |
| Charge for the year | 2,734 |
| Write off | (600) |
| At 31 December 2018 and 1 January 2019 | 4,148 |
| Charge for the year | 2,066 |
| Write off | (1,456) |
| At 31 December 2019 and 1 January 2020 | 4,758 |
| Charge for the period | 300 |
| At 31 July 2020 | 5,058 |
| **Net carrying value** | |
| At 31 December 2017 | 6,627 |
| At 31 December 2018 | 3,761 |
| At 31 December 2019 | 199 |
| At 31 July 2020 | 991 |

**Lease liabilities**

| | Minimum lease payments | Interest | Present value of minimum lease payments |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2017** | | | |
| Within 1 year | 2,908 | 251 | 2,657 |
| After 1 year but within 2 years | 2,332 | 126 | 2,206 |
| After 2 years but within 5 years | 1,657 | 110 | 1,547 |
| | 6,897 | 487 | 6,410 |
| **As at 31 December 2018** | | | |
| Within 1 year | 2,250 | 126 | 2,124 |
| After 1 year but within 2 years | 615 | 60 | 555 |
| After 2 years but within 5 years | 1,062 | 50 | 1,012 |
| | 3,927 | 236 | 3,691 |
| **As at 31 December 2019** | | | |
| Within 1 year | 112 | 2 | 110 |
| After 1 year but within 2 years | 10 | — | 10 |
| After 2 years but within 5 years | — | — | — |
| | 122 | 2 | 120 |
| **As at 31 July 2020** | | | |
| Within 1 year | 410 | 38 | 372 |
| After 1 year but within 2 years | 389 | 20 | 369 |
| After 2 years but within 5 years | 227 | 3 | 224 |
| | 1,026 | 61 | 965 |

The present value of future lease payments are analysed as:

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Current liabilities | 2,657 | 2,124 | 110 | 372 |
| Non-current liabilities | 3,753 | 1,567 | 10 | 593 |
| | 6,410 | 3,691 | 120 | 965 |

At 31 December 2017, 2018 and 2019 and 31 July 2020, the Target Group has committed to pay rental expenses of RMB72,000, RMB161,000, RMB13,200 and Nil for short-term leases, respectively.

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | | | | |
| Unlisted project investment *(note (a))* | 36,800 | 69,250 | — | — |
| Current assets | | | | |
| Unlisted fund investments *(note (b))* | 19,654 | 8,978 | — | — |

*Notes:*

(a) During the year ended 31 December 2017, the OPCO entered into an agreement with an independent third party for a project investment in relation to the development of cemetery in Sichuan, the PRC with an aggregate amount of RMB87,250,000. The counter party is responsible for the management and development of the cemetery project while the OPCO only entitled to share 70% profit of the project. The fair value of the project held by the Target Group was approximately RMB36,800,000 and RMB69,250,000 as at 31 December 2017 and 31 December 2018 respectively.

The investment with a net carrying amount of RMB69,250,000 was derecognised at 31 December 2019 as set out in note 33.

(b) At 31 December 2017 and 31 December 2018, the Target Group held approximately 10,000,000 redeemable fund shares in a private fund established in the PRC (the "Private Fund A"). The Private Fund A is focus on investment with positive returns by employing multi-strategy investment approach. The fair value of redeemable fund shares of the Private Fund A held by the Target Group was approximately RMB9,512,000 and RMB8,978,000 as at 31 December 2017 and 31 December 2018 respectively.

The investment with a net carrying amount of RMB10,354,000 was derecognised at 31 December 2019 as set out in note 33.

At 31 December 2017, the Target Group also held approximately 8,857,000 redeemable fund shares in a private fund established in the PRC (the "Private Fund B"). The Private Fund B is focus on investment with positive returns by employing multi-strategy investment approach. The fair value of redeemable fund shares of Private Fund B held by the Target Group was approximately RMB10,142,000 as at 31 December 2017.

During the year ended 31 December 2018, the Target Group redeemed all 8,857,000 redeemable fund shares in Private Fund B at a consideration of approximately RMB7,529,000. The realised loss on redemption of approximately RMB2,613,000 was recognised in profit or loss for the year ended 31 December 2018.

As at 31 December 2017 and 31 December 2018, the fair value measurement of the financial assets at fair value through profit or loss as mentioned above was recognised into Level 3 of the fair value hierarchy (note 35(d)).

## 19. INTERESTS IN ASSOCIATES

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Share of net assets of associates | 960 | 146 | — | — |

Movements of interests in associates are as follows:

| | *RMB'000* |
|---|---|
| At 1 January 2017 | — |
| Capital injection | 38,500 |
| Share of results for the year | (40) |
| Impairment | (37,500) |
| At 31 December 2017 and 1 January 2018 | 960 |
| Capital injection | 1,000 |
| Share of results for the year | (517) |
| Impairment | (1,297) |
| At 31 December 2018 and 1 January 2019 | 146 |
| Capital injection | 1,000 |
| Share of results for the year | (325) |
| Impairment | (759) |
| Derecognised of subsidiaries, assets and liabilities *(note 33)* | (62) |
| At 31 December 2019, 1 January 2020 and 31 July 2020 | — |

The above associates were accounted for using the equity method in the Target Group's consolidated financial statements.

Details of the associates are as follows:

| Name of associate | Form of business structure | Place of incorporation/ operation | Proportion of equity interests held by the Target Group | Principal activity |
|---|---|---|---|---|
| 深圳市微主流網絡科技有限公司 ("微主流") *(note a)* | Limited company | PRC | 31 December 2017: 30%<br>31 December 2018: 30% | Browser game operation |
| SZ Xinghao (formerly named as 湖北眾游網絡科技有限公司) *(note b)* | Limited company | PRC | 31 December 2017: 30% | Mobile game operation |

*Notes:*

(a) The share of assets of 微主流 is determined based on paid-up capital while voting right, share of results of 微主流 is determined based on the registered capital. The Target Group held 30% of registered capital and 100% paid-up capital at each end of the reporting period.

The interest in 微主流 with a carrying amount of approximately RMB62,000 was derecognised at 31 December 2019 as set out in note 33.

(b) During the year ended 31 December 2017, the Target Group entered into an agreement with an independent third party pursuant to which the Target Group agreed to acquire the equity interest of SZ Xinghao by two stages and the transaction was fully completed in May 2018. After the Target Group acquired the 30% equity interest of SZ Xinghao by settlement of the first instalment of RMB37,500,000 in 2017, SZ Xinghao become the associate of the Target Group. During the year ended 31 December 2017, as most of the mobile games of SZ Xinghao were restricted in accordance with the change in the policy of board and card games in the PRC, the Target Group made a full impairment of the interest in the associate. In addition, the Target Group recognised a fair value loss of financial liabilities at fair value through profit or loss in relation to investment commitment amounted to RMB63,131,000 as at 31 December 2017 as a result of the non-cancellable commitment for the investment of the remaining 70% equity interest of SZ Xinghao. The Target Group has settled the remaining consideration of RMB63,131,000 in 2018. Details of completion of acquisition of SZ Xinghao are set out in note 32.

As at 31 December 2017, the fair value measurement of the financial liabilities at fair value through profit or loss was recognised within Level 3 of the fair value hierarchy (note 35(d)).

As mentioned above, the Target Group completed the transaction in May 2018 and the interest in SZ Xinghao with nil carrying amount was classified and recognised as interest in a subsidiary during the year ended 2018. Such interest in a subsidiary was derecognised at 31 December 2019 as set out in note 33.

As at 31 December 2017 and 2018, the interests in associates represented the share of net assets of 微主流, the financial information of 微主流 is summarised as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2017** | **2018** |
| | *RMB'000* | *RMB'000* |
| Non-current assets | — | 5 |
| Current assets | 3,279 | 605 |
| Current liabilities | (78) | (123) |
| Net assets | 3,201 | 487 |
| The Target Group's share of the net assets of the associate | 960 | 146 |

| | **For the year ended 31 December** | |
|---|---|---|
| | **2017** | **2018** |
| | *RMB'000* | *RMB'000* |
| Loss and total comprehensive income for the year | (132) | (1,722) |

## 20. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | | | | |
| Loan and interest receivables *(note)* | 198,833 | 275,515 | — | — |
| Prepayment and deposits | — | 15,000 | — | 5,833 |
| | 198,833 | 290,515 | — | 5,833 |
| Current assets | | | | |
| Loan and interest receivables *(note)* | 30,194 | 53,821 | — | — |
| Prepayment, deposits and other receivables | 10,798 | 11,686 | 9,544 | 17,839 |
| | 40,992 | 65,507 | 9,544 | 17,839 |

*Note:*

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Loan receivables | 275,200 | 385,767 | — | — |
| Less: Provision for expected credit losses | (53,000) | (74,000) | — | — |
| Loan receivables, net | 222,200 | 311,767 | — | — |
| Interest receivables | 8,456 | 21,877 | — | — |
| Less: Provision for expected credit losses | (1,629) | (4,308) | — | — |
| Interest receivables, net | 6,827 | 17,569 | — | — |
| Total loan and interest receivables, net | 229,027 | 329,336 | — | — |
| Analysed as: | | | | |
| — Non-current assets | 198,833 | 275,515 | — | — |
| — Current assets | 30,194 | 53,821 | — | — |
| | 229,027 | 329,336 | — | — |

The loan and interest receivables are dominated in RMB.

At 31 December 2017, a loan receivable with a net amount of approximately RMB4,250,000 is non-interesting bearing, repayable within 5 years, and unsecured. The remaining loan receivables are interest bearing from 3% to 14.4% per annum, repayable within 1 to 8 years, and unsecured.

At 31 December 2018, loan receivables with a net amount of approximately RMB13,657,000 are non-interesting bearing, repayable within 4 years, and unsecured. The remaining loan receivables are interest bearing from 3% to 8% per annum, repayable within 1 to 8 years, and unsecured.

Movements on the Target Group's provision for expected credit losses of loan and interest receivables are as follows:

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of year/period | 12,043 | 54,629 | 78,308 | — |
| Provision for expected credit losses | 202,586 | 23,679 | 37,992 | — |
| Write off | (160,000) | — | (4,000) | — |
| Derecognition of subsidiaries, assets and liabilities | — | — | (112,300) | — |
| At the end of the year/period | 54,629 | 78,308 | — | — |

The provision for expected credit losses of loan and interest receivables as at 31 December 2017, 31 December 2018 and 31 December 2019 reconciled to the opening loss allowance for that provision in each stage is as follows:

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 1 January 2017 | 12,043 | — | — | 12,043 |
| New loan and interest receivables originated | 204,017 | — | — | 204,017 |
| Write-off | (160,000) | — | — | (160,000) |
| Change in risk parameters | (1,431) | — | — | (1,431) |
| As at 31 December 2017 and 1 January 2018 | 54,629 | — | — | 54,629 |
| New loan and interest receivables originated | 32,989 | — | — | 32,989 |
| Loan and interest receivables transferred to stage 3 | (26) | — | 138 | 112 |
| Recoveries | (9,240) | — | — | (9,240) |
| Change in risk parameters | (182) | — | — | (182) |
| As at 31 December 2018 and 1 January 2019 | 78,170 | — | 138 | 78,308 |
| New loan and interest receivables originated | 34,410 | — | — | 34,410 |
| Loan and interest receivables transferred to stage 2 | (959) | 1,056 | — | 97 |
| Loan and interest receivables transferred to stage 3 | (3,930) | — | 20,485 | 16,555 |
| Write-off | (4,000) | — | — | (4,000) |
| Recoveries | (14,118) | — | — | (14,118) |
| Change in risk parameters | 1,048 | — | — | 1,048 |
| Derecognition of subsidiaries, assets and liabilities | (90,621) | (1,056) | (20,623) | (112,300) |
| As at 31 December 2019 | — | — | — | — |

All of the loan and interest receivables with a gross carrying amount of RMB483,802,000 and the corresponding provision for expected credit losses of RMB112,300,000 was derecognised at 31 December 2019 as set out in note 33.

During the years ended 31 December 2017 and 31 December 2019, loan and interest receivables of approximately RMB160,000,000 and RMB4,000,000 respectively were written off directly to profit or loss due to the respective debtors have gone bankrupt.

## 21. DEFERRED TAX

The deferred tax assets recognised by the Target Group was arisen from the temporary difference in respect of the deferred revenue. The movements thereon during the Track Record Period are as follows:

| | *RMB'000* |
|---|---|
| At 1 January 2017 | — |
| Credited to profit or loss for the year | — |
| At 31 December 2017 and 1 January 2018 | — |
| Credited to profit or loss for the year | 838 |
| At 31 December 2018 and 1 January 2019 | 838 |
| Credited to profit or loss for the year | 1,313 |
| At 31 December 2019 and 1 January 2020 | 2,151 |
| Credited to profit or loss for the period | 1,691 |
| At 31 July 2020 | 3,842 |

No deferred tax liabilities have been recognised in respect of the timing differences associated with the OPCO's undistributed retained earnings because the Target Group is in a position to control the dividend policies of the OPCO and it is probable that such differences will not be reversed in the future.

## 22. TRADE RECEIVABLES

Trade receivables mainly represent amounts receivable from third-party payment channels. The Target Group normally allows credit term of 0–7 days to established channels. Trade receivables are non-interest bearing. Further details on the Target Group's credit policy and credit risk arising from trade receivables are set out in note 35(a).

The ageing analysis of trade receivables (net), based on invoice date, as of the end of each of the reporting period are as follows:

| | **As at 31 December** | | | **As at 31 July** |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0–30 days | 2,344 | 3,686 | 9,172 | 8,521 |
| 31–60 days | — | — | 2 | — |
| 61–90 days | — | — | — | — |
| 91–120 days | — | — | — | — |
| More than 120 days | 202 | 202 | — | — |
| | 2,546 | 3,888 | 9,174 | 8,521 |

## 23. AMOUNT DUE FROM A RELATED PARTY

The amount due is non-trade in nature, unsecured, interest free and repayable on demand. The maximum outstanding balance during the seven months ended 31 July 2020 was RMB103,812,000.

## 24. SHORT-TERM BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Short-term bank deposits with original maturity of more than three months | 200,000 | 200,000 | 200,000 | — |
| Cash at financial institutions and on hand | 131,462 | 27,990 | 37,189 | 62,487 |
| | 331,462 | 227,990 | 237,189 | 62,487 |

Cash at banks earns interest at floating rate based on daily bank deposit rates. Short-term bank deposits are made for initial periods ranged from six to twelve months, and earned interest at the respective short-term bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The Target Group's operations in the PRC conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

## 25. TRADE AND OTHER PAYABLES

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 17,497 | 52,636 | 92,013 | 68,364 |
| Other payables | 19,372 | 14,208 | 13,469 | 11,390 |
| Accruals | 12,548 | 8,672 | 5,916 | 7,163 |
| | 49,417 | 75,516 | 111,398 | 86,917 |

An ageing analysis of the Target Group's trade payables at the end of each of the reporting period, based on the invoice date, are as follows:

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Less than 30 days | 13,624 | 26,518 | 41,216 | 67,434 |
| 30–60 days | 3,873 | 13,308 | 25,291 | 904 |
| 60–90 days | — | 12,810 | 25,506 | — |
| Over 90 days | — | — | — | 26 |
| | 17,497 | 52,636 | 92,013 | 68,364 |

## 26. DEFERRED REVENUE

Deferred revenue represented the portion of income received in respect of in-game purchase paid by the Paying Players that was not yet consumed at the end of each of the reporting period. Deferred revenue is classified as contract liability under HKFRS 15.

As at 31 December 2017, 2018 and 2019 and 31 July 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Target Group's existing contracts amounted to RMB37,231,000, RMB41,529,000, RMB45,903,000 and RMB51,173,000, respectively. The Target Group will recognise the expected revenue in future when or as the service is rendered, which is expected to occur over the next 12 months.

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Movements in deferred revenue** | | | | |
| At 1 January | 24,638 | 37,231 | 41,529 | 45,903 |
| Decrease in contract liability as a result of recognising revenue during the year/period that was included in the contract liability at the beginning of the reporting period | (24,638) | (37,231) | (41,529) | (45,903) |
| Increase in contract liability as a result of receipts unamortised portion of income received in respect of in-game virtual items paid by the Paying Players | 37,231 | 41,529 | 45,903 | 57,173 |
| At the end of year/period | 37,231 | 41,529 | 45,903 | 57,173 |

## 27. SHARE CAPITAL OF THE TARGET COMPANY

(a) The Reorganisation has not been completed as of 31 July 2020. For the purpose of this Historical Financial Information, the combined capital balance in the combined statements of financial position as at 31 December 2017, 2018 and 2019 represented the issued share capital of the OPCO as at that date. The combined capital balance as at 31 July 2020 represented the issued share capital of the Target Company and the OPCO, which were the aggregate amount of capital of all the entities comprising the Target Group at the respective date after elimination of investments in subsidiaries.

On 7 May 2019, the shareholders of the OPCO resolved to increase the registered share capital from RMB12,000,000 to RMB21,600,000, which was settled by offsetting against the distributions of RMB9,600,000 (note 30(b)). On 31 December 2019, the registered share capital decreased from RMB21,600,000 to RMB10,800,000 due to derecognition of subsidiaries, assets and liabilities as set out in note 33.

(b) The Target Company was incorporated as an exempted company under the laws of the BVI with limited liabilities on 23 April 2020 with initial authorised share capital of USD50,000 divided into 50,000 ordinary shares with par value of USD1 each. Upon incorporation, the Target Company allocated and issued 10,000 shares of USD1 each, credited as fully paid.

| Ordinary shares | Par value | Number of shares | Amount |
|---|---|---|---|
| | *RMB* | | *RMB'000* |
| **Authorised:** | | | |
| Upon incorporation and at 31 July 2020 | 1 | 50,000 | 355 |
| **Issued and fully paid:** | | | |
| Issue of shares upon incorporation | 1 | 10,000 | 71 |
| At 31 July 2020 | | 10,000 | 71 |

## 28. RESERVES

Details of the movements of the Target Group's reserves for the Track Record Period are presented in the combined statements of changes in equity. The nature and purposes of reserves within equity are as follows:

**Statutory reserve**

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the subsidiary incorporated in the PRC now comprising the Target Group, it is required to appropriate 10% of the annual net profits of the PRC subsidiary, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserve fund before distributing any net profit. When the balance of the statutory reserve fund reaches 50% of the registered capital of the PRC subsidiary, any further appropriation is at the discretion of shareholders. The statutory reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory reserve fund after such issue is no less than 25% of registered capital.

**Retained profits**

Retained profits are the cumulative net gains and losses recognised in profit or loss.

## 29. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the Historical Financial Information, the Target Group had the following significant transactions with its related parties:

**(a) Transaction with a related party**

During the seven months ended 31 July 2020, the Target Group incurred royalty fee paid or payable to 深圳市重華網絡科技有限公司 of RMB38,772,000.

**(b) Key management personnel remuneration**

Remuneration for key management personnel of the Target Group is as follows:

| | Year ended 31 December | | | Seven months 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Short-term employee benefits | 945 | 853 | 800 | 473 | 263 |
| Contributions to defined contribution retirement scheme | 11 | 10 | 10 | 5 | 4 |
| | 956 | 863 | 810 | 478 | 267 |

Total remuneration is included in "Staff costs" in Note 11.

## 30. DISTRIBUTIONS

**(a) Dividends**

No dividend was paid or declared by the Target Company during the Track Record Period or since its incorporation up to 31 July 2020.

**(b) Distributions**

During the Track Record Period, the OPCO made the following distributions to its then equity owners:

| | Year ended 31 December | | | Seven months 31 July | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) | *RMB'000* |
| Distributions | 20,000 | 46,000 | 295,000 | 110,000 | 95,000 |

Included in the distributions for the year ended 31 December 2019, an amount of RMB9,600,000 was settled by offsetting against the corresponding increase in share capital (note 27(a)).

## 31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | **Lease liabilities** |
|---|---|
| | *RMB'000* |
| **As at 1 January 2017** | 3,406 |
| Changes from cash flows: | |
| Payment of principal element of lease liabilities | (2,370) |
| Payment of interest element of lease liabilities | (290) |
| Non-cash changes: | |
| Recognition of lease liabilities | 5,374 |
| Interest expenses of lease liabilities | 290 |
| **At 31 December 2017 and 1 January 2018** | 6,410 |
| Changes from cash flows: | |
| Payment of principal element of lease liabilities | (2,682) |
| Payment of interest element of lease liabilities | (254) |
| Other changes: | |
| Write off | (105) |
| Recognition of lease liabilities | 68 |
| Interest expenses of lease liabilities | 254 |
| **At 31 December 2018 and 1 January 2019** | 3,691 |
| Changes from cash flows: | |
| Payment of principal element of lease liabilities | (1,945) |
| Payment of interest element of lease liabilities | (96) |
| Other changes: | |
| Written off | (1,626) |
| Interest expenses of lease liabilities | 96 |
| **At 31 December 2019 and 1 January 2020** | 120 |
| Changes from cash flows: | |
| Payment of principal element of lease liabilities | (247) |
| Payment of interest element of lease liabilities | (17) |
| Other changes: | |
| Recognition of lease liabilities | 1,092 |
| Interest expenses of lease liabilities | 17 |
| **At 31 July 2020** | 965 |
| **At 1 January 2019** | 3,691 |
| Changes from cash flows: | |
| Payment of principal element of lease liabilities | (1,310) |
| Payment of interest element of lease liabilities | (87) |
| Other changes: | |
| Interest expenses of lease liabilities | 87 |
| **At 31 July 2019 (Unaudited)** | 2,381 |

### 32. BUSINESS COMBINATION

During the year ended 31 December 2017, the Target Group entered into an agreement with an independent third party pursuant to which the Target Group agreed to acquire the 100% equity interest of SZ Xinghao by two stages at total consideration of approximately RMB100,631,000. The transaction was completed on 11 May 2018 and the Target Group's equity interest in SZ Xinghao increased from 30% to 100%. Since then, SZ Xinghao became a wholly owned subsidiary of the Target Group. SZ Xinghao incorporated in the PRC, engaged in the business of mobile games operation and development in the PRC. Further details of the acquisition are set out in note 19.

Details of fair value of identifiable assets and liabilities acquired at completion date are as follows:

| | *RMB'000* |
|---|---|
| Other receivables | 11,654 |
| Cash and cash equivalents | 20,521 |
| Accruals and other payables | (22,332) |
| Deferred revenue | (9,744) |
| Net assets acquired | 99 |
| Non-controlling interests | — |
| Net identified assets acquired | 99 |
| Gain from a bargain purchase | (99) |
| Total consideration | — |
| Satisfied by: | |
| Investment in associate *(note)* | — |
| | — |

The fair value of other receivables approximate to their gross amount. None of these receivables have been impaired and the full contractual amounts were collected. For the period from the acquisition date to 31 December 2018, SZ Xinghao has contributed revenue and profit of approximately RMB12,804,000 and RMB1,431,000 respectively. If the acquisition had occurred on 1 January 2018, the revenue and profit contributed by SZ Xinghao would be approximately RMB19,593,000 and RMB1,801,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Target Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future performance.

*Note:* The original cost of the investment in associate was RMB37,500,000 which was fully impaired as at 31 December 2017 as set out in note 19.

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiary is as follows:

| | *RMB'000* |
|---|---|
| Cash and cash equivalents acquired | 20,521 |
| Cash and cash equivalents paid | (63,131) |
| Net inflow of cash and cash equivalents | (42,610) |

As a result of the above step acquisition, gain from a bargain purchase of RMB99,000 was recognised for the year ended 31 December 2018, being the difference between the consideration and the fair values of identifiable net assets acquired.

### 33. DERECOGNITION OF SUBSIDIARIES, ASSETS AND LIABILITIES

As explained in note 1, on 31 December 2019, the Target Company completed the derecognition of the game development, the browser and mobile games operating business on the game platform of 冠通棋牌, investments in subsidiaries and associate, investment in financial instruments together with certain assets and liabilities which were allocated to 深圳市重華網絡科技有限公司 for the purpose of spinning off these operations, investments and certain assets and liabilities from the game operating business on the platform of 親朋遊戲. As a result of the above derecognition and transfers, the share capital of the OPCO was reduced by RMB10,800,000, the statutory reserve of the Target Group was reduced by RMB3,000,000, the retained profits of the Target Group was reduced by RMB442,690,000 and the non-controlling interests of RMB694,000 was derecognised. The carrying values of the assets and liabilities derecognised at 31 December 2019 were as follows:

| | | **Subsidiaries** | | | | |
|---|---|---|---|---|---|---|
| | | **SZ Xinghao*** | **深圳黑島網絡科技有限公司*** | **深圳前海老炮網絡有限公司*** | **Other assets and liabilities** | **Total** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Property, plant and equipment | *15* | — | — | 31 | 299 | 330 |
| Intangible assets | *16* | — | — | — | 4,234 | 4,234 |
| Financial assets at fair value through profit or loss | *18* | — | — | — | 79,604 | 79,604 |
| Interests in an associate | *19* | — | — | — | 62 | 62 |
| Trade receivables | | — | — | — | 2,316 | 2,316 |
| Prepayment, deposits and other receivables# | | — | 240 | 17 | 376,678 | 376,935 |
| Tax recoverable | | — | — | — | 1,097 | 1,097 |
| Cash and cash equivalents | | 4 | 34 | 226 | — | 264 |
| Trade and other payables | | (181) | — | (89) | (6,199) | (6,469) |
| Deferred revenue | | — | — | — | (2,577) | (2,577) |
| **Net assets** | | (177) | 274 | 185 | 455,514 | 455,796 |

* *These subsidiaries of the OPCO were inactive during the year ended 31 December 2019.*

# *Included loan and interest receivables with net carrying amount of RMB371,502,000 (note 20).*

## 34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

| | As at 31 December | | | As at 31 July |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets at fair value through profit or loss** | 56,454 | 78,228 | — | — |
| **Financial assets at amortised cost** | | | | |
| Trade receivables | 2,546 | 3,888 | 9,174 | 8,521 |
| Deposits and other receivables | 4,104 | 4,744 | 4,609 | 1,088 |
| Loan and interest receivables | 229,027 | 329,336 | — | — |
| Amount due from a related party | — | — | — | 59,978 |
| Short-term bank deposits | 200,000 | 200,000 | 200,000 | — |
| Cash and cash equivalents | 131,462 | 27,990 | 37,189 | 62,487 |
| | 623,593 | 644,186 | 250,972 | 132,074 |
| **Financial liabilities at fair value through profit or loss** | 63,131 | — | — | — |
| **Financial liabilities at amortised cost** | | | | |
| Lease liabilities | 6,410 | 3,691 | 120 | 965 |
| Trade and other payables | 43,458 | 70,561 | 99,284 | 76,598 |
| Dividend payables | 20,000 | — | 80,200 | — |
| | 132,999 | 74,252 | 179,604 | 77,563 |

Financial instruments not measured at fair value include trade receivables, deposits and other receivables, loan and interest receivables, amount due from a related party, short-term bank deposits, cash and cash equivalents, lease liabilities, trade and other payables and dividend payables. Due to their short-term nature, the carrying values of these financial instruments approximate their fair values.

## 35. FINANCIAL RISK MANAGEMENT

The main risks arising from the Target Group's financial instruments in the normal course of the Target Group's business are credit risk, liquidity risk and interest rate risk. These risks are limited by the Target Group's financial management policies and practices described below.

### (a) Credit risk

The Target Group's credit risk is primarily attributable to its loan and interest receivables, trade receivables, deposit and other receivables, short-term bank deposits and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of loan and interest receivables, the Target Group has credit risk in respect of loan receivables. The loan and interest receivables were classified as financial assets at amortised cost. The measurement of loss allowance are based on life time expected credit losses. The Target Group applies the general approach to provide for expected credit losses prescribed by HKFRS 9 on its loan and interest receivables. The Target Group has taken into account the probability of default and loss given default with reference to the credit rating of the borrowers and current and forward-looking information on macroeconomic factors.

Movement in the loss allowance account in respect of loan and interest receivables during the Track Record Period is set out in note 20.

In respect of trade receivables, individual credit evaluations are performed on the trade debtors. These evaluations focus on their past history of making payments when due and current ability to pay, and take into account information specific to them as well as pertaining to the economic environment in which they operate. Normally, the Target Group does not obtain collateral from the trade debtors. Also, management reviews regularly the recoverable amount of individual trade receivables to ensure that adequate impairment provision is made for irrecoverable amount.

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each trade debtor. The default risk of the industry and country in which the trade debtors also has an influence on credit risk but to a lesser extent.

The Target Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and current market condition in relation to each debtor's exposure and time value of money where appropriate. The ECLs also incorporate forward looking information with reference to general macroeconomic conditions that may affect the ability of the debtors to settle the trade receivables.

The credit risks for deposits and other receivables of the Target Group are considered immaterial as the counterparty have a low risk of default. The Target Group assessed that the ECLs for the balances are immaterial under the 12 months ECLs method. Accordingly, no loss allowance provision was recognised during the Track Record Period.

The maximum exposure to credit risk in respect of the financial instruments are their carrying values.

The credit risk for liquid funds is considered negligible. Short-term bank deposits and cash and cash equivalents are placed with reputable financial institutions with high quality external credit ratings. There was no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions.

The Target Group does not hold collateral as security. The Target Group does not provide any guarantees which would expose the Target Group to credit risk.

The credit policies have been consistently applied and are considered to be effective in limiting the Target Group's exposure to credit risk to a desirable level.

**(b) Liquidity risk**

The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Management of the Target Group is satisfied that the Target Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future in the normal course of business.

The following table shows the Target Group's remaining contractual maturities for non-derivative financial liabilities at the end of each reporting period, which are estimated based on contractual undiscounted cash flow (including interest payment computed using contractual rates or, if floating, based on the current rates at the end of the reporting period) and the earliest date the Target Group may be required to pay.

| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **As at 31 December 2017** | | | | | |
| Lease liabilities | 6,410 | 6,897 | 2,908 | 2,332 | 1,657 |
| Trade and other payables | 43,458 | 43,458 | 43,458 | — | — |
| Dividend payables | 20,000 | 20,000 | 20,000 | — | — |
| | 69,868 | 70,355 | 66,366 | 2,332 | 1,657 |
| **As at 31 December 2018** | | | | | |
| Lease liabilities | 3,691 | 3,927 | 2,250 | 615 | 1,062 |
| Trade and other payables | 70,561 | 70,561 | 70,561 | — | — |
| | 74,252 | 74,488 | 72,811 | 615 | 1,062 |
| **As at 31 December 2019** | | | | | |
| Lease liabilities | 120 | 122 | 112 | 10 | — |
| Trade and other payables | 99,284 | 99,284 | 99,284 | — | — |
| Dividend payables | 80,200 | 80,200 | 80,200 | — | — |
| | 179,604 | 179,606 | 179,596 | 10 | — |
| **As at 31 July 2020** | | | | | |
| Lease liabilities | 965 | 1,026 | 410 | 389 | 227 |
| Trade and other payables | 76,598 | 76,598 | 76,598 | — | — |
| | 77,563 | 77,624 | 77,008 | 389 | 227 |

**(c) Interest rate risk**

The Target Group is exposed to cash flow interest rate risk in relation to variable rate of deposits held in banks. The directors of the Target Group consider that the Target Group's cash flow interest rate risk on bank balances is not significant due to low level of deposit interest rate. The Target Group's loan receivables are charged at fixed interest rates.

Lease liabilities bear weighted average incremental borrowing rate of 4.75% as at 31 December 2017, 2018, 2019 and 31 July 2020. The directors of the Target Group consider that the interest rate risk is not significant as the benchmark lending rate suggested by the People's Bank of China remains constant for many years.

As at 31 December 2017, 2018, 2019 and 31 July 2020, the Target Group has no other interest-bearing liabilities, which may expose the Target Group to any interest rate risk.

**(d) Fair value measurement**

At the end of each of the Track Record Period, the financial assets and financial liabilities measured at fair value in the combined statements of financial position are set out as follows:

| | As at 31 December 2017 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets at fair value through profit or loss** | | | | |
| Unlisted project investment | — | — | 36,800 | 36,800 |
| Unlisted fund investments | — | — | 19,654 | 19,654 |
| | — | — | 56,454 | 56,454 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative related to investment commitment | — | — | 63,131 | 63,131 |

| | As at 31 December 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets at fair value through profit or loss** | | | | |
| Unlisted project investment | — | — | 69,250 | 69,250 |
| Unlisted fund investments | — | — | 8,978 | 8,978 |
| | — | — | 78,228 | 78,228 |

The Target Group followed HKFRS 13, *"Fair Value Measurement"*, which introduces a 3 level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements.

The hierarchy groups financial asset and liability into 3 levels based on the relative reliability of significant inputs used in measuring the fair value of these financial asset and liability. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical asset or liability;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of each reporting period, the unlisted project and fund investments and the derivative related to investment commitment are measured subsequent to initial recognition at fair value, grouped into Level 3 based on the degree to which the fair value is unobservable. The fair value measurement of unlisted project and fund investments and the derivative related to investment commitment are determined by the directors of the Target Company.

Movement of financial assets grouped into Level 3 is as follows:

| **Unlisted project investment** | **Year ended 31 December** | | | **Seven months ended 31 July** |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of year/ period | — | 36,800 | 69,250 | — |
| Consideration paid | 46,800 | 40,450 | — | — |
| Fair value loss on financial assets at fair value through profit or loss | (10,000) | (8,000) | — | — |
| Derecognition of subsidiaries, assets and liabilities *(note 33)* | — | — | (69,250) | — |
| At the end of year/period | 36,800 | 69,250 | — | — |

| **Unlisted fund investments** | **Year ended 31 December** | | | **Seven months ended 31 July** |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of year/ period | — | 19,654 | 8,978 | — |
| Subscription of fund shares | 20,000 | — | — | — |
| Redemption fund shares | — | (7,529) | — | — |
| Fair value (loss)/gain on financial assets at fair value through profit or loss | (346) | (3,147) | 1,376 | — |
| Derecognition of subsidiaries, assets and liabilities *(note 33)* | — | — | (10,354) | — |
| At the end of year/period | 19,654 | 8,978 | — | — |

Movement of financial liabilities grouped into Level 3 is as follows:

| **Derivative related to investment commitment** | **Year ended 31 December** | | | **Seven months ended 31 July** |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of year/ period | — | 63,131 | — | — |
| Fair value loss on the financial liabilities at fair value through profit or loss | 63,131 | — | — | — |
| Settlement *(notes 19 and 32)* | — | (63,131) | — | — |
| At the end of year/period | 63,131 | — | — | — |

There have been no transfers between levels in the reporting period.

The valuations are determined based on the following significant unobservable inputs:

| **Financial assets and liabilities** | **Valuation technique** | **Significant unobservable inputs** |
|---|---|---|
| Unlisted project investment | Discounted cash flows | Discount rate |
| Unlisted fund investments | Asset-based approach | Net asset value |
| Derivative related to investment commitment | Discounted cash flows | Estimated cash flows |

For the unlisted project investment, the discount rate applied ranged from 12% to 14%. Had the discount rate increased by 3%, the fair value of the investment would have decreased by approximately RMB2,039,000 and RMB3,856,000 for the year ended 31 December 2017 and 2018 respectively. Had the discount rate decreased by 3%, the fair value of the investment would have increased by approximately RMB2,039,000 and RMB3,856,000 for the year ended 31 December 2017 and 2018 respectively.

## 36. EVENT AFTER THE TRACK RECORD PERIOD

There has been no significant event since the end of the Track Record Period.

## 37. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or the Target Group in respect of any period subsequent to 31 July 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Business for each of the financial years ended 31 December 2017, 2018 and 2019 and each of the seven months ended 31 July 2019 and 2020, which is prepared based on the financial information of the Target Group as set out in Appendix II to this circular.

### Overview

The Target Group is owned by and operated through the Target Company and its subsidiaries. It is principally engaged in online games operating service in the PRC.

The Target Group has a track record in operating a number of outstanding 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 Target Group excels at identifying and capturing the needs of game players and reflecting such needs to the game developers.

### Business and financial results of the Target Group

For each of the financial years ended 31 December 2017, 2018 and 2019 and each of the seven months ended 31 July 2019 and 2020, the Target Group recorded:

(i) Revenue of approximately RMB536.7 million, RMB434.3million, RMB596.3 million, RMB357.6 million and RMB493.2 million, respectively, which mainly comprised the revenue derived from the operating of browser and mobile games.

- Revenue decreased by 19.1% from approximately RMB536.7 million to approximately RMB434.3 million for the year ended 31 December 2017 and 2018 respectively. The decrease was mainly attributed to the fact that the OPCO was in a transition period by adopting a new strategy to focus on game distribution and operation of licensed games, including the Fish Catching Contest (捕魚大亂鬥) series. The revenue generated from self-developed games decreased from approximately RMB418.4 million to approximately RMB79.4 million, which was partially offsetted by the increase in revenue from licensed games not developed by the OPCO from approximately RMB118.4 million to approximately RMB354.9 million.

- Revenue increased by 37.3% from approximately RMB434.3 million to approximately RMB596.3 million for the year ended 31 December 2018 and 2019 respectively. The increase was mainly attributable to the OPCO emphasis on enhancing users' experience, and the continuous increase in the service standard of its businesses, which has led to the growth in revenue derived from licensed games from approximately RMB354.9 million to approximately RMB446.6 million.

- The increase in revenue for the seven months ended 31 July 2020 as compared with the corresponding period in 2019 was mainly attributable to the OPCO further leveraging on its own competitive advantages and the continuous effort on market promotion, which has led to increase in revenue derived from licensed games from approximately RMB257.4 million to approximately RMB493.2 million.

(ii) Direct costs of approximately RMB71.6 million, RMB161.0 million, RMB245.0 million, RMB120.6 million and RMB350.3 million, respectively.

- The increase in direct costs for the year ended 31 December 2018 as compared with the year ended 31 December 2017 was mainly due to the increase in royalty fee from approximately RMB32.8 million for the year ended 31 December 2017 to approximately RMB126.9 million for the year ended 31 December 2018 paid to games licensors which is in line with the increase in revenue derived from licensed games.

- The increase in direct costs for the year ended 31 December 2019 as compared with the year ended 31 December 2018 was mainly attributable to the increase in royalty fee from approximately RMB126.9 million for the year ended 31 December 2018 to approximately RMB216.7 million for the year ended 31 December 2019 paid to games licensors which is in line with the increase in revenue derived from licensed games.

- The increase in direct costs for the seven months ended 31 July 2020 as compared with the corresponding period in 2019 was mainly attributable to the increase in royalty fee from approximately RMB105.2 million for the seven months ended 31 July 2019 to approximately RMB318.1 million for the seven months ended 31 July 2020 paid to games licensors which is in line with the increase in revenue derived from licensed games.

(iii) Gross profit of approximately RMB465.1 million, RMB273.3 million, RMB351.3 million, RMB237.0 million and RMB142.9 million, respectively.

(iv) Distribution costs of approximately RMB76.5 million, RMB65.4 million, RMB71.7 million, RMB35.4 million and RMB27.5 million, respectively, which mainly comprised of (i) marketing and event promotion, (ii) advertising expenses, (iii) office expenses, and (iv) travelling and entertainment expenses:

- The decrease in distribution costs for the year ended 31 December 2018 as compared with the year ended 31 December 2017 was mainly attributed to the change in the strategy of the OPCO to focus on licensed game, especially the Fish Catching Contest (捕魚大亂鬥) series and the Sweeties Fighting (零食大亂鬥) series, marketing and event promotion activities were slowed down in order to re-formulated a new marketing plan.

- The increase in distribution costs for the year ended 31 December 2019 as compared with the year ended 31 December 2018 was mainly due to the increase in expenses of marketing and event promotion as the new formulated marketing plan fully implemented.

- The decrease in distribution costs for the seven months ended 31 July 2020 as compared with the corresponding period in 2019 was mainly due to the outbreak of COVID-19 which significantly reduced the expenses for organising promotion event, such as the exhibition booths.

(v) Administrative expenses of approximately RMB190.2 million, RMB76.2 million, RMB60.6 million, RMB29.5 million and RMB21.7 million, respectively, which mainly comprised of (a) wages and salaries, (b) research expenses, (c) entertainment and travelling, (d) impairment of investment in associate, (e) fair value loss on financial liabilities at fair value through profit or loss and (f) fair value change on financial assets at fair value through profit or loss.

- The decrease in administrative expenses for the year ended 31 December 2018 as compared with the year ended 31 December 2017 was mainly due to in the absence of (a) the impairment loss on interest in associates of approximately RMB37.5 million and (b) the fair value loss on the derivative related to investment commitment of approximately RMB63.1 million regarding the acquisition of the 100% equity interest of Shenzhen Xinghao Network Technology Company Limited* (深圳市星浩網絡科技有限公司) ("SZ Xinghao") during the year ended 31 December 2017.

  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" ("棋牌類網絡遊戲管理辦法") 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 in 2017. In addition, the Target Group recognised a fair value loss of financial liabilities at fair value through profit or loss in relation to investment commitment amounted to RMB63,131,000 as at 31 December 2017 as a result of the non-cancellable commitment for the investment of the remaining 70% equity interest of SZ Xinghao. 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.

- The decrease in administrative expenses for the year ended 31 December 2019 as compared with the year ended 31 December 2018 was mainly due to the decrease in fair value change on financial assets at fair value through profit or loss from approximately RMB11.1 million for the year ended 31 December 2018 to RMB Nil for the year ended 31 December, 2019 which is mainly due to the derecognise of all financial assets at fair value through profit or loss of approximately RMB79.6 million at 31 December 2019.

- The decrease in administrative expenses for the seven months ended 31 July 2020 as compared with the corresponding period in 2019 was mainly due to (a) the decrease in research expense from approximately RMB13.5 million for the seven months ended 31 July 2019 to approximately RMB9.6 million for the seven months ended 31 July 2020 as a result of the increase in reliance on licensed games developed by other parties and (b) the decrease in entertainment and travelling expenses from approximately RMB2.9 million for the seven months ended 31 July 2019 to approximately RMB1.2 million for the seven months ended 31 July 2020, resulted from the outbreak of COVID-19 which significantly reduced the frequencies for travelling and business gatherings.

(vi) Expected credit losses of approximately RMB202.6 million, RMB23.7 million, RMB38.0 million, RMB38.4 million and RMB Nil, respectively. The high amount of expected credit losses for the year ended 31 December 2017 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.

(vii) Share of results of associates of approximately RMB40,000, RMB517,000, RMB325,000, RMB341,000 and RMB Nil, respectively, which mainly represented the share of results of an associate namely Shenzhen Weizhuliu Network Technology Limited 深圳市微主流網絡科技有限公司 ("微主流"), established in the PRC with limited liability and which is principally engaged in providing browser game operation services. The interest in 微主流 was derecognised at 31 December 2019.

(viii) Finance costs of approximately RMB274,000, RMB248,000, RMB96,000, RMB87,000 and RMB17,000, respectively, which mainly represented the interest on lease liabilities.

(ix) Income tax of approximately RMB Nil, RMB11.6 million, RMB21.3 million, RMB17.3 million and RMB16.8 million, respectively.

(x) Profit from discontinued operation of approximately RMB26.9 million, RMB14.7 million, RMB18.3 million, RMB9.7 million and RMB Nil, respectively.

(xi) Profit for the year/period of approximately RMB35.7 million, RMB133.6 million, RMB207.1 million, RMB145.6 million and RMB87.4 million, respectively.

- The reasons for the lower profit for the year recorded for the year ended 31 December 2017 in compare to the year ended 31 December 2018 were mainly due to the (a) high impairment of interest in the associate and fair value loss on financial liabilities at fair value through profit or loss 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.

- The increase in profit for the year recorded for the year ended 31 December 2019 in compared to the year ended 31 December 2018 was attributable to the increase in revenue from approximately RMB434.3 million to approximately RMB596.3 million for the year ended 31 December 2018 and 2019 respectively.

- The decrease in profit after taxation for the seven months ended 31 July 2020 in compared to the corresponding period in 2019 was mainly due to the increase in direct costs from approximately RMB120.6 million to approximately RMB350.3 million for the seven months ended 31 July 2019 and 2020 respectively.

**Financial position and other financial information of the Target Group**

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 July 2020:

(i) Property, plant and equipment of the Target Group were approximately RMB5.2 million, RMB4.1 million, RMB2.7 million and RMB2.1 million respectively, which primarily include motor vehicles, office equipment and leasehold improvement;

(ii) Trade receivables of the Target Group were approximately RMB2.5 million, RMB3.9 million, RMB9.2 million and RMB8.5 million respectively. Trade receivables mainly represent amounts receivable from third-party payment channels. The Target Group normally allows credit term of 0–7 days to established channels.

(iii) Prepayment, deposits and other receivables of the Target Group were approximately RMB239.8 million, RMB356.0 million, RMB9.5 million and RMB23.7 million respectively, which primarily include (a) loan and interest receivables, (b) prepaid game promotion fee, (c) prepaid legal consultancy fee and (d) interest receivables on time deposit;

The significant decrease from approximately RMB356.0 million for the year ended 31 December 2018 to approximately RMB9.5 million for the year ended 31 December 2019 was mainly due to the OPCO completed the derecognition and reorganisation of (a) the development business of certain online board and card games, (b) certain investments in subsidiaries and associate, (c) certain investment in financial instruments and (d) certain assets and liabilities for spinning off a separate board and card games business. As a result of the above derecognition and reorganisation, prepayment, deposits and other receivables amounted to approximately RMB376.9 million was derecognised at 31 December 2019;

(iv) Financial assets at fair value through profit or loss of the Target Group were approximately RMB56.5 million, RMB78.2 million, RMB Nil and RMB Nil respectively, which primarily include (a) a project investment in relation to the development of cemetery in Sichuan, the PRC and (b) the investment in two private funds established in the PRC;

(v) Trade and other payables of the Target Group were approximately RMB49.4 million, RMB75.5 million, RMB111.4 million and RMB86.9 million respectively, which primarily include (a) royalty and license fee payables, (b) accrued salaries and (c) other tax payables.

**Liquidity and financial resources**

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 July 2020:

(i) Total assets of the Target Group were approximately RMB652.8 million, RMB684.9 million, RMB267.7 million and RMB167.6 million, respectively;

(ii) Cash and cash equivalent of the Target Group were approximately RMB131.5 million, RMB28.0 million, RMB37.2 million and RMB62.5 million, respectively.

(iii) Short-term bank deposits of the Target Group were approximately RMB200.0 million, RMB200.0 million, RMB200.0 million and RMB Nil, respectively.

(iv) Net current assets of the Target Group were approximately RMB222.2 million, RMB190.3 million, RMB21.0 million and RMB7.9 million, respectively.

**Funding and treasury policies**

The Target Group has adopted prudent funding and treasury policies to ensure the Target Group has sufficient working capital for its operation uses. For each of the financial years ended 31 December 2017, 2018 and 2019 and each of the seven months ended 31 July 2019 and 2020, there had been no material change in the funding and treasury policies of the Target Group. The Target Group has a sufficient level of working capital for the conduct of its operations in the normal course of business.

The management of the Target Group closely reviews trade receivable balances and any overdue balances on an ongoing basis and only trades with creditworthy parties. The management of the Target Group also closely monitors its liquidity position to ensure that the liquidity structure of the Target Group' assets, liabilities and commitments can meet its funding requirements to manage liquidity risk.

**Gearing ratio**

The gearing ratio of the Target Group (calculated as total liabilities (excluding trade payables due to the Group) divided by total assets) was approximately 24.4%, 10.0%, 54.4% and 50.4% as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 July 2020 respectively.

**Contingent liabilities**

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 July 2020, the Target Group did not have any contingent liabilities.

**Pledge of assets**

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 July 2020, the Target Group did not pledge any of its assets for any borrowing or loan.

**Foreign currencies**

For each of the financial years ended 31 December 2017, 2018 and 2019 and each of the seven months ended 31 July 2019 and 2020, all of the transactions, assets and liabilities of the Target Group were denominated in RMB. As such, the Target Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

**Bank borrowings**

As at 31 December 2017, 31 December 2018, 31 December 2019 and 31 July 2020, the Target Group did not have any outstanding bank borrowings.

**Segment information and revenue**

After the completion of derecognition process as set out in note 1 of Appendix II — Accountants' Report of the Target Group, on 31 December 2019, 冠通 segment, the function of game development, investments in subsidiaries and associates, investments in financial instruments and certain assets and liabilities were spun off from the Target Group. Therefore, the executive directors of the Target Group have determined that the Target Group has only one single reportable segment which carried out in 親朋遊戲 platform in Shenzhen, the PRC. As such, no analysis of segment results and geographical location is presented for the seven months ended 31 July 2020 and no analysis of segment assets and liabilities is presented as at 31 July 2020. For details of the segment reporting of the Target Group for the financial years ended 31 December 2017, 2018 and 2019 and for the seven months ended 30 July 2019 are set out in note 6 of Appendix II — Accountants' Report of the Target Group.

**Charges on Target Group's assets**

As at 31 December 2017, 2018, 2019 and 31 July 2020, no assets of the Target Group was pledged as a security for bank borrowings or any other financing facilities.

**Information on Employees and Remuneration Policy**

As of 31 December 2017, 2018, 2019 and 31 July 2020, the Target Group had 263, 206, 141 and 126 employees respectively, mainly worked and are located in the PRC.

The total remuneration of the employees of the Target Group was approximately RMB46.4 million, RMB49.4 million, RMB39.3 million and RMB20.1 million for the year ended 31 December 2017, 2018 and 2019 and for the seven months ended 31 July 2020 respectively.

The Target Group offers competitive remuneration package commensurate in line with industry practice and provides benefits to employees of the Target Group, including social insurance coverage, defined contribution retirement scheme and bonus. In determining staff remuneration, the Target Group takes into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Target Group. The staff remuneration is reviewed regularly.

**Significant investment, material acquisitions and disposals of subsidiaries and associated companies**

During the financial years ended 31 December 2017, 2018 and 2019 and the seven months ended 31 July 2020, the Target Group had the following material acquisitions and disposals of subsidiaries and associated companies:

On 24 August 2017, the Target Group entered into an agreement with an independent third party pursuant to which the Target Group agreed to acquire the 100% equity interest of Shenzhen Xinghao Network Technology Company Limited* (深圳市星浩網絡科技有限

公司) ("SZ Xinghao") 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). The transaction was completed on 11 May 2018 by settlement of the second instalment of RMB63.1 million (stage 2) and the Target Group's equity interest in SZ Xinghao increased from 30% to 100%. Since then, SZ Xinghao became a wholly owned subsidiary of the Target Group. Such interest in a subsidiary was derecognised at 31 December 2019.

Save as above, for each of the financial years ended 31 December 2017, 2018 and 2019 and each of the seven months ended 31 July 2020, the Target Group had no significant investment, material acquisitions and disposals of subsidiaries and associated companies.

**Future plans for material investments**

The Target Group did not have any future plans for material investments or acquisitions of capital assets.

## I. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purposes only, to illustrate the effects of the proposed acquisition of Target Group, as defined in this circular (the "Acquisition") as if the Acquisition had been completed. The Group and the Target Group are collectively referred to as the Enlarged Group. The Unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the consolidated statement of financial position of the Enlarged Group as at 30 June 2020 as if the Acquisition had been completed on 30 June 2020; and (ii) the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2019 as if the Acquisition had been completed on 1 January 2019.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2020 has been prepared based on: (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, which was extracted from the unaudited interim report of the Company for the six months ended 30 June 2020 on which no review report has been published; and (ii) the audited statement of financial position of the Target Group as at 31 July 2020, which was extracted from the accountants' report thereon set out in Appendix II to this circular, and adjusted on a pro forma basis to reflect the effect of the Acquisition, as if the Acquisition had completed on 30 June 2020.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2019 has been prepared based on: (i) the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2019, which was extracted from the annual report of the Company for the year ended 31 December 2019; and (ii) the audited statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2019, which was extracted from the accountants' report thereon set out in Appendix II to this circular, and adjusted on a pro forma basis to reflect the effect of the Acquisition, as if the Acquisition had completed on 1 January 2019.

The Unaudited Pro Forma Financial Information are prepared by the Directors based on a number of assumptions, estimates, uncertainties and currently available information and are prepared for illustrative purpose only. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position, results of operation and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed as of the specified dates or any other date.

A narrative description of these pro forma adjustments which are directly attributable to the Acquisition, are not related to other future events or decisions and are factually supportable in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the unaudited interim report of the Group for the six months ended 30 June 2020, the accountants' report of the Target Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

## (A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

| | The Group as at 30 June 2020 | The Target Group as at 31 July 2020 | Pro forma adjustments: Other pro forma adjustments | | | Unaudited pro forma of the Enlarged Group as at 30 June 2020 |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 4)* | *(Note 7)* | *(Note 8)* | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 5,554 | 2,148 | — | — | — | 7,702 |
| Intangible assets | 22,832 | 2,425 | 199,090 | — | — | 224,347 |
| Right-of-use assets | 7,896 | 991 | — | — | — | 8,887 |
| Goodwill | — | — | 721,451 | — | — | 721,451 |
| Prepayment, deposits and other receivables | — | 5,833 | — | — | — | 5,833 |
| Deferred tax assets | — | 3,842 | — | — | — | 3,842 |
| | 36,282 | 15,239 | 920,541 | — | — | 972,062 |
| **Current assets** | | | | | | |
| Trade receivables | 102,495 | 8,521 | — | — | (66,986) | 44,030 |
| Prepayments, deposits and other receivables | 3,298 | 17,839 | — | — | — | 21,137 |
| Tax recoverable | — | 3,539 | — | — | — | 3,539 |
| Amount due from a related party | — | 59,978 | — | — | — | 59,978 |
| Cash and bank equivalents | 459,900 | 62,487 | — | — | — | 522,387 |
| | 565,693 | 152,364 | — | — | (66,986) | 651,071 |
| **Current liabilities** | | | | | | |
| Lease liabilities | 2,519 | 372 | — | — | — | 2,891 |
| Trade and other payables | 13,853 | 86,917 | 300,000 | 5,300 | (66,986) | 339,084 |
| Deferred revenue | 943 | 57,173 | — | — | — | 58,116 |
| Dividend payables | 1,559 | — | — | — | — | 1,559 |
| Promissory notes | — | — | 73,045 | — | — | 73,045 |
| Tax payables | 2,176 | — | — | — | — | 2,176 |
| | 21,050 | 144,462 | 373,045 | 5,300 | (66,986) | 476,871 |
| **Net current assets** | 544,643 | 7,902 | (373,045) | (5,300) | — | 174,200 |
| **Total assets less current liabilities** | 580,925 | 23,141 | 547,496 | (5,300) | — | 1,146,262 |

| | The Group as at 30 June 2020 | The Target Group as at 31 July 2020 | Pro forma adjustments — Other pro forma adjustments | | | Unaudited pro forma of the Enlarged Group as at 30 June 2020 |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 4)* | *(Note 7)* | *(Note 8)* | |
| **Non-current liabilities** | | | | | | |
| Lease liabilities | 5,651 | 593 | — | — | — | 6,244 |
| Promissory notes | — | — | 520,272 | — | — | 520,272 |
| Deferred tax liabilities | 17,300 | — | 49,772 | — | — | 67,072 |
| | 22,951 | 593 | 570,044 | — | — | 593,588 |
| **Net assets** | 557,974 | 22,548 | (22,548) | (5,300) | — | 552,674 |
| **Equity** | | | | | | |
| Share capital | 2,669 | 10,871 | (10,871) | — | — | 2,669 |
| Reserves | 554,810 | 11,677 | (11,677) | (5,300) | — | 549,510 |
| **Total equity attributable to owners of the Company** | 557,479 | 22,548 | (22,548) | (5,300) | — | 552,179 |
| Non-controlling interests | 495 | — | — | — | — | 495 |
| **Total Equity** | 557,974 | 22,548 | (22,548) | (5,300) | — | 552,674 |

## (B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP

| | | Pro forma adjustments | | | | | |
|---|---|---|---|---|---|---|---|
| | The Group for the year ended 31 December 2019 | The Target Group for the year ended 31 December 2019 | Other pro forma adjustments | | | | Unaudited pro forma of the Enlarged Group for the year ended 31 December 2019 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 5)* | *(Note 6)* | *(Note 7)* | *(Note 8)* | |
| **Continuing operations** | | | | | | | |
| Revenue | 303,978 | 596,270 | — | — | — | (219,000) | 681,248 |
| Direct costs | (19,778) | (244,957) | — | — | — | 219,000 | (45,735) |
| Gross profit | 284,200 | 351,313 | — | — | — | — | 635,513 |
| Other income | 4,881 | 29,608 | — | — | — | — | 34,489 |
| Research costs | (583) | (33,041) | — | — | — | — | (33,624) |
| Distribution costs | (7,209) | (71,749) | — | — | — | — | (78,958) |
| Administrative expenses | (27,285) | (27,598) | (49,771) | — | (5,300) | — | (109,954) |
| Expected credit losses on financial assets | — | (37,992) | — | — | — | — | (37,992) |
| Finance costs | (363) | (96) | — | (29,672) | — | — | (30,131) |
| **Operating profit** | 253,641 | 210,445 | (49,771) | (29,672) | (5,300) | — | 379,343 |
| Share of results of investments accounted for using equity accounting | (176) | (325) | — | — | — | — | (501) |
| Profit before income tax | 253,465 | 210,120 | (49,771) | (29,672) | (5,300) | — | 378,842 |
| Income tax expense | (44,665) | (21,309) | 12,443 | — | — | — | (53,531) |
| Profit from continuing operation | 208,800 | 188,811 | (37,328) | (29,672) | (5,300) | — | 325,311 |
| Profit from discontinued operation | — | 18,255 | — | — | — | — | 18,255 |
| **Profit for the year** | 208,800 | 207,066 | (37,328) | (29,672) | (5,300) | — | 343,566 |

| | The Group for the year ended 31 December 2019 | The Target Group for the year ended 31 December 2019 | Pro forma adjustments | Other pro forma adjustments | | | Unaudited pro forma of the Enlarged Group for the year ended 31 December 2019 |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 5)* | *(Note 6)* | *(Note 7)* | *(Note 8)* | |
| **Other comprehensive income** | | | | | | | |
| *Item that may be reclassified subsequently to profit or loss* | | | | | | | |
| — Exchange differences arising on translation of foreign operations | 3,369 | — | — | — | — | — | 3,369 |
| — Exchange differences reclassified to profit or loss upon disposal of investment accounted for using equity method | 15 | — | — | — | — | — | 15 |
| **Other comprehensive income for the year** | 3,384 | — | — | — | — | — | 3,384 |
| **Total comprehensive income for the year** | 212,184 | 207,066 | (37,328) | (29,672) | (5,300) | — | 346,950 |
| **Profit attributable to:** | | | | | | | |
| Owners of the Company | 208,790 | 207,327 | (37,328) | (29,672) | (5,300) | — | 343,817 |
| Non-controlling interests | 10 | (261) | — | — | — | — | (251) |
| | 208,800 | 207,066 | (37,328) | (29,672) | (5,300) | — | 343,566 |
| **Total comprehensive income attributable to:** | | | | | | | |
| Owners of the Company | 212,177 | 207,327 | (37,328) | (29,672) | (5,300) | — | 347,204 |
| Non-controlling interests | 7 | (261) | — | — | — | — | (254) |
| | 212,184 | 207,066 | (37,328) | (29,672) | (5,300) | — | 346,950 |

## (C) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

| | The Group for the year ended 31 December 2019 | The Target Group for the year ended 31 December 2019 | Pro forma adjustments | Other pro forma adjustments | | | | Unaudited pro forma of the Enlarged Group for the year ended 31 December 2019 |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 4)* | *(Note 5)* | *(Note 6)* | *(Note 7)* | *(Note 8)* | |
| **Cash flows from operating activities** | | | | | | | | |
| Profit before income tax | | | | | | | | |
| From continuing operations | 253,465 | 210,120 | — | (49,771) | (29,672) | (5,300) | — | 378,842 |
| From discontinuing operations | — | 20,290 | — | — | — | — | — | 20,290 |
| Adjustments for: | | | | | | | | |
| Amortisation of intangible assets | 4,879 | 2,766 | — | 49,771 | — | — | — | 57,416 |
| Depreciation of property, plant and equipment | 848 | 2,609 | — | — | — | — | — | 3,457 |
| Depreciation of right-of-use assets | 2,592 | 2,066 | — | — | — | — | — | 4,658 |
| Interest income | (1,779) | (22,367) | — | — | — | — | — | (24,146) |
| Finance costs | 363 | 96 | — | — | 29,672 | — | — | 30,131 |
| Gain on disposal of investment accounted for using equity method | (792) | — | — | — | — | — | — | (792) |
| Share of results of investments accounted for using equity method | 177 | 325 | — | — | — | — | — | 502 |
| Share-based payment expense | 942 | — | — | — | — | — | — | 942 |
| Gain on lease modification | — | (130) | — | — | — | — | — | (130) |
| Fair value gain on financial assets at fair value through profit or loss | — | (1,376) | — | — | — | — | — | (1,376) |
| Expected credit loss on financial assets | — | 37,992 | — | — | — | — | — | 37,992 |
| Impairment loss on interest in associate | — | 759 | — | — | — | — | — | 759 |
| Operating profit before working capital changes | 260,695 | 253,150 | — | — | — | (5,300) | — | 508,545 |
| (Increase)/decrease in trade receivables | (76,221) | (7,602) | — | — | — | — | 66,986 | (16,837) |
| (Increase)/decrease in prepayments, deposits and other receivables | (1,672) | 22,370 | — | — | — | — | — | 20,698 |
| Increase/(decrease) in trade and other payables | 10,676 | 41,417 | — | — | — | — | (66,986) | (14,893) |
| (Decrease)/increase in deferred revenue | (875) | 6,951 | — | — | — | — | — | 6,076 |
| Cash generated from/(used in) operating activities | 192,603 | 316,286 | — | — | — | (5,300) | — | 503,589 |
| Interest paid | (363) | — | — | — | (16,875) | — | — | (17,238) |
| Tax paid | (40,382) | (25,391) | — | — | — | — | — | (65,773) |
| Net cash generated from/(used in) operating activities | 151,858 | 290,895 | — | — | (16,875) | (5,300) | — | 420,578 |

| | | Pro forma adjustments | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | The Group for the year ended 31 December 2019 | The Target Group for the year ended 31 December 2019 | | Other pro forma adjustments | | | | Unaudited pro forma of the Enlarged Group for the year ended 31 December 2019 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | *(Note 4)* | *(Note 5)* | *(Note 6)* | *(Note 7)* | *(Note 8)* | |
| **Cash flows from investing activities** | | | | | | | | |
| Interest received | 1,779 | 5,741 | — | — | — | — | — | 7,520 |
| Increase in loan receivables | — | (63,659) | — | — | — | — | — | (63,659) |
| Acquisition of interests in associate | — | (1,000) | — | — | — | — | — | (1,000) |
| Additions of intangible assets | (16,658) | (4,085) | — | — | — | — | — | (20,743) |
| Increase in short-term bank deposits | (100,609) | — | — | — | — | — | — | (100,609) |
| Acquisition of subsidiaries | — | — | (300,000) | — | — | — | — | (300,000) |
| Purchases of property, plant and equipment | (4,966) | (1,588) | — | — | — | — | — | (6,554) |
| Net cash used in investing activities | (120,454) | (64,591) | (300,000) | — | — | — | — | (485,045) |
| **Cash flow from financing activities** | | | | | | | | |
| Dividend paid | (21,121) | (214,800) | — | — | — | — | — | (235,921) |
| Derecognition of subsidiaries, assets and liabilities | — | (264) | — | — | — | — | — | (264) |
| Repayment of principal portion of lease liabilities | (2,345) | (1,945) | — | — | — | — | — | (4,290) |
| Repayment of interest of lease liabilities | — | (96) | — | — | — | — | — | (96) |
| Capital injection from non-controlling shareholder | 388 | — | — | — | — | — | — | 388 |
| Net cash used in financing activities | (23,078) | (217,105) | — | — | — | — | — | (240,183) |
| **Net increase/(decrease) in cash and cash equivalents** | 8,326 | 9,199 | (300,000) | — | (16,875) | (5,300) | — | (304,650) |
| **Cash and cash equivalents at beginning of the year** | 136,783 | 27,990 | — | — | — | — | — | 164,773 |
| **Effect of foreign rate changes** | 2,783 | — | — | — | — | — | — | 2,783 |
| Cash and cash equivalents at the end of the year *(Note 9)* | 147,892 | 37,189 | (300,000) | — | (16,875) | (5,300) | — | (137,094) |

## (D) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The financial information of the Group as at 30 June 2020 was extracted from the unaudited condensed consolidated financial statements of the Group as at 30 June 2020 as set out in the unaudited interim report of the Company for the six months ended 30 June 2020 on which no review report has been published, whereas the financial information of the Group for the year ended 31 December 2019 was extracted the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2019 as set out in the annual report of the Company for the year ended 31 December 2019.

2. The audited consolidated statement of financial position of the Target Group as at 31 July 2020 and the audited consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Target Group for the year ended 31 December 2019 were extracted from the accountants' report of the Target Group as set out in Appendix II to this circular.

3. The directors of the Company confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information is consistent with the accounting policies of the Group, including the principal accounting policies and assumptions of the valuation of the identified assets and liabilities of the Target Group to be consistently adopted in the first set of the financial statements of the Group after the completion of the Acquisition.

4. Upon completion of the Acquisition, the identifiable assets and liabilities of the Target Group acquired by the Group in the unaudited Pro Forma Financial Information will be accounted for in the consolidated financial statements of the Group at fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised), Business Combinations ("HKFRS 3").

   For the purpose of the preparation of the unaudited pro forma consolidated statement of financial position, the adjustments represent (i) the elimination of the Target Group's share capital and preacquisition reserve at the date of the Acquisition of the Target Group; (ii) the recognition of fair value adjustment of net identifiable assets and related deferred tax impact, as well as the goodwill recognised in accordance with HKFRS 3.

   For the purpose of the Unaudited Pro Forma Financial Information, the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed is determined with reference to the valuation report (which is prepared for the purchase price allocation for the accounting purpose) of the Target Group as at 31 July 2020 prepared by Peak Vision Appraisals Limited ("Peak Vision"). The amounts of fair value of the identified assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair value of the identified assets and liabilities of the Target Group on the date of completion of the Acquisition. Consequently, the fair value of net identifiable assets and goodwill on the completion of the Acquisition could be different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

| | *Notes* | *RMB'000* |
|---|---|---|
| Cash consideration | *(a)* | 300,000 |
| Promissory notes | *(a)* | 593,317 |
| **Fair value of consideration transferred** | | 893,317 |
| **Less: fair value of net identifiable assets** | | |
| Net identifiable assets of the Target Group | *(b)* | 22,548 |
| Pro forma fair value adjustment in relation to | | |
| — Intangible assets | *(c)* | 199,090 |
| Deferred tax liability | *(d)* | (49,772) |
| Goodwill arising from the Acquisition | *(e)* | 721,451 |

(a) The total consideration of the Acquisition includes cash consideration of RMB300,000,000 and remaining balance of RMB600,000,000 which will be satisfied by the issuance of the Promissory Notes by the Company to each of the vendors.

Under HKFRS 3, any consideration, including promissory notes, to be transferred by the acquirer will be recognised at fair value at the acquisition date. Consideration is recognised to reflect its fair value at the date of completion on information obtained about facts and circumstances that existed as of that date or, if known, during the measurement period.

The cash consideration of RMB300,000,000 will be settled by the Company to vendors within 10 business days after the completion date by telegraphic transfer to the account directed by vendors.

The fair value of promissory notes of approximately RMB593,317,000, represents the present value of the promissory notes estimated based on the future cash flows discounted by rates ranged from 2.92% to 3.00% according to payment dates of the promissory notes as if the date of completion was 30 June 2020 for the purpose of preparing the unaudited pro forma consolidated statement of financial position.

(b) For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the fair value of the net identifiable assets of the Target Group (excluding goodwill and fair value adjustment of the identifiable intangible assets) approximates their carrying values as at 30 June 2020. The fair value of the net identifiable assets of the Target Group (excluding goodwill and fair value adjustment of the identifiable intangible assets) being acquired is subject to changes upon completion of the Acquisition because the fair value shall be assessed at the date of the actual completion of the Acquisition.

(c) The estimated fair values of the identifiable intangible assets, comprising (i) trademark, (ii) platform and domain names and (iii) reacquired license rights, amounting to RMB37,920,000, RMB144,372,000 and RMB19,223,000 respectively, were based on the independent valuation report prepared by Peak Vision as of 31 July 2020. The intangible assets are estimated to have useful lives ranged from 1 to 10 years. The carrying amount of intangible assets of the Target Group as at 31 July 2020 is approximately RMB2,425,000. Therefore, the pro forma fair value adjustment in relation to intangible assets amounted to approximately RMB199,090,000.

The fair value of the intangible assets being acquired is subject to changes upon completion of the Acquisition because the fair value shall be assessed at the date of the actual completion of the Acquisition.

(d) Deferred tax liability, calculated based on the tax rate of 25% in accordance with the law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law, arose from the difference between the tax base and the fair value of intangible assets.

(e) The goodwill arising on the Acquisition was determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the fair value of the identifiable assets and liabilities of the Target Group at the date of completion of the Acquisition.

Since the fair value of the identifiable assets and liabilities of the Target Group as at the date of the actual completion of the Acquisition may be substantially different from the fair value used in the preparation of the unaudited pro forma consolidated statement of financial position above, the goodwill arising from the Acquisition, if any, will be reassessed at the date of the actual completion of Acquisition. This adjustment has no continuing effect to the Enlarged Group.

5. The adjustment represents the additional amortisation of intangibles assets, including the trademark, platform and domain names, and reacquired license rights amounting to RMB3,632,000, RMB28,158,000 and RMB17,981,000 respectively, together with corresponding deferred income tax impact of RMB12,443,000 for the year ended 31 December 2019 arising from the fair value adjustment on the intangible assets of the Target Group based on the independent valuation report prepared by Peak Vision as of 1 January 2019. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.

6. The adjustment represents interest expenses on the promissory notes of RMB29,672,000 for the year ended 31 December 2019 which is determined using an effective interest rate of 5.31% per annum as if the Acquisition had completed on 1 January 2019. The interest paid of RMB16,875,000 is determined based on the outstanding principal at the rate of 3% per annum as set out in the sale and purchase agreement entered into among the Company, the vendors and the guarantors on 18 November 2020. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.

7. The adjustment represents the estimated transaction costs of approximately RMB5,300,000, including the accountancy, legal, valuation and other professional services related to the Acquisition as if the Acquisition had completed on both 30 June 2020 and 1 January 2019 in the Unaudited Pro Forma Financial Information. The expenses are charged to profit or loss directly. The adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

8. The adjustments represent the elimination of license fees and royalties of approximately RMB219,000,000 and account balance of approximately RMB66,986,000 between the Group and the Target Group for the year ended 31 December 2019 and as at 30 June 2020 respectively. These adjustments have continuing effect on the financial statements of the Enlarged Group in subsequent years.

9. Deficit in bank balances and cash of RMB137,094,000 shown in the unaudited pro forma consolidated statement of cash flows is for illustrative purpose only.

10. Apart from the above, no other adjustment has been made to reflect any trading results or other transactions entered into by the Group or the Target Group subsequent to 30 June 2020 for the unaudited pro forma statement of financial position as at 30 June 2020, and subsequent to 31 December 2019 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019 as if the Acquisition had taken place at 30 June 2020 and 1 January 2019, respectively.

*The following is the text of a report received from the Company's independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the Enlarged Group's pro forma financial information for the purpose of inclusion in this circular.*

## II. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

To the directors of Fire Rock Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Fire Rock Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") prepared by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2020 and unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019, and related notes as set out in Part A to Part D of Appendix IV to the circular dated 13 January 2021 (the "Circular") issued by the Company (the "Unaudited Pro Forma Financial Information") in connection with the proposed acquisition (the "Acquisition") of the entire issued share capital of Tak Shing International Holdings Limited (the "Target Company") and its subsidiaries (collectively the "Target Group") by the Group. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in section headed "Introduction to the unaudited pro forma financial information of the enlarged group" in Section I of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 30 June 2020 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Acquisition had taken place at 30 June 2020 and 1 January 2019, respectively. As part of this process, information about the Group's financial position as at 30 June 2020 has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements as included in the unaudited interim report of the Group for the six months ended 30 June 2020 on which no review report has been published and the Group's financial performance and the cash flows for the year ended 31 December 2019 has been extracted by the Directors from the Group's audited consolidated financial statements as included in the annual report of the Company for the year ended 31 December 2019, on which an auditor's report has been published.

**Directors' responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applied Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or a review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 June 2020 or 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
**BDO Limited**
*Certified Public Accountants*
Hong Kong

13 January 2021

*The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent valuer in connection with the valuation of the Target Group as at 31 October 2020.*

Peak Vision
Appraisals Limited

Unit 702, 7th Floor
Capital Centre
No. 151 Gloucester Road
Wanchai, Hong Kong
www.peakval.com
Tel (852) 2187 2238
Fax (852) 2187 2239

The Board of Directors
Fire Rock Holdings Limited
Rooms 2201–2203, 22/F
World-Wide House
19 Des Voeux Road Central
Hong Kong

Dear Sirs,

Re: Valuation of 100% equity interest of Tak Shing International Holdings Limited and its subsidiaries

In accordance with your instruction, we have conducted a valuation of the market value of 100% equity interest of Tak Shing International Holdings Limited (德成國際控股有限公司) (the "**Business Enterprise**") and its subsidiaries (together, the "**Group**"). It is our understanding that the Group is principally engaged in the operation of online games in the People's Republic of China (the "**PRC**"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Group as at 31 October 2020 (the "**Valuation Date**").

This report states the purpose of valuation and basis of value, sources of information, identifies the business valued, describes the methodology of our valuation, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

## 1.0 PURPOSE OF VALUATION

This report is being prepared solely for the use of the directors and management (together, the "**Management**") of Fire Rock Holdings Limited (the "**Company**") for internal reference and incorporation into the circular of the Company. As advised, the Company is considering the proposed acquisition of the entire equity interest of the Group (the "**Acquisition**").

Peak Vision Appraisals Limited ("**Peak Vision Appraisals**") acknowledges that this report may be used by the Company as one of the sources of information for the Acquisition. The Acquisition, if materialised, and the corresponding transaction price would be the result of negotiations between the transacting parties. The Management should be solely responsible for determining the consideration of the Acquisition, in which Peak Vision Appraisals is not involved in the negotiation and has no comment on the agreed consideration. Peak Vision Appraisals assumes no responsibility whatsoever to any person other than the Management in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

## 2.0 BASIS OF VALUE

Our valuation has been prepared in accordance with the HKIS Valuation Standards 2017 (the "**HKIS Valuation Standards**") published by the Hong Kong Institute of Surveyors and the International Valuation Standards (Effective 31 January 2020) (the "**IVS**") published by the International Valuation Standards Council, where applicable.

Our valuation of the 100% equity interest of the Group is based on the going concern premise and conducted on a market value basis. **Market Value** is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

## 3.0 SOURCES OF INFORMATION

In the course of our valuation, we have had discussion with the Management on the development of the Group and the prospect of the online gaming industry in the PRC. We have also relied on the following major documents and information in the valuation analysis. Some of the information and materials have been provided by the Management. Other information is extracted from public sources such as government sources, Thomson Reuters, Duff & Phelps, LLC, etc.

The major documents and information include the following:

- Company profile of the Group;
- Copies of certificate(s) or license(s) and other relevant information of the Group provided by the Management or extracted from public sources;
- Historical financial information such as income statements and balance sheets of the Group;
- Operational information of the Group as discussed with the Management; and
- Industry and economic data.

As agreed, we have not been required to perform a company visit of the Group. However, we consider that we have obtained adequate information from the sources described above to provide a reliable opinion of market value.

## 4.0 LIMITATIONS AND RELIANCE ON INFORMATION

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

This report is based upon financial and other information provided by the Management. We have made reference to or reviewed the above information and data and assumed such information and data are true and accurate without independent verification except as expressly described herein. We have made reasonable enquiries and exercised our judgment on the reasonable use of such information and found no reason to doubt the accuracy or reliability of the information.

Preparation of this report does not imply that Peak Vision Appraisals has audited in any way the financial information or other records of the Group. It is understood that the financial information provided is prepared in accordance with generally accepted accounting principles and has been prepared in a manner which truly and accurately reflects the financial performances and positions of the Group as at the respective financial statement dates.

## 5.0 THE GROUP

Tak Shing International Holdings Limited (the Business Enterprise) was incorporated in the British Virgin Islands on 23 April 2020 under the laws of BVI with limited liability. Details of the subsidiaries of the Business Enterprise are listed as follows:

- Tak Shing Group Hong Kong Limited (德成集團香港有限公司) (the "**Subsidiary I**") is a company incorporated in Hong Kong on 8 May 2020 under CR No. 2939751 with limited liability. It is an investment holding company and is a direct wholly owned subsidiary of the Business Enterprise;

- 深圳德城科技有限公司 (the "**Subsidiary II**") is a limited liability company (Taiwan, Hong Kong or Macau legal person sole proprietorship) incorporated in the PRC on 3 September 2020. It is also an investment holding company and is a direct wholly owned subsidiary of the Subsidiary I. For details of business registration information of the Subsidiary II, please refer to Appendix I;

- 深圳維京人網絡科技有限公司 (the "**OPCO**") is a company incorporated in the PRC with limited liability on 5 August 2011. It is principally engaged in the operation of online games in the PRC. Prior to the Acquisition, the OPCO was one of the Company's licensed operators responsible for the distribution of the Company's products in the PRC. For details of business registration information of the OPCO, please refer to Appendix I.

As advised by the Management, the Subsidiary II has entered into a series of structured contracts with the OPCO and the registered shareholders of the OPCO, pursuant to which the financial results, the entire economic benefits and risks of the businesses of the OPCO will flow into the Subsidiary II to allow the Subsidiary II to gain effective control over the OPCO.

**5.1 Shareholding Structure**

As advised, the shareholding structure of the Group upon completion of the Acquisition is tabulated in the following figure:


***Figure 1: Shareholding structure of the Group upon completion of the Acquisition***

*Source: Management*

## 6.0 BUSINESS OVERVIEW

The Group is principally engaged in the operation of online games in the PRC.

### 6.1 Business Model

The Group operates browser and mobile online games under free-to-play model via its game platform, namely "親朋遊戲" accessible at www.qpgame.com under internet content provider licenses 粵B2–20160210 and 粵ICP備11101645號–3. The Group is responsible for hosting browser and mobile online games, providing customers' services to game players, determining the selling prices of in-game tokens, selection of distribution and payment channels, and preventing, detecting and resolving cheating and hacking activities.

The Group sells prepaid game credits through its own game platform and third party payment channels through which game players can purchase game credit for buying in-game virtual items. Third-party payment channels collect payments from the game players and remit the cash net of commission charges to the Group according to the relevant terms entered into between the Group and the third-party payment channels.

Revenue will be recognized upon consumption of game credits and virtual items whereas charges by third-party game developers and payment channels are recorded as direct costs.

### 6.2 Online Games Distributed by the OPCO

According to the company website of the OPCO, the Group is currently hosting various online games such as 親朋捕魚, 親朋捕魚大亂鬥, 親朋二人麻將, 親朋麻將, 星戰紀, 親朋捕魚VR, 親朋打僵屍, 爽翻打地鼠, 超級逗萌獸, 零食大亂鬥, etc.


*Figure 2: Sample online games distributed by the OPCO*

*Source: www.gpgame.com*

### 6.3 Historical Financial Performance

According to the financial statements of the Group provided by the Management, revenue of the Group was approximately RMB596.3 million in 2019, representing an increase of approximately 37.3% from RMB434.3 million in 2018; corresponding operating profits of the Group were approximately RMB210.1 million for 2019 and RMB130.4 million for 2018.

| *(RMB'000)* | **Year Ending 31 December** **2018** | **2019** |
|---|---|---|
| Revenue | 434,267 | 596,270 |
| Direct costs | (160,961) | (244,957) |
| Gross profit | 273,306 | 351,313 |
| Other operating expenses | (142,899) | (141,193) |
| **Operating profit** | 130,407 | 210,120 |

* *Figures above are subject to rounding*

***Table 1: Historical performance of the Group for 2018 and 2019***

*Source: Management*

For the 7 months ending 31 July 2020, revenue of the Group was approximately RMB493.2 million, representing an increase of approximately 37.9% from RMB357.6 million of the same period in 2019; nevertheless, while operating profit of the Group was approximately RMB153.2 million for the 7 months ending 31 July 2019, the operating profit decreased to approximately RMB104.2 million during the same period in 2020.

| *(RMB'000)* | **7 Months Ending 31 July** **2019** | **2020** |
|---|---|---|
| Revenue | 357,623 | 493,229 |
| Direct costs | (120,612) | (350,299) |
| Gross profit | 237,011 | 142,930 |
| Other operating expenses | (83,770) | (38,737) |
| **Operating profit** | 153,241 | 104,193 |

* *Figures above are subject to rounding*

***Table 2: Historical performance of the Group for the 7 months ending 31 July 2019 and 2020***

*Source: Management*

## 7.0 INVESTIGATION AND ANALYSIS

Our investigation included discussion with the Management in relation to the online gaming industry in the PRC, and the development, operations and other relevant information of the Group. In addition, we have made relevant inquiries and obtained such further information including financial and business information, and statistical figures from other sources as we consider necessary for the purpose of this valuation. As part of our analysis, we have made reference to the financial information and other pertinent data concerning the Group provided to us by the Management.

The valuation of the Group requires consideration of all pertinent factors, which affect the operations of the business and its ability to generate future investment returns. The factors considered in this valuation include the following:

- Nature and operations of the Group;
- Historical information of the Group;
- Financial performances and conditions of the Group;
- Proposed business development of the Group;
- Regulations and rules of the online gaming industry in the PRC;
- Economic and industry data affecting the online gaming and other dependent industries;
- Market-derived investment return(s) of similar business; and
- General economic outlook.

## 8.0 GENERAL VALUATION APPROACHES AND METHODS

There are three generally accepted approaches to obtain the market value of the Group, namely the Market Approach, the Asset Approach and the Income Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the specific characteristics of the subject of the valuation.

### 8.1 Market Approach

The Market Approach values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for an indication of value from the prices of other similar companies or equity interest in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples based on the analysis of those transactions are then applied to the fundamental financial variables of the subject business entity and to arrive an indication of value.

**8.2 Asset Approach**

The Asset Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital (equity and debt capital). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, the sum of such assets equals the value of the business entity.

From a valuation perspective, we will restate the value of all types of assets of a business entity from book value, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", to arrive at the value of the equity interest of the business entity.

**8.3 Income Approach**

The Income Approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

## 9.0 VALUATION ANALYSIS

### 9.1 Methodology

In the process of valuing the business subject, we have considered the nature of the Group, specialty of its operation and the industry it is participating. Having considered the three general valuation approaches, we consider the Market Approach would be appropriate and reasonable in the valuation of the market value of the Group.

In this valuation, the Income Approach is not adopted as long-term forecasts are unavailable. The Asset Approach is not applied as the valuation of the Group is conducted on a going concern basis, and the summation of its assets is inappropriate as such method ignores the future economic benefits of the business as a whole. We have therefore solely relied on the Market Approach in determining our opinion of value.

Under the Market Approach, we have considered two commonly used methods of valuation, the Guideline Public Company Method and the Comparable Transaction Method. The Guideline Public Company Method is applied as there are a certain number of public traded companies engaged in the same or similar line of business as the Group that can be identified. The shares of these publicly traded companies are actively traded in free and open markets and provide valid indicators of value to permit meaningful comparison. The application of Comparable Transaction Method is limited as there are limited comparable transactions to form a reliable opinion of value.

For the valuation of the Group, we have employed the enterprise value to earnings before interest and taxes (EV/EBIT) ratio and price to earnings (P/E) ratio. We consider 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:

- Price to sale (P/S) ratio does not account for the profitability of the business, and fails to reflect the true earnings power and value of the business; and

- As the operations of the Group do not require significant amount of tangible assets, the price to book (P/B) ratio fails to reflect the true earnings power and value of the business. Book value of equity also does not account for different capital/asset structures of the comparable companies therefore price to book (P/B) ratio may not be useful when comparing companies with different capital/asset levels.

Due to the above, we have therefore employed EV/EBIT and P/E ratios. EV/EBIT and P/E ratios are considered to be appropriate multiples in valuing the Group for the following reasons:

- 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.

**9.2 Comparable Companies**

The Group is principally engaged in the operation of online games in the PRC, and there are no perfect match of comparable companies with exactly the same financial performances, business operations and risk profiles as the Group. However, the comparable companies we gathered are also principally engaged in the operation of online games and therefore we consider they are subject to similar business, industry, economic risks and rewards as the Group.

Selection criteria of comparable companies are listed as follows:

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 which accounted for majority (>50%) of its revenue.

Based on our exhaustive search of the Thomson Reuters database using the criteria above, we have identified 8 guideline public companies. The 8 comparable companies are set out as follows:

***9.2.1 Chinese Gamer International Corp. (Thomson Reuters Ticker: 3083.TWO)***

Established in 2000 in Taiwan, Chinese Gamer International Corp. is principally engaged in the operation and licencing of self-developed and third-party online games mainly in Taiwan and the PRC. According to its 2019 annual report for the year ending 31 December 2019, approximately 60% of its revenue was attributable to the operation of online games. The company was listed on Taiwan Stock Exchange Corporation in 2003.

*9.2.2 X-Legend Entertainment Co., Ltd. (Thomson Reuters Ticker: 4994.TW)*

Established in 2002 in Taiwan, X-Legend Entertainment Co., Ltd. is principally engaged in the operation and licencing of self-developed and third-party online games including web games and mobile games mainly in Taiwan, Asia and overseas. According to its 2019 annual report for the year ending 31 December 2019, over 95% of its revenue was attributable to the operation of online games. The company was listed on Taiwan Stock Exchange Corporation in 2013.

*9.2.3 Ourpalm Co., Ltd. (Thomson Reuters Ticker: 300315.SZ)*

Established in 2004 in the PRC, Ourpalm Co., Ltd. is principally engaged in the operation and licencing of self-developed and third-party online mobile games domestically and overseas. According to its 2019 annual report for the year ending 31 December 2019, substantial revenue was attributable to the operation of online mobile games. The company was listed on Shenzhen Stock Exchange in 2012.

*9.2.4 IGG Inc. (Thomson Reuters Ticker: 0799.HK)*

Established in 2006 in the PRC, IGG Inc. is principally engaged in the operation of self-developed online games mainly in Asia, North America and Europe. According to its 2019 annual report for the year ending 31 December 2019, its two flagship games, "Lords Mobile" and "Castle Clash", accounted for over 90% of its total revenue. The company was listed on The Stock Exchange of Hong Kong Limited in 2013.

*9.2.5 Shenzhen Bingchuan Network Co., Ltd. (Thomson Reuters Ticker: 300533.SZ)*

Established in 2008 in the PRC, Shenzhen Bingchuan Network Co., Ltd. is principally engaged in the operation and licencing of self-developed and third-party online games including web games and mobile games. According to its 2019 annual report for the year ending 31 December 2019, over 95% of its revenue was attributable to the operation and licencing of online games and the PRC accounted for approximately 94% of its total revenue. The company was listed on Shenzhen Stock Exchange in 2016.

*9.2.6 G-bits Network Technology Xiamen Co., Ltd. (Thomson Reuters Ticker: 603444.SS)*

Established in 2004 in the PRC, G-bits Network Technology Xiamen Co., Ltd. is principally engaged in the operation of self-developed online games including web games and mobile games. According to its 2019 annual report for the year ending 31 December 2019, over 90% of its revenue was attributable to the operation of self-developed online games and the PRC accounted for over 98% of its total revenue. The company was listed on Shanghai Stock Exchange in 2017.

*9.2.7 7Road Holdings Ltd. (Thomson Reuters Ticker: 0797.HK)*

Established in 2008 in the PRC, 7Road Holdings Ltd. is a principally engaged in the licencing and operation of self-developed and third-party online games domestically and overseas. The company is also involved in the sale of customization game software and provision of online game technology and publishing solutions services. According to its 2019 annual report for the year ending 31 December 2019, approximately 85% of its revenue was attributable to the licencing and operation of online games. The company was listed on The Stock Exchange of Hong Kong Limited in 2018.

*9.2.8 Hangzhou Electronic Soul Network Technology Co., Ltd. (Thomson Reuters Ticker: 603258.SS)*

Established in 2008 in the PRC, Hangzhou Electronic Soul Network Technology Co., Ltd. is principally engaged in the operation and licencing of self-developed and third-party online games including web games and mobile games. It is also engaged in the development of virtual reality games and other console games. According to its 2019 annual report for the year ending 31 December 2019, substantial revenue was attributable to the operation and licencing of online games and the PRC accounted for approximately 92% of its total revenue. The company was listed on Shanghai Stock Exchange in 2016.

The above comparable companies are principally engaged in the operation of online games same as the Group. The comparable companies and the Group are all based in close geographical proximity within the Greater China area. They are similarly subject to fluctuations in the economy and performance of the online gaming industry within the area, among other factors, as the Group. Thus, we consider they are confronted with similar risks and rewards and are therefore good and relevant comparables to the Group.

**9.3 Multiple Ratios**

A number of studies were conducted in the U.S. which concludes that the risk premium associated with a small company is over and above the amount that would be warranted. An investor would demand more in order to compensate for the additional risk over that of the entire stock market when investing in a small size company. Thus, in this appraisal, the comparable company multiples are size-adjusted with reference to "Adjusting Guideline Multiples for Size" by Mattson, Shannon and Drysdale published in September/October 2001 Valuation Strategies, with the following formula adopted in deriving the size adjustment:

$$\text{Adjusted Multiple} = \frac{1}{\dfrac{1}{\text{Multiple}} + \text{Size differentials*}}$$

* *We have made reference to 2019 Valuation Handbook Guide to Cost of Capital by Duff & Phelps for the size differentials*

The unadjusted and adjusted multiples are presented as follows:

| | | Multiple Ratio | | | |
|---|---|---|---|---|---|
| **Thomson Reuters Ticker** | **Name** | **EV/EBIT** | **Adjusted EV/EBIT** | **P/E** | **Adjusted P/E** |
| 3083.TWO | Chinese Gamer International Corp. | N/A | N/A | N/A | N/A |
| 4994.TW | X-Legend Entertainment Co., Ltd. | 9.04 | 8.86 | 15.40 | 14.87 |
| 300315.SZ | Ourpalm Co., Ltd. | 61.13 | 18.13 | 35.49 | 14.93 |
| 0799.HK | IGG Inc. | 4.72 | 4.01 | 5.56 | 4.60 |
| 300533.SZ | Shenzhen Bingchuan Network Co., Ltd. | 25.65 | 13.28 | 27.15 | 13.67 |
| 603444.SS | G-bits Network Technology Xiamen Co., Ltd. | 24.78 | 11.81 | 36.07 | 13.88 |
| 0797.HK | 7Road Holdings Ltd. | 34.00 | 15.22 | 88.47 | 21.01 |
| 603258.SS | Hangzhou Electronic Soul Network Technology Co., Ltd. | 21.63 | 11.94 | 24.31 | 12.72 |
| | Mean | | 11.89 | | 13.67 |
| | Median | | 11.94 | | 13.88 |
| | Standard deviation | | 4.53 | | 4.83 |
| | Applied ratio | | 11.89 | | 13.67 |

* *N/A means extreme value which is not applicable for comparable analysis*

***Table 3: Multiple ratios of the guideline public companies***

*Source: Thomson Reuters, Peak Vision Appraisals*

Based on the above table, the adjusted EV/EBIT ratios of the comparable companies ranged from the minimum of 4.01x to the maximum of 18.13x, resulting in a mean of approximately 11.89x and median of approximately 11.94x. The adjusted P/E ratios of the comparable companies ranged from the minimum of 4.60x to the maximum of 21.01x, resulting in a mean of approximately 13.67x and median of approximately 13.88x. We have adopted the mean as the multiples and then applied the multiples to the corresponding measurement bases, which are based on the latest available financial information of the Group.

Based on the financial information of the Group provided by the Management for the 7 months ending 31 July 2020, the annualized earnings before interest and taxes (EBIT) of the Group was approximately RMB178,646,000 and the annualized net profit of the Group was approximately RMB149,887,000.

### 9.4 Non-Operating Assets and Liabilities

In computing the market value of the Group, we have adjusted the assessed value for the other net non-operating assets and liabilities, cash and cash equivalents and interest bearing debt of the Group as at the Valuation Date, where applicable. Based on the latest available financial statements as at 31 July 2020 provided by the Management, the cash and cash equivalents, interest bearing debts, other net non-operating assets and liabilities adjusted were as follows:

| | *(RMB'000)* |
|---|---|
| Cash and cash equivalents | 62,487 |
| Interest bearing debts | (965) |
| Other net non-operating assets and liabilities[(1)] | 59,978 |

* *Figures above are subject to rounding*

(1) As at the Valuation Date, the other net non-operating assets and liabilities of the Group was "amount due from related party" which was not related to the day to day operations of the Group and would not be reflected by the indicative values derived from the EV/EBIT and P/E ratios of the Group. Subsequent adjustment has been made to add back its value under the EV/EBIT and P/E calculation to arrive at the value of the Group.

***Table 4: Non-Operating Assets and Liabilities of the Group***

*Source: Management*

### 9.5 Control Premium

A control premium is the premium an investor is willing to pay in addition to a marketable minority equity value to obtain controlling interest in a business subject. The published market price of the identified comparable companies represents the market transaction of minority interests, therefore adjustment has been made to reflect the degree of control associated with 100% equity interest of the Group. Based on research published by Mergerstat Control Premium Study[(1)], the median control premium as of the Valuation Date was approximately 24.5%.

*Note:*

(1) Mergerstat Control Premium Study is a study examining transactions whereby 50.01% or more of a company was acquired. Mergerstat Control Premium Study is published by Factset, a multinational financial data and Software Company founded in 1978, went public in 1996 and currently dual listed on the New York Stock Exchange and the NASDAQ. Factset provides financial information and analytic software for investment professionals. According to Factset website, data of Factset was used by AP Associated Press, Barrons's, CNNMoney.com, The Wall Street Journal, MarketWatch from DowJones, etc.

### 9.6 Lack of Marketability Discount

We have adopted a discount for lack of marketability of 35.00% for the Group as ownership interest in closely held companies are typically not readily marketable compared to a similar interest in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Lack of marketability discounts for ownership interest in private companies generally range from approximately 3% to 35% according to empirical research(1).

*Note:*

(1) The empirical research is based on the Business Valuation Discounts and Premiums written by Shannon P. Pratt. Shannon P. Pratt, CFA, FASA, ARM, ABAR, MCBC, CM&AA, is a well-known authority in the field of business valuation. Shannon P. Pratt holds an undergraduate degree in business administration from the University of Washington and a doctorate in business administration, majoring in finance, from Indiana University. He is a Fellow of the American Society of Appraisers, a Master Certified Business Appraiser, a CFA charterholder, a Master Certified Business Counselor, and is certified in mergers and acquisitions. Dr. Pratt develops and teaches business valuation courses for the American Society of Appraisers and the American Institute of Certified Public Accountants, and frequently speaks on business valuation at national legal, professional, and trade association meetings. He also developed and often teaches a full-day seminar (sometimes divided into two partial days) on business valuation for judges and lawyers.

As of recent, the market sentiment is low given the ongoing COVID-19 pandemic and the US-China trade tension. Companies and investors have refrained from investing which has resulted in higher market illiquidity. Hence, in consideration of the current market situation, we have adopted the high-end of lack of marketability discount of approximately 35% as at the Valuation Date. For reference purpose, we have also applied an option pricing model on the comparable companies to estimate the lack of marketability discount. A discount for lack of marketability can be estimated by a put option since the holder can purchase an at-the-money put option of similar assets to hedge the current value of the underlying assets. Our estimated lack of marketability discount is approximately 30%. Considering the above, we consider our adoption of 35% as the lack of marketability discount based on empirical research to be fair and reasonable.

### 9.7 Valuation Summary

Under the adjusted EV/EBIT ratio, we have arrived a multiple of 11.89x and annualized earnings before interest and taxes (EBIT) of approximately RMB178,646,000 of the Group, resulting in an indicated value of approximately RMB2,124,655,000 before adjustments for control premium, other net non-operating assets and liabilities, lack of marketability discount, cash and cash equivalents, and interest bearing debts. Since the "enterprise value" (EV) excludes cash and cash equivalents but includes interest bearing debts, subsequent adjustments are required in which "cash and cash equivalents" are added back and "interest bearing debts" are subtracted to arrive at the equity value of the Group. After the adjustments, the indicated value of the Group as at the Valuation Date under the EV/EBIT ratio was approximately **RMB1,819,885,000 (RENMINBI ONE BILLION EIGHT HUNDRED AND NINETEEN MILLION EIGHT HUNDRED AND EIGHTY FIVE THOUSAND ONLY)**. Our calculation is tabulated as follows:

| | *(RMB)* |
|---|---:|
| Applied EV/EBIT ratio | 11.89x |
| Multiplication factor (earnings before interest and taxes) | 178,646,000 |
| | 2,124,655,000 |
| Adjustments: | |
| Add: Control premium | 520,541,000 |
| Add: Non-operating assets and liabilities | 59,978,000 |
| | 2,705,174,000 |
| Less: Discount lack of marketability | (946,811,000) |
| | 1,758,363,000 |
| Add: Cash and cash equivalents(1) | 62,487,000 |
| Less: Interest bearing debts(1) | (965,000) |
| Indicated value under EV/EBIT | 1,819,885,000 |

(1) Discount lack of marketability is not applicable to cash and cash equivalents and interest bearing debts in relation to a non-listed company.

Under the adjusted P/E ratio, we have arrived a multiple of 13.67x and annualized net profit of approximately RMB149,887,000, resulting in an indicated value of approximately RMB2,048,869,000 before adjustments for control premium, other net non-operating assets and liabilities, and lack of marketability discount. After the adjustments, the indicated value of the Group as at the Valuation Date under the P/E ratio was approximately **RMB1,697,033,000 (RENMINBI ONE BILLION SIX HUNDRED AND NINETY SEVEN MILLION AND THIRTY THREE THOUSAND ONLY)**. Breakdown of our calculation as follows:

| | *(RMB)* |
|---|---:|
| Applied P/E ratio | 13.67x |
| Multiplication factor (net profit) | 149,887,000 |
| | 2,048,869,000 |
| Adjustments: | |
| Add: Control premium | 501,973,000 |
| Add: Non-operating assets and liabilities | 59,978,000 |
| | 2,610,820,000 |
| Less: Discount lack of marketability | (913,787,000) |
| Add: Cash and cash equivalents | N/A[(1)] |
| Less: Interest bearing debts | N/A[(1)] |
| Indicated value under P/E | 1,697,033,000 |

By taking average of the indicated values above, we are of the opinion that the market value of 100% equity interest of the Group as at the Valuation Date was in the sum of **RMB1,758,459,000 (RENMINBI ONE BILLION SEVEN HUNDRED AND FIFTY EIGHT MILLION FOUR HUNDRED AND FIFTY NINE THOUSAND ONLY)**.

## 10.0 VALUATION ASSUMPTIONS

- As agreed with the Management, we have performed this valuation based on financial statements of the Group for the 7 months ending 31 July 2020, since the financial statements as at the Valuation Date are not available. We have assumed there are no material changes to the financial performances and positions of the Group during the period between 31 July 2020 and the Valuation Date;
- For the Group to continue as a going concern, the Group will successfully carry out all necessary activities for the development of its business;

(1) The "price" (P) under the P/E ratio already represents the equity value of the Group and therefore no further adjustments for cash and cash equivalents and interest bearing debts are required.

- The availability of finance will not be a constraint on the forecast growth of the Group's operations in accordance with the business plans;
- Market trends and conditions where the Group operates will not deviate significantly from the economic forecasts in general;
- The financial statements of the Group as supplied to us have been prepared in a manner which truly and accurately reflect the financial positions of the Group as at the respective balance sheet dates;
- Key management, competent personnel and technical staff will all be retained to support the ongoing operations of the Group;
- There will be no material changes in the business strategy of the Group and its operating structure;
- Interest rates and exchange rates in the localities for the operations of the Group will not differ materially from those presently prevailing;
- 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 Group operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and
- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Group operates or intends to operate, which would adversely affect the revenues and profits attributable to the Group.

## 11.0 LIMITING CONDITIONS

Our conclusion of the market value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This valuation reflects facts and conditions existing as at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report is reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made nor liability assumed for the accuracy.

We have relied to a considerable extent on the information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibility for operational and financial information that has not been provided to us is accepted.

Certain facts, information, statistics and data relating to the economic and industry overview that are presented in this report are derived from publicly available official government sources as well as industry reports prepared by external independent market researchers. We are of the view that the sources of this information are appropriate sources for such information and have exercised reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, and thus no representation is given as to its accuracy or correctness, and accordingly, it should not be unduly relied on.

We have not investigated the title to or any legal liabilities of the Group and have assumed no responsibility for the title to or any legal liabilities of the Group. In forming our opinion, we have assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Peak Vision Appraisals assumes no responsibility and offers no legal opinion or interpretation on any issue.

In accordance with our standard practices, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. Furthermore, the report and conclusion of value are not intended by the author, and should not be construed by the reader, to be investment advice in any manner whatsoever. The conclusion of value represents the consideration based on information furnished by the Company/engagement parties and other sources. No responsibility is accepted to any third party for the whole or any part of its contents.

Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

Our valuation has been prepared based on economic, market and other conditions as they existed on, and information made available to us as of the Valuation Date only. It has come to our attention that since the Valuation Date, the outbreak of Coronavirus Disease (COVID-19) has caused significant disruption to economic activities around the world. It is uncertain how long the disruption will last and to what extent it will affect the economy and it may cause volatility and uncertainty that the input parameters and assumptions adopted in our valuation may change significantly and unexpectedly over short period of time. It should therefore be noted that any market volatility, policy, geopolitical and social changes or other circumstances after the Valuation Date may affect the market value of the 100% equity interest of the Group after the Valuation Date.

## 12.0 REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

The Management has reviewed and confirmed the factual content and has agreed to the assumptions and limiting conditions of this report.

We hereby confirm that we have no material connection or involvement with the Group, the Company and its subsidiaries and associated companies, or the value reported herein and that we are in a position to provide an objective and unbiased valuation.

## 13.0 OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed and key assumptions appended above, we are of the opinion that the market value of 100% equity interest of the Group as at the Valuation Date was in the sum of **RMB1,758,459,000 (RENMINBI ONE BILLION SEVEN HUNDRED AND FIFTY EIGHT MILLION FOUR HUNDRED AND FIFTY NINE THOUSAND ONLY).**

Yours faithfully,
For and on behalf of
**Peak Vision Appraisals Limited**
**Nick C. L. Kung**
*MRICS, MHKIS, RPS (G.P.), RICS Registered Valuer, MCIREA*
*Director*
*Corporate Valuations*

*Note:*

Mr. Nick C. L. Kung 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.

# Appendix I

# Business Registration Details of the Subsidiary II and OPCO

**Appendix I — Business Registration Details of the Subsidiary II and OPCO**

| | | |
|---|---|---|
| Name | : | 深圳德珹科技有限公司 (the Subsidiary II) |
| Unified social credit code | : | 91440300MA5GCG640G |
| Incorporation type | : | Limited liability company (Taiwan, Hong Kong or Macau legal person sole proprietorship) (有限責任公司(台港澳法人獨資)) |
| Registered address | : | 中華人民共和國深圳市前海深港合作區前灣一路1號A棟201室(入駐深圳市前海商務秘書有限公司) (Room 201, Block A, No. 1 Qianwan 1st Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, the PRC (assigned to Shenzhen Qianhai Business Secretarial Company Limited)) |
| Registered capital | : | RMB5,000,000 |
| Incorporation date | : | 3 September 2020 |
| Operating period | : | 3 September 2020 — perpetual |
| Confined business scope | : | General operating items: Information technology consulting services; Software development; Network technology services; Computer system services; Business management consulting; Information consulting services (Excluding licensing information consulting services) (Except for items subject to approval by law, companies can conduct business activities independently in accordance with business licenses) |

***Table 5: Business License of the Subsidiary II***

*Source: www.tianyancha.com*

| | | |
|---|---|---|
| Company Name | : | 深圳維京人網絡科技有限公司 (the OPCO) |
| Unified social credit code | : | 91440300580084078J |
| Incorporation type | : | Limited liability company (有限責任公司) |
| Registered address | : | 中華人民共和國深圳市南山區粵海街道科苑路16號東方科技大廈2006室 (Room 2006, Oriental Technology Building, No. 16 Keyuan Road, Yuehai Sub-district, Nanshan District, Shenzhen, the PRC) |
| Registered capital | : | RMB10,800,000 |
| Incorporation date | : | 5 August 2011 |
| Operating period | : | 5 August 2011–4 August 2021 |
| Confined business scope | : | General business items: Technical maintenance and technical consultation of online gaming products; Database and computer network maintenance; Domestic trade (Except for items subject to approval before registration required by laws, administrative regulations, and decisions of the State Council); Engage in advertising business; operating e-commerce business (For business involving pre-administrative licenses, pre-administrative license must be obtained before commencement of business); Import and export business (Except for items prohibited by laws and administrative regulations, and projects restricted by laws and administrative regulations can only operate after obtaining relevant licenses); Licensed business items: Operate gaming products via the internet (Including issuance of virtual online game currency); Engage in exhibitions of internet cultural products and competitions (Operate within the validity period of the internet cultural business license); Engage in value-added telecommunications business type II — information service business in China (Excluding fixed-line telephone information services and mobile network information services, which can be operated within the validity period with a value-added telecommunications business license) |

***Table 6: Business License of the OPCO***

*Source: www.tianyancha.com*

# Appendix II

# Industry Overview

**Appendix II — Industry Overview**

Mobile games are games designed for mobile devices, such as smartphones, feature phones, personal digital assistants, tablets and portable media players, with their game design ranging from simple, such as snakes, to games running on sophisticated game engines, such as augmented reality games. Nowadays, mobile games are generally referring to games running on smartphones or tablets, and unlike the past where games are offline, most mobile games are online with a wide variety of genres, varying from role-playing games ("**RPG**") to gacha games, which are games implementing a capsule-toy vending machine mechanic.

Typically, companies that develop offline games will adopt a purchase once model to play the game. However, there are multiple revenue models that exist for online games and are detailed below:

1. Tiered subscription: A tiered subscription model allows users to play the game for free but with many limitations to the gameplay such as weaponry, skills, map exploration, etc. Players who desire to gain full access to the game without limitation will have to pay a subscription fee either monthly or annually. Example of such games include Runescape, EVE online, World of Warcraft, etc.

2. Virtual item sales: The virtual item sales model is mainly dominant in Asia and is considered the leaders in revenue for online mobile games. Such practice allows players to purchase functional or decorative in-game items with real money-based currency. Typically, when the game product of the company is implemented with a gacha or loot box system, which have players pay for a chance to obtain rare items, the company will adopt such model. Examples of such games include Fate/Grand Order, Granblue Fantasy, PUBG Mobile, etc.

3. Advertisement: In the recent years, in-game advertising has been gaining prominence. Companies that adopt such model will allow game ad agencies to serve up static or dynamic ads within their game products and will receive ad payment from these game ad agencies.

According to Sensor Tower, the top mobile games by worldwide revenue in July 2020 are PUBG Mobile, Honor of Kings, Monster Strike, Pokemon GO, Roblox, Fate/Grand Order, DBZ Dokkan Battle, Coin Master, Lineage M and Homescapes.

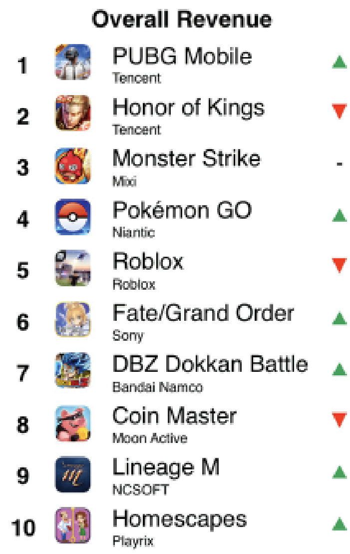


***Figure 3: Top Mobile Games by Worldwide Revenue, July 2020***

*Source: Sensor Tower*

**Mobile game market in China**

According to Qianzhan Research, more and more games have been developed as of 2019 with the mobile game industry reaching approximately RMB194.7 billion. The main category of games are RPG and multiplayer online battle area games with a market share of 24.9% and 21.2% respectively in 2019. Furthermore, the app stores, such as Apple app store and Google play store, have been the mainstream download channel, accounting for approximately 38.81% of the download traffic in 2019. Third-party app stores are ranked second in download traffic accounting for approximately 22.47%.

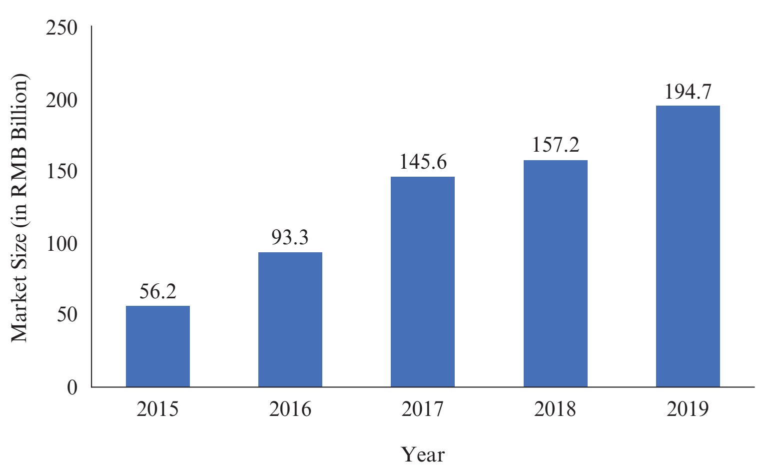


***Figure 4: China's Mobile Gaming Market Size from 2015 — 2019***

*Source: 前瞻產業研究院*

It is forecasted that for the first half of 2020, China's mobile gaming market will reach a revenue of approximately RMB139.5 billion, with an annual growth rate of approximately 22.3%. Such forecast is due to the COVID-19 epidemic leading an increase in entertainment demands. The forecasted primary demographic has also changed for the first half of 2020 with strategy games accounting for approximately 40.0%, shooting games accounting for approximately 18.1% and RPG accounting for approximately 11.0% of the total mobile gaming demographic in China.

According to Statista, the top 10 grossing game in China in August 2020 are Honor of Kings, PUBG Mobile — New Era, Three Kingdoms — Strategy Edition, Fantasy Westward Journey, Three Kingdoms — Fantasy land, The Marvelous Snail, Shuaituzhibin, CrossFire Mobile FPS, New Forsaken World and Onmyoji. Out of the top 10, the top two are published by Tencent with the third published by Alibaba.

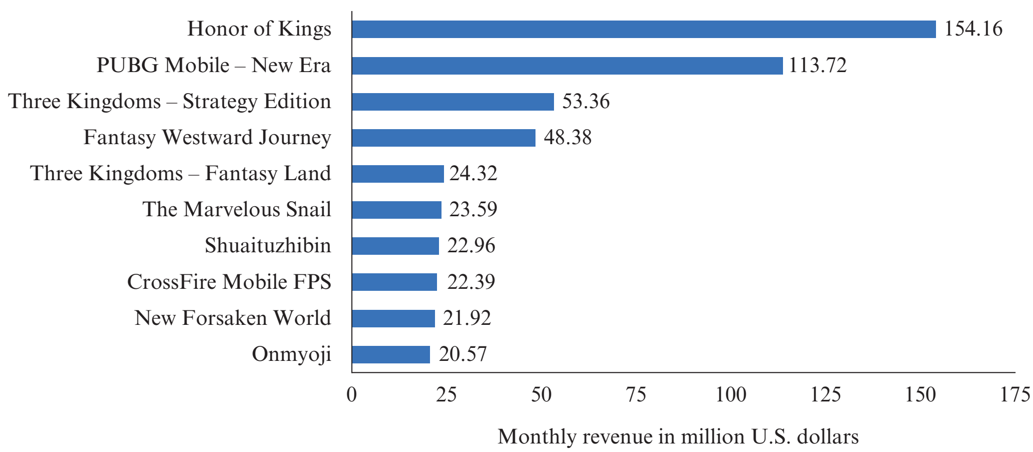


***Figure 5: Top 10 Grossing game in China in August 2020***

*Source: Statista*

With the rapid popularization of 5G technology and the increasing optimization broadband environment, cloud gaming will usher in explosive growth in the next few years. For the first six months of 2019, cloud gaming revenue reached approximately RMB225 million and is forecasted to reach approximately RMB403 million for the first six months of 2020, a year-on-year increase of approximately 79.4%.

# Appendix III

# Economic Overview

**Appendix III — Economic Overview**

**China Economic Overview**

According to the research conducted by Hong Kong Trade Development Council ("**HKTDC**"), China's GDP contracted by 6.8% in the first quarter of 2020. Added-value industrial output grew by 4.4% in May 2020, up from 3.9% in April 2020. Fixed assets investment declined by 6.3% in Jan-May 2020, which was narrowed by 4.0 percentage points compared with that in Jan-Apr 2020. Retail sales decreased by 2.8% in May 2020, registering a decline narrowed by 4.7 percentage points compared with April 2020. Inflation stood at 2.4% in May 2020, with food prices increased by 10.6% and non-food prices increased by 0.4%. In May 2020, exports (in terms of US$) decreased by 3.3%, while imports (in terms of US$) decreased by 16.7%, resulting in a trade surplus of US$62.9 billion. The Manufacturing Purchasing Managers' Index down from 50.8 in April 2020 to 50.6 in May 2020.

China is shifting towards a consumption-driven economy by lowering its import tariffs. In November 2017, China cut import tariff on 187 consumer goods, the tariffs drop from an average 17.3% to 7.7% on products including pharmaceuticals, food, health supplements and clothing. From 1 July 2018, China has further reduced tariffs on 1,449 items, from an average tariff rate of 15.7% to 6.9%; and lower import tariffs on vehicles (from average 21.5% to 13.8%) and auto parts (from average 10.2% to 6.0%).

China reduced the Most-Favoured-Nation ("**MFN**") tariff on 1,585 taxable items as of 1 November 2018. This coincided with the provisional MFN tariff rates being abolished for 39 import items, while the existing MFN provisional tariff rates remained in force for all goods unaffected by this latest round of cut. In total, the tariff reductions apply to 19% of all taxable import items, with the average tariff rate having fallen from 10.5% to 7.8%.

The provisional import and export tariffs on a range of goods were revised as of 1 January 2019 in line with a prior announcement by the State Council Customs Tariff Commission. This has seen new provisional tax rates applied to such items as food stuffs and various categories of industrial equipment, while duty on several information technology products will be removed and the rates for a raft of other IT products reduced as of 1 July 2019.

From 1 April 2019, China implemented a value-added tax (VAT) cut for manufacturing sector from 16% to 13% and VAT cut for construction and transportation sectors from 10% to 9%. From 1 May 2019, China reduced social security fees from 20% to 16%.

The Foreign Investment Law of the People's Republic of China took effect from 1 January 2020. This law assures non-mainland investors of national level protection for all their committed funds, income and other interests, provided their projects so not fall within the remit of the statutory Negative list.

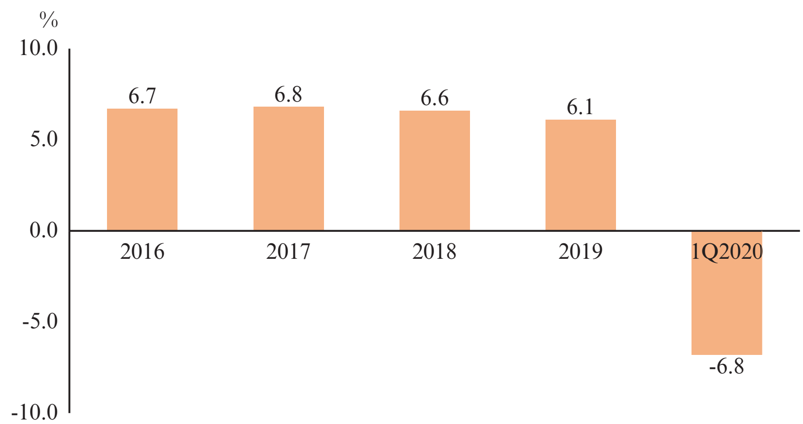


***Figure 6: China real GDP Growth, 2016–Q1 2020***

*Source: HKTDC*

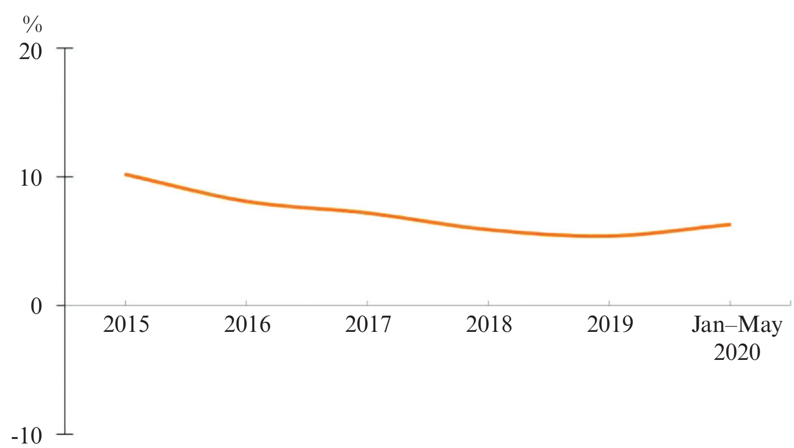


***Figure 7: China fixed assets investment growth, 2015–May 2020***

*Source: HKTDC*

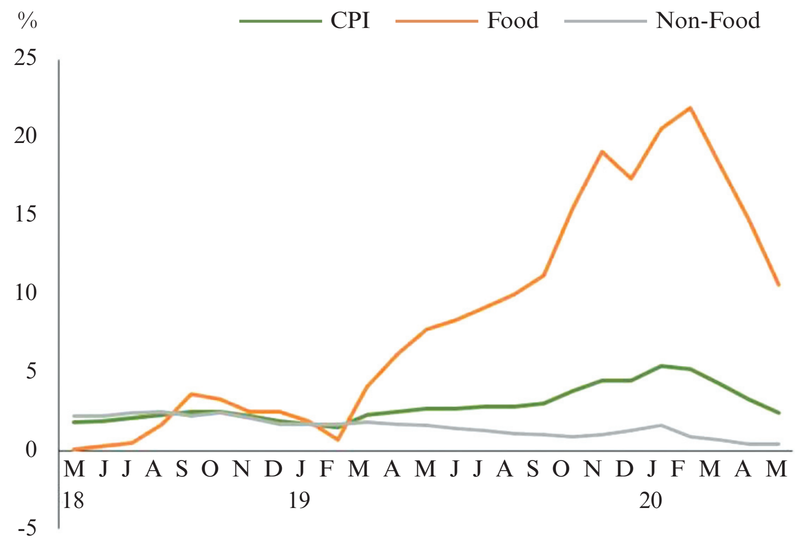


*Figure 8: China monthly inflation rate, May 2018–May 2020*

*Source: HKTDC*

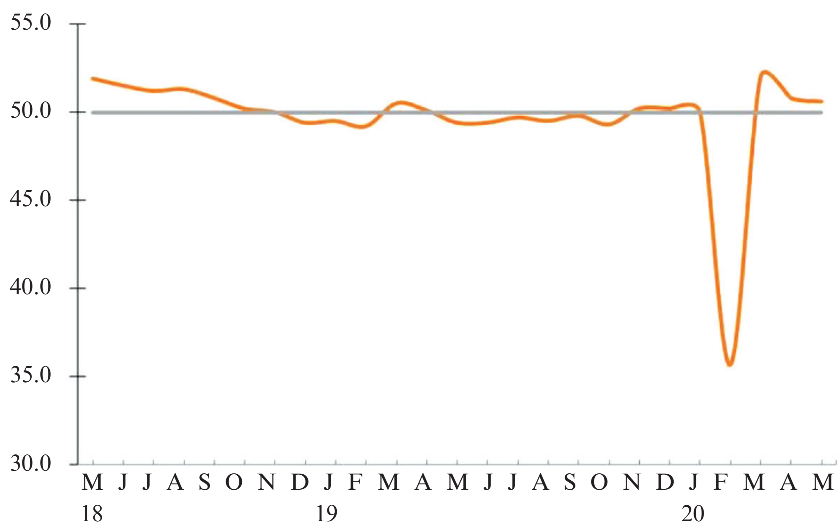


*Figure 9: China's Manufacturing PMI, May 2018–May 2020*

*Source: HKTDC*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date will be as follows:

**As at the Latest Practicable Date**

| | |
|---|---|
| *Authorised:* | |
| 6,000,000,000 Shares of one third Hong Kong cents each | HK$20,000,000 |
| *Issued and fully paid:* | |
| 960,000,000 Shares of one third Hong Kong cents each | HK$3,200,000 |

## 3. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares and, in respect of equity derivatives, underlying Shares in, and debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Group (i) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

**Long positions in the Shares and underlying Shares**

| Name | Capacity | Number of Shares | Percentage of shareholdings |
|---|---|---|---|
| Zhang Yan[1] | Beneficial owner and Interest in controlled corporation | 391,200,000 | 40.75% |
| Huang Yong[2] | Interest in controlled corporation | 11,976,000 | 1.25% |
| Zhou Kun | Beneficial owner | 300,000 | 0.03% |

*Notes:*

1. Mr. Zhang Yan is interested in approximately 40.75% of the total issued shares of the Company, i.e. 391,200,000 Shares, including:

   i. 19,200,000 Shares, representing approximately 2.00% of the share capital of the Company as beneficial owner;

   ii. 327,000,000 Shares, representing approximately 34.06% of the share capital of the Company. Mr. Zhang Yan is interested in the entire issued share capital of Sulfulon International Limited and he is therefore deemed to be interested in the Shares held by Sulfulon International Limited by virtue of the SFO;

   iii. 45,000,000 Shares, representing approximately 4.69% of the share capital of the Company. Mr. Zhang Yan is interested in the entire issued share capital of Infinities Investment Pte. Ltd., which is wholly-owned by Infinities Super Holding Limited. Infinities Super Holding Limited is a company incorporated in the Cayman Islands with limited liability and is wholly-owned by Mr. Zhang Yan. Therefore, Mr. Zhang Yan is deemed to be interested in the Shares held by Infinities Investment Pte. Ltd. by virtue of the SFO.

2. Mr. Huang Yong is interested in the entire issued share capital of Raglon International Limited and he is therefore deemed to be interested in the Shares held by Raglon International Limited by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Group (i) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO) or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## 4. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the interests and short positions of Shareholders (not being Directors or the chief executives of the Company) in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

| Name | Capacity | Number of Shares[1] | Percentage of shareholding |
|---|---|---|---|
| Sulfulon International Limited | Beneficial owner | 327,000,000 | 34.06% |
| Ms. Zheng Xin[2] | Interest of spouse | 391,200,000 | 40.75% |
| Zhang Xiongfeng | Beneficial owner | 48,004,000 | 5.01% |
| Silver Wide Holdings Limited | Beneficial owner | 48,000,000 | 5.00% |
| Hu Po[3] | Interest of controlled corporation | 48,000,000 | 5.00% |

*Notes:*

1. All interests stated are long positions.

2. Ms. Zheng Xin is the spouse of Mr. Zhang Yan and she is therefore deemed to be interested in the Shares held by Mr. Zhang Yan by virtue of the SFO.

3. Ms. Hu Po is interested in the entire issued share capital of Silver Wide Holdings Limited and she is therefore deemed to be interested in the Shares held by Silver Wide Holdings Limited by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the substantial shareholder of the Company (not being Directors or the chief executives of the Company) has any interests or short positions in the Shares or underlying Shares (i) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or (ii) required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

## 5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

### Interests in assets

Save for the subject assets under the Acquisition, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which, since 31 December 2019 (the date to which the latest published audited financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

### Interest in contracts

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Enlarged Group.

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any businesses or interests that compete or might compete with the business of the Group or any other conflict of interests with the Group.

## 7. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claims of material importance and no litigation or claim of material importance was pending or threatened by or against any member of the Enlarged Group.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) had been entered into by the members of the Enlarged Group within the two years immediately preceding the date of this circular which are or may be material:

(a) the Sale and Purchase Agreement.

## 9. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Enlarged Group which does not expire or is not determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

## 10. MATERIAL CHANGE

The Directors confirm that there was no material changes in the financial or trading position or outlook of the Enlarged Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

## 11. EXPERTS AND CONSENTS

The following are the qualifications of the expert who has given opinions or advice contained in this circular:

| Name | Qualification |
|---|---|
| BDO Limited | Certified public accountants |
| Draco Capital Limited | Independent financial adviser |
| Peak Vision Appraisals Limited | Independent valuer |
| Shu Jin Law Firm | PRC Legal Adviser |

As at the Latest Practicable Date, (i) the above experts did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (ii) did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter(s), report(s), opinion and/or the references to its name in the form and context in which they appear.

## 12. GENERAL

(i) The registered office of the Company is situated at Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company in Hong Kong is at 2201–2203, 22/F World-Wide House, Central, Hong Kong;

(ii) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, at level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong; and

(iii) The joint company secretaries of the Company are Mr. Wei Dong and Mr. Chu Hon Leung, who is a practicing solicitor in Hong Kong.

## 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the principal office of the Company in Hong Kong at 2201–2203, 22/F, World-Wide House, Central, Hong Kong for a period of 14 days from the date of this circular:

(i) the memorandum and articles of association of the Company;

(ii) the material contract referred to in the section headed "Material Contracts" in this appendix;

(iii) the letter from the Board, the text of which is set out on pages 6 to 57 of this circular;

(iv) the letter from the Independent Financial Adviser, the text of which is set out on pages 58 to 93 of this circular;

(v) the Accountants' Report of the Target Group, the text of which is set out in Appendix II to this circular;

(vi) the report from BDO on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(vii) the valuation report of the Target Group, the text of which is set out in Appendix V to this circular;

(viii) the legal opinion from the PRC Legal Adviser in relation to the Contractual Arrangements;

(ix) the written consents from the experts referred to in the section headed "Experts and Consents" of this appendix;

(x) each of the contracts in relation to the Contractual Arrangements;

(xi) the annual reports of the Company for each of the three financial years ended 31 December 2017, 2018 and 2019 respectively;

(xii) the interim report of the Company for the six months ended 30 June 2020; and

(xiii) this circular.

## 14. MISCELLANEOUS

For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this circular in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.

Except for the above, the English text of this circular shall prevail over the Chinese text in the event of inconsistency.

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)**

# NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Fire Rock Holdings Limited (the "Company") will be held at 9th Floor, Block 1, Chongwen Garden, Nanshan iPark, 3370 Liuxian Avenue, Nanshan District, Shenzhen, the PRC on Tuesday, 2 February 2021 for the purposes of considering and, if though fit, passing with or without modifications, the following resolution:

## ORDINARY RESOLUTION

1. "**THAT**:

   (a) the sale and purchase agreement dated 18 November, 2020 (the "Sale and Purchase Agreement") entered into among the Company, Honour Soar Holdings Limited (榮升控股有限公司) ("Vendor 1"), Morning Rain Holdings Limited (晨雨控股有限公司) ("Vendor 2"), Joyous Bliss Holdings Limited (樂福控股有限公司) ("Vendor 3") (collectively known as the "Vendors"), Mr. Zhang Zhen Hua (張振華), Miss Zhang Xiao Juan (張曉娟) and Miss Wang Ye Qiong (王業瓊), in relation to the Company's proposed acquisition of 100% equity interest in Tak Shing International Holdings Limited (德成國際控股有限公司) from each of the Vendors, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

   (b) any one executive director of the Company (the "Executive Director") be and is hereby authorised for and on behalf of the Company, to sign, execute and deliver or to authorise the signing, execution and delivery of all such documents (including affixing the common seal of the Company thereon) and to do all such things as he may in his absolute discretion consider necessary, expedient or desirable to implement and/or to give effect to or otherwise in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder."

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

Hong Kong, 13 January 2021

**Note:**

1. The register of members of the Company will be closed from Thursday, 28 January 2021 to Tuesday, 2 February 2021, both dates inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 27 January 2021.

2. Any member of the Company ("Shareholder") entitled to attend and vote at the EGM is entitled to appoint one or, if such Shareholder is a holder of more than one share, more proxies to attend and vote in his stead. A proxy need not be a Shareholder.

3. In order to be valid, the form of proxy must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong together with a power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney (whichever being applicable) not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (no later than 10:30 a.m. on Sunday, 31 January 2021 (Hong Kong time)).

4. Completion and delivery of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM if the Shareholder so desires and, in such event, the instrument appointing a proxy shall be deemed to have been revoked.

5. Where there are joint registered holders of any share of the Company, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto but, if more than one of such holders be present at the EGM personally or by proxy, the holder so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

6. If Typhoon Signal No. 8 or above, or a "black" rain storm warning is in effect any time after 7:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at hk.firerock.hk and on the website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and venue of the rescheduled meeting.

7. Voting of the resolutions as set out in this notice will be by poll.