



# LUDASHI

## 360 LUDASHI HOLDINGS LIMITED 360 魯大師控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock code : 3601

### Global Offering



Sole Sponsor



Financial Advisor



Joint Global Coordinators, Joint Bookrunners, and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



# IMPORTANT

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



# LUDASHI

## 360 LUDASHI HOLDINGS LIMITED

## 360 魯大師控股有限公司

(Incorporated in the Cayman Islands with limited liability)

### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 60,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 6,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 54,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$3.00 per Hong Kong Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	: HK\$0.01 per Share
Stock Code	: 3601

#### Sole Sponsor



**國信證券(香港)**  
GUOSEN SECURITIES (HK)

#### Financial Advisor



**MACQUARIE**

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



**國信證券(香港)**  
GUOSEN SECURITIES (HK)



**MACQUARIE**



**建銀國際**  
CCB International

#### Joint Bookrunners and Joint Lead Managers



**國泰君安國際**  
GUOTAI JUNAN INTERNATIONAL



**利得證券**



**富強證券**  
FORTUNE (HK) SECURITIES



**海通國際**  
HAITONG



**中投證券(香港)**  
CHINA INVESTMENT SECURITIES (HK)

#### Joint Lead Managers



**國元國際**  
GUOYUAN INTERNATIONAL  
證券有限公司 HOLDINGS LIMITED



**zrpt** 中融平和證券有限公司  
ZHONGRONG PT SECURITIES LIMITED



**中泰國際**  
ZHONGTAI INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in "Appendix V – Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 2 October 2019 and, in any event, not later than Thursday, 3 October 2019. The Offer Price will be not more than HK\$3.00 per Offer Share and is currently expected to be not less than HK\$2.30 per Offer Share. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or before Thursday, 3 October 2019, the Global Offering will not proceed and will lapse. In the case of such event, a notice will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.ludashi.com](http://www.ludashi.com).

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with the consent of the Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published on the Hong Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and on the Company's website at [www.ludashi.com](http://www.ludashi.com) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares." Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including the risk factors set out in "Risk Factors" in this Prospectus.

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

26 September 2019

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## EXPECTED TIMETABLE

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*If there is any change in the following expected timetable, our Company will issue an announcement to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.ludashi.com](http://www.ludashi.com).*

Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from .....9:00 a.m. on Thursday, 26 September 2019

Latest time for completing electronic applications under **HK eIPO White Form** service through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(2)</sup> .....11:30 a.m. on Wednesday, 2 October 2019

Application lists open<sup>(3)</sup> .....11:45 a.m. on Wednesday, 2 October 2019

Latest time for lodging **WHITE** and **YELLOW** Application Forms .....12:00 noon on Wednesday, 2 October 2019

Latest time for completing payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....12:00 noon on Wednesday, 2 October 2019

Latest time for giving **electronic application instructions** to HKSCC<sup>(4)</sup> .....12:00 noon on Wednesday, 2 October 2019

Application lists close<sup>(3)</sup> .....12:00 noon on Wednesday, 2 October 2019

Expected Price Determination Date<sup>(5)</sup> .....on or around Wednesday, 2 October 2019

(1) Announcement of the final Offer Price, the results of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.ludashi.com](http://www.ludashi.com) on or before ..... Wednesday, 9 October 2019

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## EXPECTED TIMETABLE

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(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers or Hong Kong business registration numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for the Hong Kong Offer Shares – 11. Publication of Results" from . . . . . Wednesday, 9 October 2019

(3) A full announcement containing (1) and (2) above to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.ludashi.com](http://www.ludashi.com)<sup>(6)</sup> from . . . . . Wednesday, 9 October 2019

Results of allocations in the Hong Kong Public Offering will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) and [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) with a "search by Identification Number or Business Registration Number" function from . . . . . Wednesday, 9 October 2019

Despatch/collection of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before<sup>(7)(8)</sup> . . . . . Wednesday, 9 October 2019

Despatch/collection of refund cheques and **HK eIPO White Form e-Auto Refund** payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before<sup>(8) to (10)</sup> . . . . . Wednesday, 9 October 2019

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . . Thursday, 10 October 2019



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## EXPECTED TIMETABLE

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*Notes:*

- (1) All dates and times refer to Hong Kong local dates and times, except as otherwise stated.
- (2) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 2 October 2019, the application lists will not open or close on that day. Please refer to “How to Apply for the Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists.” If the application lists do not open and close on Wednesday, 2 October 2019, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to “How to Apply for the Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS.”
- (5) The Price Determination Date is expected to be on or around Wednesday, 2 October 2019 and, in any event, not later than Thursday, 3 October 2019. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators and us by Thursday, 3 October 2019, the Global Offering will not proceed and will lapse.
- (6) Neither our Company’s website or any of the information contained on our Company’s website forms part of this Prospectus.
- (7) Share certificates of the Offer Shares will only become valid at 8:00 a.m. on Thursday, 10 October 2019 provided that the Global Offering has become unconditional in all respects, and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.
- (8) Applicants who apply on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 Shares or more under the Hong Kong Public Offering and have provided all information required by their Application Forms may collect refund cheques and (where applicable) share certificates in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 9 October 2019. Identification and (where applicable) authorization documents acceptable to the Hong Kong Branch Share Registrar must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offering and have provided all information required by their Application Form may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participant stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for Shares is the same as that for applicants who apply on **WHITE** Application Forms.

Applicants who apply for the Hong Kong Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the section headed “How to apply for the Hong Kong Offer Shares” in this Prospectus for details.

If an applicant has applied for less than 1,000,000 Hong Kong Offer Shares, the share certificate (if applicable) and/or refund cheque will be despatched by ordinary post (at the applicant’s own risk) to the address specified on the Application Form.

- (9) Uncollected share certificates and refund cheques will be despatched by ordinary post (at the applicants’ own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed “How to apply for the Hong Kong Offer Shares – Refund of application monies” in this Prospectus.

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## EXPECTED TIMETABLE

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- (10) e-Auto Refund payment instructions and refund cheques will be made/issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price as finally determined is less than the initial Offer Price per Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong identity card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque, if any.

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

**The above expected timetable is a summary only. You should refer to “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.**

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*This Prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus for purposes of a public offering and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. The Company has not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, representatives, employees, agents or professional advisers or any other person or party involved in the Global Offering. The contents of the Company's website at [www.ludashi.com](http://www.ludashi.com) do not form part of this Prospectus.*

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## SUMMARY AND HIGHLIGHTS

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*This summary aims to give you an overview of the information contained in this Prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this Prospectus in its entirety before you decide to invest in the Offer Shares.*

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

### OUR VISION

Our vision is to offer the users joy and convenience from their use of smart devices.

### OVERVIEW

We develop a series of PC and mobile devices utility software and offer them to users free-of-charge in exchange for online traffic that we monetize by online advertising and online game business and further expand by electronic devices sales. Our utility software, *Ludashi* (魯大師), which means *Master Lu*, is a well-known brand and software in China and elsewhere in the world with a specialty in PC/smartphone hardware and system benchmarking and monitoring. We have accumulated a large user base pool through providing free download and installation of Ludashi Software. According to Frost & Sullivan, for the year ended 31 December 2018, we were the largest PC and smartphone hardware and system benchmarking and monitoring solution provider in China in terms of user base, occupying 98.8% and 58.9% of the market share based on the MAUs for PCs and mobile devices, respectively. The MAUs for our products, comprising that of our utility software of 120.4 million and that of game library of 4.9 million, amounted to approximately 125.3 million in April 2019. Among the MAUs of our products, there were 103.8 million MAUs in the PRC. Another 21.5 million MAUs were generated from products geared towards overseas markets.

We generated revenues from online traffic monetization and electronic devices sales. Under online traffic monetization, we generate revenues from online advertising services and online game business. Online advertising service market, online game market and electronic devices market are our addressable markets.

We grew rapidly during the Track Record Period. Our revenue increased from RMB69.8 million for the year ended 31 December 2016 to RMB122.6 million for the year ended 31 December 2017, and to RMB320.3 million for the year ended 31 December 2018. Our revenue also increased from RMB97.7 million for the four months ended 30 April 2018 to RMB113.7 million for the four months ended 30 April 2019. Our net profit attributable to shareholders increased from RMB31.7 million for the year ended 31 December 2016 to RMB53.2 million for year ended 31 December 2017, and to RMB71.9 million for the year ended 31 December 2018. Our net profit attributable to shareholders also increased from RMB18.9 million for the four months ended 30 April 2018 to RMB27.4 million for the four months ended 30 April 2019.

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## SUMMARY AND HIGHLIGHTS

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### *Our Business Model*

We offer utility software free-of-charge to a growing user base during the Track Record Period. A substantial proportion of our gross profit was generated through online traffic monetization. Our large user base, accumulated through our value-added and functional utility software, lays a solid foundation for our monetization. Riding on the widely-recognizable brand *Ludashi*, we established the business lines of sales of electronic devices and online game in 2015 and 2016, respectively.

During the Track Record Period, we generated revenues under online traffic monetization from online advertising service and online game business. Under our online advertising service, we offer three types of services, which are: (i) homepage directing service, (ii) mini-page service, and (iii) banner advertising service. Our customers acquire exposure to a vast number of users of our Ludashi Software with our different types of advertising services, which contributes online user traffic and viewer to their products. We charge them on a cost-per-action basis at large and generate revenue forming a vital part of our total revenue. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from online advertising service was RMB66.8 million, RMB97.7 million, RMB174.6 million, RMB42.2 million and RMB65.2 million, respectively, accounting for 95.7%, 79.7%, 54.5%, 43.2% and 57.4%, respectively, of our total revenue. During the Track Record Period, our online traffic suppliers primarily comprised network technology companies and advertising companies, including Songheng Group, Maanshan Zhuoxue Internet Technology Co., Ltd., Yantai Zhenghao Network Technology Company Limited, Maanshan Baizhu Internet Technology Co., Ltd., and Madhouse Company Limited. A member of Songheng Group, namely Shanghai Songheng, is the shareholder of Chengdu Qilu. Save for that, other online traffic suppliers are Independent Third Parties. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, purchases from our online traffic suppliers in aggregate accounted for 85.0%, 75.4%, 33.2%, 18.3% and 42.9% of our total purchase amount, respectively.

During the Track Record Period, we primarily generated revenues under our online game business from web games. Prior to September 2017, we primarily operated online game directing business. Before September 2017, we directed users from our Ludashi Software to a game platform operated by an Independent Third Party. We launched our own online game platform on PC in September 2017 and cooperate with game developers and distributors by sharing with them the revenue we receive from game players. With insight into our users' needs, we selected fine games to satisfy our information technology savvy users' preference. As of the Latest Practicable Date, 53 web games were available in our game library on our website [wan.ludashi.com/game](http://wan.ludashi.com/game). The MAUs for our game library were 4.9 million in April 2019. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from online game business, including online game platform operation and online game directing, was RMB2.6 million, RMB22.6 million, RMB42.9 million, RMB12.6 million and RMB19.0 million, respectively, accounting for 3.7%, 18.4%, 13.4%, 12.9% and 16.7%, respectively, of our total revenue.

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## SUMMARY AND HIGHLIGHTS

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In order to further monetize our hardware and system benchmarking and monitoring technology, we commenced selling smart accessories from January 2015, certified pre-owned and factory smartphones from August 2017 and other electronic devices from November 2018. We adopt methods of online e-commerce platforms and offline wholesale for electronic devices sales. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from this business line was RMB0.4 million, RMB2.3 million, RMB102.8 million, RMB42.8 million and RMB29.4 million, respectively, accounting for 0.6%, 1.9%, 32.1%, 43.9% and 25.9%, respectively, of our total revenue. We anticipate that sales of electronic devices will become one of our key revenue sources for the years to come.



### ***Our Products***

Based on our hardware and system benchmarking and monitoring technology, we currently have seven core products of PC and mobile devices versions of utility software so as to meet our users' various needs on PCs and mobile devices, which can be downloaded free-of-charge by users.





As to the PC version of Ludashi Software, it can be activated automatically when the users turn on their PCs if such automatic activation is opted by those users during the installation process. As to the mobile version of Ludashi Software, it can be activated only when the users choose to operate the software.

According to the cumulative downloading volume on an independent third-party App store, which is the largest Android App store in China, by the end of June 2019, the mobile devices version of Ludashi Software ranked around 40th to 50th and 360 Battery Doctor ranked around 100th to 150th among thousands of major utility Apps in the market.

The diversified products we provide for PCs and mobile devices are set forth as follows:

Software Name	Launch Date <sup>(1)</sup>	Features
 Ludashi Software (魯大師) (PC Version) .....	2007	Hardware and system benchmarking and monitoring services to PC users
 Ludashi Software (魯大師) (Mobile Devices Version) ..	July 2013	Hardware and system benchmarking and monitoring services to mobile devices users
 Simulator Master (手機模擬大師) .....	May 2017	Simulating Android environment on PC ends to allow Apps to operate on PC ends

## SUMMARY AND HIGHLIGHTS

Software Name	Launch Date <sup>(1)</sup>	Features
 Dual Space <sup>(2)</sup>	November 2017	Running a virtual Android system to operate a duplicate of an original App
 AI mark.....	April 2018	Smartphone AI chip performance evaluation
 360 Battery Doctor (360省電王).....	February 2012	Battery performance testing and battery saving solution offering
 Easy Clean <sup>(2)</sup> .....	July 2018	Cleaning the internal storage of the smartphones

*Notes:*

- (1) The launch date means the date on which the App was uploaded to one or more App distribution channels for publicly available download.
- (2) Dual Space and Easy Clean are geared towards overseas markets.

The following table sets forth the average DAUs of our products for the periods indicated:

Software Name	For the year ended 31 December			For the four months ended 30 April	In April
	2016	2017	2018	2019	2019
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Ludashi Software (PC Version) .....	12.4	16.6	19.0	20.9	22.9
Ludashi Software (Mobile Devices Version) .....	2.2	2.0	1.0	0.7	0.7
Simulator Master .....	-	0.1	1.4	4.4	5.5
Dual Space .....	-	-	3.3	6.7	7.1
Game Library .....	-	1.3	1.7	1.3	1.1
360 Battery Doctor .....	0.3	0.5	0.2	0.1	0.1
Easy Clean .....	-	-	0.4	1.0	1.1

*Note:*

The figure shown above has been rounded to the nearest hundred thousand. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019, the average DAUs of the PC version of Ludashi Software before rounding adjustment was 12.371 million, 16.565 million, 18.964 million and 20.857 million, respectively.

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## SUMMARY AND HIGHLIGHTS

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The following table sets forth the average MAUs of our products for the periods indicated:

Software Name	For the year ended			For the four months ended	
	31 December			30 April	In April
	2016	2017	2018	2019	2019
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Ludashi Software					
(PC Version) .....	40.1	55.4	59.3	65.6	68.8
Ludashi Software (Mobile					
Devices Version) .....	7.2	5.9	3.9	3.4	3.2
Simulator Master .....	–	1.0	9.2	23.3	26.6
Dual Space .....	–	0.2	10.7	17.8	18.5
Game Library .....	–	9.3	11.3	6.1	4.9
360 Battery Doctor .....	1.3	1.5	0.6	0.4	0.3
Easy Clean .....	–	–	1.1	2.6	3.0

### ***Research and Development***

To further enhance our position in the Internet industry, we will continue to invest in research and development to improve and diversify our product and service offerings. As of the Latest Practicable Date, we had 84 research and development personnel, of which 56 have bachelor's degree and six have master's degree. On average, they have approximately six years' experience in information technology industry. Our research and development expenses amounted to RMB13.1 million, RMB16.8 million, RMB23.4 million, RMB7.3 million and RMB8.8 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

### ***Sales and Marketing***

During the Track Record Period, we relied, to a significant extent, on word-of-mouth among our satisfied loyal users and online game players to help us promote our products in China. We plan to advertise and promote Ludashi Software and related software and products on the third parties' electronic platforms, hold press conferences for digital products, and promote online and offline advertising, such as paper media advertising, We-Media and physical commercial landmarks.

As to the electronic devices sales, we promoted selling through online e-commerce platforms and offline wholesale. We put in resources to maintain the websites of our e-commerce platforms on our website and WeChat. Our marketing and promotional efforts focused on attracting users to our products.



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## SUMMARY AND HIGHLIGHTS

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### COMPETITIVE STRENGTHS

We believe that the following competitive strengths are key factors contributing to our success:

- We are the largest hardware and system benchmarking and monitoring solutions provider for PCs and mobile devices in the PRC market with increasing active users.
- We have established a well-recognized brand image as a hardware expert and have strengthened our capabilities by developing additional functions of Ludashi Software and extended utility software with more meticulous functions.
- We provide online advertising services and online game business to monetize our large and growing user base and generate steadily increasing revenue.
- We have leading big-data analytics capabilities and strong research and development capabilities that guarantee our further expansion in different fields.
- Our visionary and experienced management team with in-depth industry knowledge together with our strong shareholder base ensures the successful development of our business.

### BUSINESS STRATEGIES

Our business objective is to become a trustable hardware expert and leading Internet company. We aim to further enlarge our user base, utilize our PC and mobile devices hardware and system benchmarking and monitoring expertise to develop innovative products, strengthen our monetization ability and promote our electronic devices sales by pursuing the following key strategies:

- Further improve our product quality by strengthening our research and development capacities, maintain and expand our user base, exploit the overseas markets, and build up our brand image as a trustable hardware expert
- Enhance our online advertising services and game products so as to monetize our online traffic effectively
- Enhance our electronic devices sales business by taking advantage of our brand awareness
- Continue to retain a talented and professional workforce, and build strategic alliances and pursue investments and acquisitions

## SUMMARY AND HIGHLIGHTS

### SUMMARY KEY FINANCIAL INFORMATION

The summary historical data of financial information set forth below have been extracted or derived from, and should be read in conjunction with, our consolidated financial statements, including the accompanying notes, set forth in the Accountants' Report attached as Appendix I to this Prospectus, as well as the information set forth in "Financial Information." Our financial information was prepared in accordance with HKFRSs.

#### *Selected Consolidated Statements of Profit or Loss and Other Comprehensive Income*

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
<b>Revenue</b> .....	<b>69,812</b>	<b>122,561</b>	<b>320,266</b>	<b>97,686</b>	<b>113,664</b>
Costs of sales and services .....	(9,421)	(20,120)	(160,762)	(52,290)	(55,647)
<b>Gross profit</b> .....	<b>60,391</b>	<b>102,441</b>	<b>159,504</b>	<b>45,396</b>	<b>58,017</b>
Other income .....	1,696	4,145	6,220	1,005	1,403
Other gain and losses .....	(619)	(2,230)	1,719	(190)	20
Listing expenses .....	–	(540)	(16,123)	(4,880)	(2,997)
Administrative expenses .....	(8,458)	(10,347)	(20,104)	(4,232)	(8,102)
Research and development expenses .....	(13,107)	(16,816)	(23,368)	(7,290)	(8,878)
Selling and distribution expenses ..	(6,993)	(11,593)	(16,820)	(4,447)	(6,502)
Share of results of associates .....	–	478	1,308	220	–
Finance costs .....	(109)	(109)	(285)	(68)	(101)
<b>Profit before taxation</b> .....	<b>32,801</b>	<b>65,429</b>	<b>92,051</b>	<b>25,514</b>	<b>32,860</b>
Taxation .....	(1,099)	(9,247)	(16,067)	(4,418)	(5,130)
<b>Profit and total comprehensive income for the year/period</b> .....	<b>31,702</b>	<b>56,182</b>	<b>75,984</b>	<b>21,096</b>	<b>27,730</b>

Our revenue and gross profit kept increasing during the Track Record Period mainly due to the increased advertisers we cooperate with, the players we managed to attract to our online game business, and the newly established business line of sales of certified pre-owned and factory smartphones. For details of the fluctuations of our financial results during the Track Record Period, see "Financial Information – Management's Discussion and Analysis of Financial Condition and Results of Operations – Year-to-Year Comparison of Results of Operations."

## SUMMARY AND HIGHLIGHTS

The following table sets forth our revenue, gross profit and gross profit margin by business line for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Revenue</b>										
Online traffic monetization . . . . .	69,404	99.4	120,244	98.1	217,484	67.9	54,844	56.1	84,246	74.1
Online advertising services . . . . .	66,840	95.7	97,668	79.7	174,595	54.5	42,244	43.2	65,233	57.4
Online game business . . . . .	2,564	3.7	22,576	18.4	42,889	13.4	12,600	12.9	19,013	16.7
Electronic devices sales . . . . .	408	0.6	2,317	1.9	102,782	32.1	42,842	43.9	29,418	25.9
Certified pre-owned and factory smartphone sales . . . . .	–	–	1,361	1.1	85,689	26.8	42,549	43.6	6,822	6.0
Smart accessory sales . . . . .	408	0.6	956	0.8	2,317	0.7	293	0.3	2,133	1.9
Other electronic devices sales . . . . .	–	–	–	–	14,776	4.6	–	–	20,463	18.0
<b>Total revenues . . . . .</b>	<b>69,812</b>	<b>100.0</b>	<b>122,561</b>	<b>100.0</b>	<b>320,266</b>	<b>100.0</b>	<b>97,686</b>	<b>100.0</b>	<b>113,664</b>	<b>100.0</b>
<b>Gross Profit and Gross Profit Margin</b>										
Online traffic monetization <sup>(1)</sup> . . . . .	60,398	87.0	102,267	85.0	156,431	71.9	43,770	79.8	57,321	68.0
Electronic devices sales <sup>(1)</sup> . . . . .	(7.0)	(1.7)	174	7.5	3,073	3.0	1,626	3.8	696	2.4
<b>Total Gross Profit and Gross Profit Margin . . . . .</b>	<b>60,391</b>	<b>86.5</b>	<b>102,441</b>	<b>83.6</b>	<b>159,504</b>	<b>49.8</b>	<b>45,396</b>	<b>46.5</b>	<b>58,017</b>	<b>51.0</b>

*Note:*

- (1) The breakdown of gross profit of online traffic monetization and electronic devices sales is based on our management accounts rather than the Accountants' Report.

Our revenue from online traffic monetization increased due to the continuing growth of our online advertising services and online game business throughout the Track Record Period. Our revenue from electronic devices significantly increased from 2016 to 2018 mainly due to the increased sales volume of certified pre-owned and factory smartphones. For the four months ended 30 April 2019, the revenue from electronic devices sales decreased, as compared to the corresponding period in 2018, mainly due to the decrease in certified pre-owned and factory smartphones sales. The growth of our gross profit of online traffic monetization depended on the increase in our revenue from online traffic monetization throughout the Track Record Period. During the Track Record Period, the decrease in our gross profit margin of online traffic monetization was primarily due to the increase in online traffic purchases for which we have strategically done so for the long-term development of our business and brand image. For the years ended 31 December 2016, 2017 and 2018, the fluctuation of gross profit and gross profit margin of electronic devices sales was primarily due to changes in sales mix

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## SUMMARY AND HIGHLIGHTS

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in this business line. For the four months ended 30 April 2019, we have put less effort on certified pre-owned and factory smartphones sales in an attempt to develop sales of other electronic devices primarily because: (i) iPhone XS and iPhone XS MAX were launched in September 2018, and these two popular models have not entered into the pre-owned smartphones sales market in large quantity before the end of March 2019, which resulted in the decreased number of pre-owned smartphones available for procurement and sale for the four months ended 30 April 2019; and (ii) the gross profit margin of other electronic devices sales was relatively higher as compared with that of certified pre-owned and factory smartphone sales in January 2019. Our revenue and gross profit for the four months ended 30 April 2019 have both increased moderately, as compared to the corresponding period in 2018. As our gross profit has increased at a percentage which is higher than that for our revenue during the period, our gross profit margin for the four months ended 30 April 2019 has improved slightly as compared to the corresponding period in 2018. For details, see “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Description of Components of Results of Operations – Gross profit and gross profit margin.”

### *Selected Consolidated Statements of Financial Position*

	As of 31 December			As of 30 April
	2016	2017	2018	2019
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Non-current assets . . . . .	9,406	7,603	10,683	10,494
Current assets . . . . .	71,007	155,482	266,612	291,157
Current liabilities . . . . .	7,982	18,363	36,595	33,983
Net current assets . . . . .	63,025	137,119	230,017	257,174
<b>Total equity . . . . .</b>	<b>71,843</b>	<b>144,025</b>	<b>220,009</b>	<b>247,739</b>

The fluctuations in our non-current assets were mainly due to substantial changes of intangible assets, property, plant and equipment, and AFS investments. Our current assets increased from RMB71.0 million as of 31 December 2016 to RMB155.5 million as of 31 December 2017, mainly due to increases in bank balances and cash from RMB43.0 million as of 31 December 2016 to RMB115.7 million as of 31 December 2017 and trade receivables from RMB8.3 million as of 31 December 2016 to RMB18.7 million as of 31 December 2017. Our current assets increased from RMB155.5 million as of 31 December 2017 to RMB266.6 million as of 31 December 2018, mainly due to increases in bank balances and cash from RMB115.7 million as of 31 December 2017 to RMB174.1 million as of 31 December 2018 and trade receivables from RMB18.7 million as of 31 December 2017 to RMB63.7 million as of 31 December 2018. Our current assets increased from RMB266.6 million as of 31 December 2018 to RMB291.2 million as of 30 April 2019, mainly due to increases in bank balances and cash from RMB174.1 million as of 31 December 2018 to RMB202.0 million as of 30 April 2019. For details, please refer to “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Discussion of certain items from the statements of financial position.”

## SUMMARY AND HIGHLIGHTS

### *Summary Consolidated Cash Flow Statements*

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents at beginnings of year . . .	28,488	42,990	115,703	115,703	174,147
Net cash (used in) from operating activities . . . . .	28,849	52,559	41,439	(12,548)	29,230
Net cash (used in) from investing activities . . . . .	(13,448)	4,161	(1,228)	3,261	(19,928)
Net cash (used in) from financing activities . . . . .	(899)	15,993	18,233	(3,403)	(1,106)
Net increase/(decrease) in cash and cash equivalents . . . . .	14,502	72,713	58,444	(12,690)	8,196
Effect of foreign exchange rate changes . . . . .	—	—	—	—	(381)
Cash and cash equivalents at end of period . . . . .	42,990	115,703	174,147	103,013	181,962

The fluctuations in net cash flows were mainly due to the changes in profit before taxation. For details, please refer to “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Cash flows.”

### *Key Financial Ratios*

The following table sets forth our key financial ratios for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	Total revenue growth (%) . . . . .	140.2	75.6	161.3	—
Revenue growth for online traffic monetization (%) . . . . .	141.3	73.3	80.9	—	53.6
Revenue growth for electronic devices sales (%) . . . . .	36.0	467.9	4,336.0	—	(31.3)
Gross margin for online traffic monetization <sup>(1)</sup> (%) . . . . .	87.0	85.0	71.9	79.8	68.0
Gross margin for electronic devices sales <sup>(1)(2)</sup> (%) . . . . .	(1.7)	7.5	3.0	3.8	2.4
Trade receivables turnover days <sup>(3)</sup> . . . . .	32	41	47	44	58
Trade payables turnover days <sup>(4)</sup> . . . . .	45	52	14	24	19



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## SUMMARY AND HIGHLIGHTS

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*Notes:*

- (1) Gross margin equals gross profit/(loss) from the indicated business line divided by revenue from the indicated business line for the period and multiplied by 100%.
- (2) Include sales of certified pre-owned and factory smartphones and smart accessories. We commenced sales of certified pre-owned and factory smartphones in 2017.
- (3) Trade receivables turnover days equals the average of the opening and closing trade receivables of the indicated period divided by revenue for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 120 days for a four-month period.
- (4) Trade payables turnover days equals the average of the opening and closing trade payables of the indicated period divided by cost for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 120 days for a four-month period.

### CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and Global Offering (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme), (i) Dashi Technology Holdings, which is directly wholly owned by Mr. Tian, will hold approximately 21.2823% of the issued share capital of the Company; and (ii) True Thrive will hold approximately 31.8250% of the issued share capital of our Company. True Thrive is directly wholly owned by 360 Technology, which is in turn directly wholly owned by 360, which is in turn held as to approximately 48.74% by Qixin Zhicheng and approximately 12.14% by Mr. Zhou. Pursuant to the Entrustment Agreements as more particularly described in “History, Reorganization and Corporate Structure – Entrustment Arrangements” in this Prospectus, Dashi Technology Holdings is entrusted by True Thrive, which will hold approximately 31.8250% of the issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering, to exercise all of True Thrive’s rights as a Shareholder. As a result, Mr. Tian and Dashi Technology Holdings will be entitled to exercise or control the exercise of an aggregate of 53.1073% of the voting power at general meetings of our Company upon Listing. Therefore, for the purpose of the Listing Rules, Mr. Tian, Dashi Technology Holdings, True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou will be considered as a group of Controlling Shareholders. For more information, please see “Relationship with Controlling Shareholders – Our Controlling Shareholders” in this Prospectus.

### PRE-IPO INVESTMENTS

Pursuant to the capital increase and equity transfer agreement dated 10 February 2018 entered into by and among Chengdu Qilu, Mr. Tian, Qihu Technology, Shanghai Songheng and Qilu Haochen, among others, Qihu Technology transferred 5% equity interest in Chengdu Qilu to Qilu Haochen at the consideration of RMB30,000,000. Pursuant to the equity transfer agreement dated 23 March 2018 entered into by and among Mr. Tian and Qilu Haochen, Mr. Tian transferred 1.4083% equity interest in Chengdu Qilu to Qilu Haochen at the consideration of RMB8,450,000.

Pursuant to a share transfer agreement dated 26 March 2018 entered into among Dashi Technology Holdings, Mr. Tian, Ms. Wang Shanshan (王珊珊), our Company and Chengdu Qilu, pursuant to which, Dashi Technology Holdings agreed to transfer 2,518 Shares to Templar at a consideration of RMB2,270,000.

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## SUMMARY AND HIGHLIGHTS

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Pursuant to an investment agreement dated 24 July 2018 (as amended by a supplemental agreement dated 1 August 2018) entered into by and among Lima High Tech, our Company and Mr. Tian, Lima High Tech agreed to subscribe for 7,110 Shares at a consideration of US\$2,836,983.

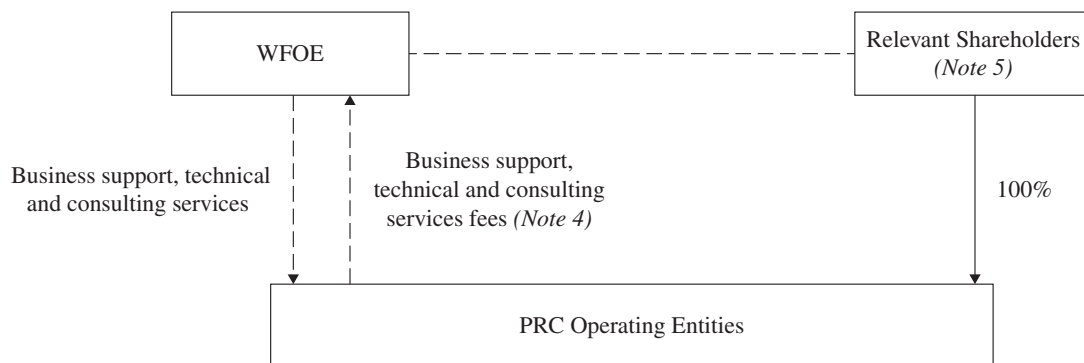
For further information of the investments by Qilu Haochen, Templar and Lima High Tech, please refer to the section headed “History, Reorganization and Corporate Structure – Pre-IPO Investments” in this Prospectus.

### CONTRACTUAL ARRANGEMENTS

Our Group is engaged in online monetization in the form of online advertising and online game business. The operation of the online game business are subject to foreign investment restrictions under the PRC laws and regulations as detailed below. As such, our Group operates the online game business through the PRC Operating Entities. The Contractual Arrangements allow the PRC Operating Entities’ financials and results of operations to be consolidated into our financials as if they were wholly-owned subsidiaries of our Group. For details of the Contractual Arrangements, please see “Contractual Arrangements” in this Prospectus for further details.

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to our Group stipulated under the Contractual Arrangements:

- (1) Powers of attorney to exercise all shareholders’ rights in the PRC Operating Entities (*Note 1*)
- (2) Exclusive option to acquire all or part of the equity interest in and/or assets of the PRC Operating Entities (*Note 2*)
- (3) First priority security interest over the entire equity interest in the PRC Operating Entities (*Note 3*)



*Notes:*

- (1) Please refer to “– Contractual Arrangements – Voting Rights Proxy Agreement and Powers of Attorney” in this Prospectus for details.
- (2) Please refer to “– Contractual Arrangements – Exclusive Option Agreement” in this Prospectus for details.
- (3) Please refer to “– Contractual Arrangements – Share Pledge Agreement” in this Prospectus for details.
- (4) Please refer to “– Contractual Arrangements – Exclusive Business Cooperation Agreement” in this Prospectus for details.
- (5) The Relevant Shareholders are Qihu Technology, Mr. Tian, Shanghai Songheng and Qilu Haochen, holding 41.6667%, 28.1155%, 23.8095% and 6.4083% in Chengdu Qilu, respectively.

“—>” denotes direct legal and beneficial ownership in the equity interest and “- - >” denotes contractual relationship.

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## SUMMARY AND HIGHLIGHTS

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On 19 January 2015, the MOFCOM published the 2015 draft foreign investment law (the “**2015 Draft Foreign Investment Law**”) for public comment. As of the Latest Practicable Date, the 2015 Draft Foreign Investment Law has not been enacted as proposed. If the 2015 Draft Foreign Investment Law is promulgated in the current draft form, our PRC Legal Advisers are of the view that we are likely to be viewed as being controlled by PRC citizens. However, there is no assurance that we can fully comply with such law. In the worst case scenario, the Contractual Arrangements may be regarded as invalid and illegal and we will lose our rights to receive the economic benefits from the PRC Operating Entities. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. Please see “Risk Factors – Risks Relating to our Contractual Arrangements – Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the 2015 draft PRC foreign investment law and how it may impact the viability of our current corporate structure, corporate governance and business operations.” in this Prospectus for further details.

On 23 December 2018, the State Council submitted the 2018 draft foreign investment law to the 13th SCNPC for deliberation. On 29 January 2019, the SCNPC submitted the second draft of the 2018 draft foreign investment law to the NPC for deliberation. On 15 March 2019, the NPC adopted the PRC foreign investment law\* (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) at the closing meeting of the second session of the 13th NPC, which will take effect on 1 January 2020. However, there remain significant uncertainties about the relationship between the Foreign Investment Law and the 2015 Draft Foreign Investment Law because there are no relevant implementing rules or official explanation. If the Foreign Investment Law becomes effective in the current form, and the then laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, our PRC Legal Advisers are of the view that our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties. However, there is no assurance that we can fully comply with such law. In the extreme case scenario, we may be required to unwind the Contractual Arrangements and/or dispose of the PRC Operating Entities, which could have a material and adverse effect on our business, financial conditions and results of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding or disposal or when such requirements are not complied with, the Stock Exchange may consider us to be no longer suitable for listing on the Stock Exchange and delist our Shares. Please see “Risk Factors – Risks Relating to our Contractual Arrangements – Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.” in this Prospectus for further details.

We will disclose, as soon as possible: (i) updates of changes to the 2015 Draft Foreign Investment Law (if applicable) and interpretations or implementing rules of the Foreign Investment Law (if applicable) that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of any new PRC laws, rules or regulations relating to contractual arrangements adopted in the future, specific measures taken by our Company to fully comply with the aforesaid new PRC laws, rules or regulations supported by a PRC legal opinion and any material impact of the aforesaid new PRC laws, rules or regulations on our operations and financial position. Please see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment” in this Prospectus for further details.

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## SUMMARY AND HIGHLIGHTS

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### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

In line with our business and growth strategies, based on our management accounts for the six months ended 30 June 2018 and 2019, our revenue and gross profit for the six months ended 30 June 2019 have both increased moderately, as compared to the corresponding period in 2018. As our gross profit has increased at a percentage which is higher than that for our revenue during the period, our gross profit margin for the six months ended 30 June 2019 has improved slightly as compared to the corresponding period in 2018. Overall, our business remained stable after the Track Record Period. The financial performance of our respective business lines has not been significantly affected by any exceptional factors.

We attempt to optimize the business line of sales of pre-owned PCs and accessories. Our electronic devices sales has been expanded to include certified pre-owned and factory smartphones sales, smart accessories sales and other electronic devices sales. Other electronic devices sales mainly comprise sales of pre-owned laptops, computer monitors, and projectors. We started other electronic devices sales in November 2018. With our ongoing review of our product mix and procurement channel, we have put more focus back on certified pre-owned and factory smartphones and less on other electronic devices since May 2019 due to considerations on, inter alia, profit margin and synergy. On the one hand, we started to sell iPhone XS and iPhone XS MAX in April 2019, which led to the increase in the profit margin of our certified pre-owned and factory smartphone sales which was higher than that of the other electronic devices sale. Meanwhile, due to the pricing adjustment of suppliers, the procurement cost of other electronic devices has increased since February 2019 which resulted in the decreased profit margin of our other electronic devices sales. On the other hand, our focus on certified pre-owned and factory smartphones sales will enhance synergy of our business lines because our expertise and research and development experience on hardware and system benchmarking and monitoring enables us to further expand our certified pre-owned and factory smartphone sales. Our certified pre-owned and factory smartphones sales have increased substantially after 30 April 2019 as compared to those for the four months ended 30 April 2019. According to Frost & Sullivan, the market size of smartphone accessories market is expected to increase in the next few years. We believe such market trend will provide us with more business opportunities and allow us to take full advantage of our research and development capabilities. For more information, please see “Business – Our Business Strategies.”

We believe that we will be able to maintain our leading market position in the hardware and system benchmarking and monitoring software on PC and mobile devices versions. In addition to our regular business operation, we have started the planning of the expansion of our *Ludashi* brand. We plan to set up series of physical experiencing centers in Chengdu, Sichuan Province and certain other major cities in the PRC. For details, please see “Business – Our Business Strategies – Enhance our electronic devices sales business by taking advantage of our brand awareness.” We plan to enhance our research and development capabilities in different aspects and conduct various kinds of advertising and promoting. For details, please see “Future Plans and Use of Proceeds – Use of Proceeds.”

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## SUMMARY AND HIGHLIGHTS

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Our Directors confirm that, as of the date of this Prospectus, there had been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since 30 April 2019, the reporting period end of our consolidated financial statements.

### COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we were not in non-compliance with the applicable laws, rules and regulations, which in the opinion of our Directors, is likely to have a material adverse impact on our business, prospects, financial condition or results of operations.

### GLOBAL OFFERING STATISTICS

The statistics in the following table are based on the assumptions that: (i) the Global Offering is completed and 60,000,000 Shares are issued and sold in the Global Offering; (ii) the Over-Allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme; and (iii) 260,000,000 Shares are issued and outstanding upon completion of the Global Offering.

	<b>Based on an Offer Price of HK\$2.30 per Offer Share</b>	<b>Based on an Offer Price of HK\$3.00 per Offer Share</b>
Market capitalization of our Shares . . . .	HK\$598,000,000	HK\$780,000,000
Unaudited pro forma adjusted net tangible asset value per Share <sup>(1)</sup> . . . .	HK\$1.37	HK\$1.53

*Note:*

- (1) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in "Appendix II – Unaudited Pro Forma Financial Information."

### USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$102.6 million from the Global Offering, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming that the Over-allotment Option is not exercised, without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and assuming an Offer Price of HK\$2.65 per Share (being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus). We intend to use such net proceeds from the Global Offering for the purpose and in the amounts set forth below:



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## SUMMARY AND HIGHLIGHTS

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- approximately 30%, or approximately HK\$30.8 million, to be used to enhance our research and development capability, including employ more professional experts, expand our research and development team and acquire technical intellectual property rights. We plan to: (i) improve quality of our software and products by improving our hardware and system benchmarking and monitoring abilities and diversify our products; (ii) establish electronic devices laboratories; (iii) purchase professional experiment equipment and testing facilities for our laboratories; (iv) provide statistical support for businesses in other fields; (v) develop tailored products for overseas markets; and (vi) acquire benchmarking – related technologies;
- approximately 20%, or approximately HK\$20.5 million, to be used to advertise and promote Ludashi Software and related software and products on the third parties' electronic platforms, and continue to carry out our existing marketing plans. We plan to: (i) launch online and offline promotion; (ii) hold press conferences for digital products; and (iii) promote online and offline advertising globally;
- approximately 20%, or approximately HK\$20.5 million, to be used to enhance our own certified pre-owned and factory smartphones e-commerce platform ([www.xiaoluyouxuan.com](http://www.xiaoluyouxuan.com)) and offline sales channel, *Xiao Lu Hao Huo*. We plan to: (i) expand our existing team for certified pre-owned smartphone sales; (ii) exploit cooperative channels with offline business entity customers; (iii) advertise on App platforms for mobile devices; (iv) advertise on billing boards in some particular regions with large offline platforms; (v) advertise on TV media; and (vi) carry out promoting activities among our users;
- approximately 20%, or approximately HK\$20.5 million, to be used to make additional strategic investments and acquisitions in cash alone or in combination with equity. We plan to continue to invest in or acquire businesses that are complementary to our business and able to enhance our leading role in hardware and system benchmarking and monitoring industry, such as: (i) laboratories with high technical thresholds; (ii) businesses that possess cutting-edge technologies such VR, big-data analytics and other technologies related to our business; (iii) businesses with proven monetization models in Internet services, including but not limited to advertising, e-commerce and internet value-added services, that synergize with our plans to continue monetizing our user base; (iv) companies that operate Apps or social communities with meaningful user bases; and (v) companies that own quality intellectual property related to our business, which can enrich our products; and
- approximately 10%, or approximately HK\$10.3 million, for our working capital and general corporate purposes.

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## SUMMARY AND HIGHLIGHTS

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### DIVIDENDS

Our Group did not declare any dividends during the Track Record Period. Our Group does not currently have a formal dividend policy or a fixed dividend payout ratio. After completion of the Global Offering, our Shareholders will be entitled to receive any dividends that we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of Shareholders.

### LISTING EXPENSES

The total estimated listing expenses (including underwriting commission) in connection with the Global Offering amount to RMB50.9 million. We did not incur any listing expenses for the year ended 31 December 2016. For the year ended 31 December 2017 and 2018, and four months ended 30 April 2018 and 2019, we incurred listing expenses amounting to RMB0.5 million, RMB16.1 million, RMB4.9 million and RMB3.0 million, which has been charged to the profit and loss. We estimate that the listing expenses to be incurred and charged to the profit and loss in the financial period after 30 April 2019 will be RMB12.7 million. If the Over-allotment Option is not exercised, the total estimated listing expenses in connection with the Global Offering amount to RMB50.9 million based on the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus, of which RMB32.3 million has been or will be recognized on the consolidated statements of profit or loss and other comprehensive income and RMB18.6 million as a deduction in equity. We distinguished the listing expenses to: (i) incremental costs directly attributable to the issuance of new shares during the initial public offerings and thus be deducted from equity in terms of HKAS 32.37, (ii) relating solely to listing or other activities undertaken at the same time as the share issue which should be expensed, or (iii) costs that relate jointly to both the issuance of new shares and the listing of existing shares which should be allocated in accordance with HKAS 32.38 (classified as “**Joint Related**”). Joint Related costs are allocated between the profit or loss for the listing of existing shares and deduction to equity for the issuance of new shares on a rational and consistent basis, as required by HKAS 32.38.

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## SUMMARY AND HIGHLIGHTS

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### RISK FACTORS

Our operations involve certain risks, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and industry; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to doing business in China; and (iv) risks relating to the Global Offering. Some of the risks generally associated with our business and industry include the following:

- If we fail to continue to innovate and provide attractive products and services to attract and retain users, we may lose customers for our revenue generating services;
- If we fail to protect our proprietary data and user data, our reputation and business could be negatively affected;
- Adverse changes on online advertising service may subject us to decrease in revenues;
- We generate a substantial portion of our revenue from 360 Group and Shanghai Songheng which may cause significant fluctuations in our revenue;
- Our business depends on a strong brand and reputation, and we may not be able to maintain and enhance our brand or reputation or may suffer negative publicity;
- Our limited operating history makes it difficult to evaluate our future prospects and results of operations;
- We face risks related to liabilities resulting from the use of our products by our customers;
- Manufacturer safety recalls could create risks to our business; and
- We have limited control over the operations of our offline business entity customers. Actions taken by our offline business entity customers may materially and adversely affect our business, prospects and reputation.

These risks are not the only significant risks that may affect the value of our Shares. You should carefully consider all of the information set forth in this Prospectus and, in particular, should evaluate the specific risks set forth in “Risk Factors” in deciding whether to invest in our Shares.

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## DEFINITIONS

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*In this Prospectus, unless the context otherwise requires, the following words and expressions have the following meanings. Certain technical terms are explained in “Glossary.”*

“360”	360 Security Technology Inc. (三六零安全科技股份有限公司) (formerly known as Jiangnan Jiajie Elevator Stock Company Limited* (江南嘉捷電梯股份有限公司)), a joint stock company with limited liability established in the PRC and ultimately controlled by Mr. Zhou, one of our Controlling Shareholders for the purpose of the Listing Rules, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (stock code of 601360.SH), and one of our Controlling Shareholders for the purpose of the Listing Rules
“360 Group”	360 and its subsidiaries
“360 Technology”	360 Technology Group Co., Ltd.* (三六零科技集團有限公司) (formerly known as Tianjin Qisi Technology Company Limited* (天津奇思科技有限公司), 360 Technology Inc.* (三六零科技股份有限公司) and 360 Technology Co., Ltd.* (三六零科技有限公司)), a limited liability company established in the PRC on 15 September 2011 and directly wholly owned by 360, one of our Controlling Shareholders for the purpose of the Listing Rules, and one of our Controlling Shareholders for the purpose of the Listing Rules
“Accountants’ Report”	our accountants’ report set out in Appendix I to this Prospectus
“affiliate(s)”	any other person(s), directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person(s)
“AFS”	available-for-sale
“AIC” or “SAIC”	Administration of Industry & Commerce* (工商行政管理機關) in the PRC or, where the context so requires, the State Administration for Industry & Commerce of the PRC (中華人民共和國工商行政管理總局) or its delegated authority at the provincial, municipal or other local level, the predecessor of AMR or SAMR

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## DEFINITIONS

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“Aidai Technology”	Tianjin Aidai Technology Company Limited* (天津艾貸科技有限公司), a limited liability company established in the PRC on 28 September 2017, and aggregately owned by two Independent Third Parties upon completion of the Reorganization
“Aiyu Technology”	Chengdu Aiyu Technology Company Limited* (成都艾娛科技有限公司), a limited liability company established in the PRC on 21 September 2017, owned as to 18% by Liu Liuyou Technology, a non-wholly owned subsidiary of the Group, and 82% by Mr. Song Junliang (宋俊良), an employee of our Group, and de-registered on 13 November 2018
“AMR” or “SAMR”	Administration of Market Regulation* (市場監督管理機關) in the PRC or, where the context so requires, the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局) or its delegated authority at the provincial, municipal or other local level
“Anyixun Technology” or “WFOE”	Chengdu Anyixun Technology Company Limited* (成都安易迅科技有限公司), a limited liability company established in the PRC on 20 October 2015 and a wholly-owned subsidiary of the Group
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them
“Articles of Association” or “Articles”	the amended and restated articles of association of the Company, conditionally adopted on 9 September 2019 and which will come into effect upon Listing and as amended from time to time, a summary of which is set out in Appendix III to this Prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of Directors
“BullRock Capital”	BullRock Capital Inc (布洛克資本有限公司), a limited liability company incorporated in the BVI on 16 March 2018 and directly wholly owned by Ms. Huang Xiaohong (黃孝紅), an Independent Third Party

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## DEFINITIONS

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“Business Day(s)”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAC”	The Cyberspace Administration of the PRC (中華人民共和國國家互聯網信息辦公室)
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 198,992,890 Shares to be made upon capitalization of an amount of HK\$1,989,928.90 standing to the credit of the share premium account of our Company which is set out in “Appendix IV – Statutory and General Information – A. Further Information about the Company and its Subsidiaries – 3. Written Resolutions of all the Shareholders passed on 9 September 2019” in this Prospectus
“Catalog”	Catalog for the Guidance of Foreign Investment Industries (Revised in 2017) (外商投資產業指導目錄(2017年修訂)), promulgated and amended by the MOFCOM and the NDRC on 28 June 2017
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Cayman Registrar”	Conyers Trust Company (Cayman) Limited
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

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## DEFINITIONS

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“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CG Code”	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
“Chengdu Qilu”	Chengdu Qilu Technology Company Limited* (成都奇魯科技有限公司), a limited liability company established in the PRC on 25 November 2014 and is deemed to be a wholly-owned subsidiary of our Group pursuant to the Contractual Arrangements
“Chengdu Qilu Shareholder Rights Entrustment Agreement”	the agreement dated 15 January 2018 and taking effect from 29 December 2016 among Mr. Tian, Qihu Technology and Chengdu Qilu, pursuant to which Mr. Tian is entrusted by Qihu Technology to exercise all of Qihu Technology’s rights as a shareholder of Chengdu Qilu (including but not limited to Qihu Technology’s voting power at general meetings of Chengdu Qilu)
“China” or the “PRC”	the People’s Republic of China, but for the purpose of this Prospectus and for geographical reference only and except where the context requires, references in this Prospectus to “China” and the “PRC” do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
“China Celestial”	China Celestial Investment Co., Ltd (中國鴻濛投資有限公司), a limited liability company incorporated in the BVI on 13 March 2018 and directly wholly owned by Mr. Wang Fan (王凡), an Independent Third Party
“Circular 13”	the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by SAFE on 13 February 2015 and effective from 1 June 2015

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## DEFINITIONS

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“Circular 37”	the Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration Over the Overseas Investment and Financing and Round-Trip Investment by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by SAFE on 4 July 2014 and effective from the same date
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance” or “Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company” or “the Company”	360 LUDASHI HOLDINGS LIMITED (360魯大師控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 7 February 2018
“Company Shareholder Rights Entrustment Agreement”	the agreement dated and taking effect on 4 September 2018 between Dashi Technology Holdings and True Thrive, pursuant to which Dashi Technology Holdings is entrusted by True Thrive to exercise all of True Thrive’s rights as a Shareholder (including but not limited to True Thrive’s voting power at general meetings of our Company)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Contractual Arrangements”	a series of contractual arrangements entered into by WFOE, Chengdu Qilu and the Relevant Shareholders, details of which are described in “Contractual Arrangements” in this Prospectus
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, and unless the context requires otherwise, for the purpose of the Listing Rules, refers to Mr. Tian, Dashi Technology Holdings, True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou



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## DEFINITIONS

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“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Dashi Technology Holdings”	Dashi Technology Holdings Limited (大師控股有限公司), a company incorporated in the BVI with limited liability on 31 January 2018 and directly wholly owned by Mr. Tian, one of our Controlling Shareholders
“Deed of Indemnity”	the deed of indemnity dated 9 September 2019 entered into by Mr. Tian and Dashi Technology Holdings with and in favor of our Company (for ourselves and as trustee for each of our subsidiaries) with particulars set out in “Appendix IV – Statutory and General Information – E. Other Information – 1. Estate Duty, Tax and Other Indemnity” in this Prospectus
“Deed of Non-Competition”	the deed of non-competition dated 9 September 2019 entered into by Mr. Tian and Dashi Technology Holdings with and in favor of our Company (for ourselves and as trustee for each of our subsidiaries) with particulars set out in “Relationship with Controlling Shareholders – Non-competition undertaking by Mr. Tian and Dashi Technology Holdings” in this Prospectus
“Director(s)”	director(s) of the Company
“EIT”	the PRC enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), enacted on 16 March 2007, effective from 1 January 2008 and amended on 29 December 2018 by the NPC
“EIT Regulation”	the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) promulgated by the State Council on 6 December 2007, effective from 1 January 2008 and amended on 23 April 2019

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## DEFINITIONS

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“Entrustment Arrangements”	the entrustment arrangements under the Company Shareholder Rights Entrustment Agreement and the Chengdu Qilu Shareholder Rights Entrustment Agreement in relation to the shareholder rights of True Thrive in the Company in favor of Dashi Technology and the shareholder rights of Qihu Technology in Chengdu Qilu in favor of Mr. Tian, respectively, details of which are set out in “History, Reorganization and Corporate Structure – Entrustment Arrangements” in this Prospectus
“Financial Advisor”	Macquarie Capital Limited (麥格理資本股份有限公司)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an industry research consultant and an Independent Third Party
“FVTPL”	fair value through profit or loss
“GAPP” or “General Administration of Press and Publication”	the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署)
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group,” “we,” “our,” “us,” “our Group” or “the Group”	our Company, our subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as the subsidiaries of our Company by virtue of the Contractual Arrangements), or any of them at the relevant point of time or, where the context so requires, in respect of the period before the Company becoming the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)

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## DEFINITIONS

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“High and New Technology Enterprise”	a high and new technology enterprise (高新技術企業) that meets the criteria set forth in the Administrative Measures for Certification of High and New Technology Enterprises (高新技術企業認定管理辦法) and the Catalog of High and New Technology Areas Specifically Supported by the State (國家重點支持的高新技術領域目錄), promulgated on 14 April 2008 as a joint circular and amended on 29 January 2016 with effect from 1 January 2016
“HK Company”	360 Ludashi Technology Limited (360魯大師科技有限公 司), a company incorporated in Hong Kong with limited liability on 15 February 2018 and a wholly-owned subsidiary of our Group
“HKAS(s)”	Hong Kong Accounting Standards
“HK eIPO White Form(s)”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>HK eIPO White Form</b> at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by us, as specified on the designated website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) (including HKASs and Interpretations) issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited

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## DEFINITIONS

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“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 6,000,000 Shares (subject to adjustment as described in “Structure of the Global Offering”) being offered by the Company for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, on and subject to the terms and conditions of this Prospectus and the Application Forms, as further described in “Structure of the Global Offering”
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting – Hong Kong Underwriters” in this Prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 25 September 2019 relating to the Hong Kong Public Offering and entered into by, among others, the Hong Kong Underwriters and us, as further described in “Underwriting – Underwriting Arrangements and Expenses” in this Prospectus
“Hongmeng Investment”	Hongmeng Investment Co. Ltd (鴻蒙投資有限公司), a limited liability company incorporated in the BVI on 16 March 2018 and directly wholly owned by Mr. He, the chief technology officer of the Group
“IAS”	the International Accounting Standards
“ICP”	Internet content provider
“ICP License”	Value-added Telecommunications Service Operating Permit for Internet information service
“IFRS”	the International Financial Reporting Standards
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is/are not (a) connected person(s) of the Company within the meaning of the Listing Rules

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## DEFINITIONS

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“Internal Control Consultant”	RSM Consulting (Hong Kong) Limited (羅申美諮詢顧問有限公司), an internal control consultant in connection with the Global Offering
“International Offer Shares”	the 54,000,000 Shares (subject to adjustment as described in “Structure of the Global Offering”) being initially offered by the Company for subscription at the Offer Price pursuant to the International Offering, together with, where relevant, any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
“International Offering”	the conditional offering of the International Offer Share(s) by the International Underwriters to institutional and professional investors outside of the United States in reliance on Regulation S, as further described in “Structure of the Global Offering” in this Prospectus
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering to be entered into by, among others, the Company, the Joint Global Coordinators and the International Underwriters on or about 2 October 2019, as further described in “Underwriting – Underwriting Agreements and Expenses – The International Offering” in this Prospectus
“Jiubake Technology”	Tianjin Jiubake Network Technology Company Limited* (天津九八氬網絡科技有限公司), a limited liability company established in the PRC on 27 April 2018, and owned as to 15% by Liu Liuyou Technology, a non-wholly owned subsidiary of the Group, and 85% by Mr. Ran Haihong (冉海鴻), an employee of our Group, and de-registered on 6 June 2019

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## DEFINITIONS

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“Joint Bookrunners”	Guosen Securities (HK) Capital Co., Ltd. (國信證券(香港)融資有限公司), Macquarie Capital Limited (麥格理資本股份有限公司), CCB International Capital Limited (建銀國際金融有限公司), Yue Xiu Securities Company Limited (越秀證券有限公司), Guotai Junan Securities (Hong Kong) Limited (國泰君安證券(香港)有限公司), Lead Securities (HK) Limited (利得證券(香港)有限公司), Fortune (HK) Securities Limited (富強證券有限公司), Haitong International Securities Company Limited (海通國際證券有限公司) and China Investment Securities International Brokerage Limited (中投證券國際經紀有限公司)
“Joint Global Coordinators”	Guosen Securities (HK) Capital Co., Ltd. (國信證券(香港)融資有限公司), Macquarie Capital Limited (麥格理資本股份有限公司) and CCB International Capital Limited (建銀國際金融有限公司)
“Joint Lead Managers”	Guosen Securities (HK) Capital Co., Ltd. (國信證券(香港)融資有限公司), Macquarie Capital Limited (麥格理資本股份有限公司), CCB International Capital Limited (建銀國際金融有限公司), Yue Xiu Securities Company Limited (越秀證券有限公司), Guotai Junan Securities (Hong Kong) Limited (國泰君安證券(香港)有限公司), Lead Securities (HK) Limited (利得證券(香港)有限公司), Fortune (HK) Securities Limited (富強證券有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), China Investment Securities International Brokerage Limited (中投證券國際經紀有限公司), Guoyuan Securities Brokerage (Hong Kong) Limited (國元證券經紀(香港)有限公司), Zhongrong PT Securities Limited (中融平和證券有限公司) and Zhongtai International Securities Limited (中泰國際證券有限公司)
“Ju’a Network”	Hangzhou Ju’a Network Technology Company Limited* (杭州聚阿網絡科技有限公司), a limited liability company established in the PRC on 18 July 2017, and aggregately owned by two Independent Third Parties upon completion of the Reorganization

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## DEFINITIONS

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“Juhe Hong’an”	Chengdu Juhe Hong’an Enterprise Management Center (LLP)* (成都聚禾宏安企業管理中心(有限合夥)), a limited partnership established in the PRC on 24 March 2014 and controlled by an Independent Third Party, being a shareholder of Qilu Haochen, one of our Pre-IPO investors
“KingNet”	Shanghai Kaiying Network Technology Company Limited* (上海愷英網絡科技有限公司) and/or its subsidiaries, including Shanghai Yueteng Network Technology Company Limited* (上海悅騰網絡科技有限公司), an Independent Third Party
“Kuleng Technology”	Tianjin Kuleng Technology Company Limited* (天津酷冷科技有限公司), a limited liability company established in the PRC on 5 September 2017, and aggregately owned by three Independent Third Parties upon completion of the Reorganization
“Labor Contract Law”	the Labor Contract of the PRC (中華人民共和國勞動合同法), enacted on 29 June 2007, effective from 1 January 2008 and amended on 28 December 2012 by the Standing Committee of the National People’s Congress
“Labor Law”	the Labor Law of the PRC (中華人民共和國勞動法), enacted on 5 July 1994, effective from 1 January 1995 and newly amended on 29 December 2018 by the Standing Committee of the National People’s Congress
“Latest Practicable Date”	17 September 2019, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information in this Prospectus prior to its publication
“Lima High Tech”	Lima High Tech Limited, a limited liability company incorporated in the BVI on 27 June 2018 and aggregately owned by two Independent Third Parties, being one of our Pre-IPO investors
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange

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## DEFINITIONS

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“Listing Date”	the date, expected to be on or about Thursday, 10 October 2019, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Liu Liuyou Technology”	Tianjin Liu Liuyou Technology Company Limited* (天津六六遊科技有限公司), a limited liability company established in the PRC on 17 April 2017, and owned as to 68% by Chengdu Qilu, the PRC operation company of our Group, 12% by Mr. He and 20% by Shenzhen FTX Technology, a connected person at the subsidiary level of our Company
“Lubang Technology”	Tianjin Lubang Technology Company Limited* (天津魯邦科技有限公司), a limited liability company established in the PRC on 23 November 2017, and owned as to 80% by Xiaolu Second-Hand, a non-wholly owned subsidiary of the Group, and 20% by an Independent Third Party
“Ludashi Consulting”	360 Ludashi Consulting Limited (360魯大師諮詢有限公司), a limited liability company incorporated in the BVI on 27 March 2018 and a wholly-owned subsidiary of our Group
“Ludashi Software”	hardware and system benchmarking and monitoring software and App operated by Chengdu Qilu
“M&A Provisions”	the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), MOFCOM, SAT, SAIC, CSRC and SAFE on 8 August 2006 and re-issued by MOFCOM on 22 June 2009



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## DEFINITIONS

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“Maanshan Group”	Maanshan Baizhu Internet Technology Co., Ltd. (馬鞍山百助網絡科技有限公司), Maanshan Zhuoxue Internet Technology Co., Ltd.* (馬鞍山琢學網絡科技有限公司), and a related company, Company G, three Independent Third Parties
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with GEM of the Hong Kong Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of the Company (as amended from time to time), a summary of which is set out in Appendix III to this Prospectus
“MII”	the Ministry of Information Industry of the PRC (中華人民共和國信息產業部), the predecessor of MIIT
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOC”	the Ministry of Culture of the PRC (中華人民共和國文化部), the predecessor of the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. He”	Mr. He Shiwei (何世偉), our chief technology officer and an executive Director
“Mr. Tian”	Mr. Tian Ye (田野), our chairman, chief executive officer and general manager and an executive Director and one of our Controlling Shareholders
“Mr. Zhou”	Mr. Zhou Hongyi (周鴻禕), one of our Controlling Shareholders for the purpose of the Listing Rules
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)

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## DEFINITIONS

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“NRTA”	the National Radio and Television Administration of the PRC (中華人民共和國國家廣播電視總局)
“Offer Price”	the final Hong Kong dollar price per Share (exclusive of brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be subscribed for pursuant to the Global Offering
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by the Company to Guosen Securities (HK) Capital Co., Ltd. (for itself and on behalf of the other Joint Global Coordinators) under the International Underwriting Agreement to require the Company to issue up to 9,000,000 additional Shares (representing 15% of the Offer Shares initially being offered under the Global Offering) at the Offer Price, to cover over-allocations of the International Offering, if any, as further described in “Structure of the Global Offering” in this Prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	the PRC Company Law (中華人民共和國公司法) issued by the SCNPC on 29 December 1993, last amended on 26 October 2018 and newly effective on 26 October 2018
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organizations of such government or, as the context requires, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng Attorneys at Law, legal advisers to the Company on PRC laws in connection with the Global Offering

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## DEFINITIONS

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“PRC Operating Entities”	collectively, Chengdu Qilu and Liu Liuyou Technology (and “PRC Operating Entity” means any one of them), the financial results of which have been consolidated and accounted for as the subsidiaries of our Group by virtue of the Contractual Arrangements
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Wednesday, 2 October 2019 but no later than Thursday, 3 October 2019, on which the Offer Price is fixed for the purposes of the Global Offering
“Prospectus”	this prospectus issued in connection with the Hong Kong Public Offering
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the PRC Government
“Qihu Technology”	Beijing Qihu Technology Company Limited* (北京奇虎科技有限公司), a limited liability company incorporated in the PRC on 13 August 2007, one of the Relevant Shareholders and directly wholly owned by 360 Technology, one of our Controlling Shareholders
“Qilu Haochen”	Chengdu Qilu Haochen Enterprise Management Consulting Company Limited* (成都奇魯昊宸企業管理諮詢有限公司), a limited liability company incorporated in the PRC on 7 February 2018, and one of the Relevant Shareholders, owned as to 43.76% by Mr. He, the chief technology officer of the Group, and 56.24% aggregately by three Independent Third Parties
“Qixin Zhicheng”	Tianjin Qixin Zhicheng Technology Company Limited* (天津奇信志成科技有限公司), a limited liability company established in the PRC on 2 December 2015 and one of our Controlling Shareholders for the purpose of the Listing Rules, ultimately controlled by Mr. Zhou, one of our Controlling Shareholders for the purpose of the Listing Rules

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## DEFINITIONS

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“Qiying Technology”	Chengdu Qiying Technology Company Limited* (成都奇英科技有限公司), a limited liability company established in the PRC on 17 December 2009, and owned as to 95% by Qihu Technology, one of our Relevant Shareholders, and 5% by Beijing Haosoudianjing Technology Company Limited* (北京好搜點睛科技有限公司), a wholly-owned subsidiary of Qihu Technology
“Quyong Time”	Quyong Time (Beijing) Technology Company Limited* (趣游時代(北京)科技有限公司), a limited liability company incorporated in the PRC on 7 July 2011, indirectly wholly owned by 360 Technology, one of our Controlling Shareholders for the purpose of the Listing Rules, and a connected person of our Company
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Shareholder(s)”	Qihu Technology, Mr. Tian, Shanghai Songheng and Qilu Haochen, being the registered shareholders of Chengdu Qilu
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization of our Group as described in “History, Reorganization and Corporate Structure – Reorganization” in this Prospectus
“R Group”	a group of seven companies, all ultimately controlled by an Independent Third Party
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAPPRFT”	the State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局), the predecessor of the National Radio and Television Administration (中華人民共和國國家廣播電視總局)
“SARFT”	the State Administration of Radio, Film and Television of the PRC (中華人民共和國國家廣播電影電視總局), the predecessor of SAPPRFT

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## DEFINITIONS

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“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SCNPC”	the Standing Committee of the NPC
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Dongfangwang”	Shanghai Dongfangwang Stock Company Limited* (上海東方網股份有限公司), a limited liability company established in the PRC on 5 July 2000
“Shanghai Gaoxin”	Shanghai Gaoxin Computer System Company Limited* (上海高欣計算機系統有限公司), a limited liability company established in the PRC on 4 January 2013 and wholly owned by Shanghai Songheng, one of our Relevant Shareholders and a substantial shareholder of our Company
“Shanghai Kaiying”	Shanghai Kaiying Network Technology Company Limited* (上海愷英網絡科技有限公司), a limited liability company established in the PRC on 30 October 2008 and wholly owned by an Independent Third Party
“Shanghai Qilu”	Shanghai Qilu Network Technology Company Limited* (上海奇魯網絡科技有限公司), a limited liability company established in the PRC on 15 January 2019 and wholly owned by Anyixun Technology, a wholly-owned subsidiary of the Group
“Shanghai Songheng”	Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技股份有限公司) (formerly known as Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技股份有限公司)), a limited liability company established in the PRC on 18 March 2014 and owned aggregately by 20 Independent Third Parties, and one of the Relevant Shareholders and a substantial shareholder of our Company

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## DEFINITIONS

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“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company, which are to be traded in Hong Kong dollars and listed on the Main Board
“Share Option Scheme”	the Share option scheme conditionally adopted by the Company on 9 September 2019, a summary of the principal terms and conditions of which are set forth in “Appendix IV – Statutory and General Information – D. Share Option Scheme” in this Prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Blog”	Shenzhen Blog Technology Company Limited* (深圳市部落格科技有限公司), a limited liability company incorporated in the PRC on 18 August 2016 and wholly owned by Shenzhen FTX Technology, a connected person at the subsidiary level of our Company, a substantial shareholder of Liu Liuyou Technology, a non-wholly owned subsidiary of the Group
“Shenzhen FTX Technology”	Shenzhen Fantexi Technology Co., Ltd.* (深圳市範特西科技有限公司), a limited liability company established in the PRC on 10 November 2008, wholly owned by an Independent Third Party, and a substantial shareholder of Liu Liuyou Technology, and hence a connected person at subsidiary level of our Company
“Songchang International”	Songchang International Limited, a limited liability company incorporated in the BVI on 9 May 2018, wholly owned by Songyuan International, a substantial shareholder of our Company, and a substantial shareholder of our Company
“Songheng Group”	Shanghai Songheng and its subsidiaries
“Songyuan International”	Hong Kong Songyuan International Limited (香港嵩遠國際有限公司), a limited liability company incorporated in Hong Kong on 1 December 2017, indirectly wholly owned by Shanghai Songheng, one of the Relevant Shareholders and a substantial shareholder of our Company, and a substantial shareholder of our Company

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## DEFINITIONS

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“Spin-off Notice”	the Notice on Issues Relevant to Regulating Offshore Listing of Securities of Domestic Listed Companies (《中國證券監督管理委員會關於規範境內上市公司所屬企業到境外上市有關問題的通知》) promulgated by the CSRC on 21 July 2004
“Sponsor” or “Sole Sponsor”	Guosen Securities (HK) Capital Co., Ltd. (國信證券(香港)融資有限公司)
“Stabilizing Manager”	Guosen Securities (HK) Capital Co., Ltd. (國信證券(香港)融資有限公司)
“Star World”	Beijing Star World Technology Company Limited* (北京世界星輝科技有限責任公司), a limited liability company incorporated in the PRC on 12 October 2009, wholly owned by 360 Technology, one of our Controlling Shareholders for the purpose of the Listing Rules, and a connected person of our Company
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“State Intellectual Property Office”	The State Intellectual Property Office of the PRC
“Special Administrative Measures”	the Special Administrative Measures on Access of Foreign Investment (Negative List) (2019 Edition) (外商投資准入特別管理措施(負面清單) (2019年版)) promulgated by the NDRC and MOFCOM on 30 June 2019 and effective from 30 July 2019
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilizing Manager (or its affiliates or any person acting for it) and Dashi Technology Holdings on the Price Determination Date, pursuant to which Dashi Technology Holdings will agree to lend certain Shares to the Stabilizing Manager to cover any over-allocation under the International Offering
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules



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## DEFINITIONS

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“Sudu Technology”	Tianjin Sudu Technology Company Limited* (天津速讀科技有限公司), a limited liability company established in the PRC on 11 October 2017, and aggregately owned by three Independent Third Parties upon completion of the Reorganization
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC as amended, supplemented or otherwise modified from time to time
“Templar”	Templar Holdings Limited, a limited liability company incorporated in the BVI on 9 August 2018, and wholly owned by an Independent Third Party being one of our Pre-IPO investors
“Track Record Period”	the periods comprising the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019
“Trojan”	any malicious computer program which misleads users of its true intent
“True Thrive”	True Thrive Limited (誠盛有限公司), a limited liability company incorporated in the Cayman Islands on 12 October 2015, wholly owned by 360 Technology, one of our Controlling Shareholders for the purpose of the Listing Rules, and one of our Controlling Shareholders for the purpose of the Listing Rules
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States,” “USA” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$,” “USD” or “\$”	U.S. dollars, the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	the PRC value-added tax

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## DEFINITIONS

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“WeChat”	a Chinese multi-purpose instant message, social media and mobile payment App developed by Shenzhen Tencent Computer System Company Limited* (深圳市騰訊計算機系統有限公司)
“We-Media”	various of medias through which users use to publish their own messages, such as WeChat
“WHITE Application Form(s)”	the application form(s) for those who require Hong Kong Offer Shares to be issued in the applicant’s own name
“Xiaofeiniao Technology”	Tianjin Xiaofeiniao Technology Company Limited* (天津小飛鳥科技有限公司), a limited liability company established in the PRC on 1 September 2017 and is held as to 85% by Youyunda, a connected person of our Group, and 15% by Mr. Tian, one of our Controlling Shareholders, respectively
“Xiaolu Second-Hand”	Tianjin Xiaolu Second-Hand Technology Company Limited* (天津小魯二手科技有限公司), a limited liability company established in the PRC on 25 April 2017, and owned as to 82.86% by Anyixun Technology, a wholly-owned subsidiary of the Group, and 17.14% by Mr. Zhang Xiaozhen (張曉真), one of our senior management
“Xiaolu Zhidian”	Chengdu Xiaolu Zhidian Technology Company Limited* (成都小魯智店科技有限公司), a limited liability company established in the PRC on 17 July 2018 and a non wholly-owned subsidiary of our Group
“YELLOW Application Form(s)”	the application form(s) for those who require Hong Kong Offer Shares to be deposited directly into CCASS
“Youyunda”	Tianjin Youyunda Information Technology Limited Partnership* (天津優運達信息技術合夥企業(有限合夥)), a limited partnership established in the PRC on 28 July 2017 and owned as to 70% by Mr. Tian, one of our Controlling Shareholders, and 30% by Mr. He, the chief technology officer of the Group, and hence a connected person of our Group

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## DEFINITIONS

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“Zhonghe Lianchuang”	Shenzhen Zhonghe Lianchuang Intelligence Technology Company Limited* (深圳市中和聯創智能科技有限公司), a limited liability company established in the PRC on 9 April 2015, and wholly owned by an Independent Third Party upon completion of the Reorganization
“Zhonghe Yilian”	Shenzhen Zhonghe Yilian Technology Company Limited* (深圳市中和億聯科技有限公司), a limited liability company established in the PRC on 4 December 2017, and owned as to 19% by Anyixun Technology, a wholly-owned subsidiary of the Group, 51% by Mr. Hu Weibin (戶維斌), our employee, and 30% by Mr. Du Wendong (杜文東), an Independent Third Party
“Zhongzhixing”	Tianjin Zhongzhixing Technology Company Limited* (天津眾志興科技有限公司), a limited liability company established in the PRC on 27 June 2017 and wholly owned by Anyixun Technology, a wholly-owned subsidiary of the Group

\* *Denote that the English translations of the names of the Chinese companies or entities, or vice versa, are provided for identification purposes only.*

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## GLOSSARY

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*This glossary of technical terms contains terms used in this Prospectus in connection with us and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.*

“AI”	Artificial Intelligence, intelligence demonstrated by machines, in contrast to the natural intelligence displayed by humans and other animals
“Android”	a operating system, developed by Google, based on a modified version of the Linux kernel and other open source software and designed primarily for touchscreen mobile devices such as smartphones and tablets
“App(s)”	the mobile internet application(s)
“AR”	augmented reality, an interactive experience of a real-world environment where the objects that reside in the real-world are augmented by computer-generated perceptual information
“ARPU”	average revenue per user
“click through rate”	the ratio of users who click on a specific link to the number of total users who view a page, email, or advertisement
“cost-per-action”	an online advertising pricing model, which is recorded according to amount of certain action, such as per IP directed, unique visitors, page view, or click
“cost-per-active”	an online advertising pricing model, which is recorded according to the amount of newly activated users
“cost-per-click”	an online advertising pricing model, which is recorded according to the amount of click
“cost-per-download”	an online advertising pricing model, which is recorded according to the amount of download volumes
“cost-per-mille”	an online advertising pricing model, which is recorded according to the number of impressions (expressed in thousands)

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## GLOSSARY

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“cost-per-PV”	an online advertising pricing model, which is recorded according to the amount of page view
“cost-per-thousand IP times”	an online advertising pricing model, which is recorded according to the amount of IP directed (expressed in thousands)
“cost-per-time”	an online advertising pricing model, which is recorded according to the length of duration
“cost-per-UV”	an online advertising pricing model, which is recorded according to the amount of unique visitors
“DAU(s)”	daily active user(s), a key performance indicator for software, Apps and online games. Daily active users are calculated by counting the number of unique devices that activate the software, Apps or online games for at least once a day
“factory smartphone(s)”	smartphone(s) we procure from wholesalers with inventories after mass distribution
“gross billing”	total amount paid by users during a given period for purchase of virtual items
“iOS”	iPhone Operating System, a mobile operating system created and developed by Apple Inc. exclusively for its hardware
“IoT”	Internet of things, an extension of internet connectivity into physical devices and everyday objects. Embedded with electronics, internet connectivity, and other forms of hardware, these devices can communicate and interact with others over the internet, and they can be remotely monitored and controlled
“IP”	internet protocol
“MAU(s)”	monthly active user(s), a key performance indicator for software, Apps and online games. Monthly active users are calculated by counting the number of unique devices that activate the software, Apps or online games for at least once during a calendar month

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## GLOSSARY

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“MPU(s)”	monthly paying users, meaning the number of users that purchase our products and/or services on our platform at least once during a calendar month
“PC(s)”	personal computer(s)
“SSP”	supply-side platform
“VR”	virtual reality, an interactive computer-generated experience taking place within an immersive environment
“%”	per cent

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## FORWARD-LOOKING STATEMENTS

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We have included in this Prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with business partners;
- our business and operating strategies, plans, objectives and goals, and our ability to implement such strategies, plans, objectives and goals;
- changes in the regulatory and operating conditions in the industry and the markets in which we operate;
- future developments, trends, conditions and the competitive environment in the industry and the markets in which we operate or into which we intend to expand;
- our expansion plans;
- our financial condition and performance;
- our future debt levels and capital needs;
- financial market developments;
- changes in the general economic and political conditions in China;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- our business prospects;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and the markets in which we operate;
- the actions and developments of our competitors;
- certain statements in “Financial Information” with respect to trends in prices and profit margins; and
- other statements in this Prospectus that are not historical facts.



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## FORWARD-LOOKING STATEMENTS

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In some cases, we use the words “aim,” “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other similar expressions to identify forward-looking statements.

In particular, we use these forward-looking statements in “Summary and Highlights,” “Risk Factors,” “Industry Overview,” “Business,” “Financial Information,” “Future Plans and Use of Proceeds” and other sections of this Prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry, and the future development of the general economy of our key markets. These forward-looking statements are based on current plans and estimates, and speak only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements and the risks and uncertainties discussed in “Risk Factors” in this Prospectus.

Our Directors confirm that the forward-looking statements are made after reasonable care and due consideration. The forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*You should carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to invest in the Offer Shares. On the occurrence of any of the following risks, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our Shares could decline, and you may lose all or part of your investment.*

We believe that there are certain risks involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to doing business in China; and (iv) risks relating to the Global Offering. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also adversely and materially affect our business, financial condition and results of operations. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

*If we fail to continue to innovate and provide attractive products and services to attract and retain users, we may lose customers for our revenue generating services.*

Our ability to attract, retain, and engage our user base and to increase our revenue depends heavily on our ability to continue to provide high-quality free-of-charge hardware and system benchmarking and monitoring services. To compete against competitors, we must continue to allocate significant resources in research and development activities to improve our existing products and user experience. This might include enhancing our system performance optimization, PC temperature control technologies and big-data analytics capabilities. However, due to various reasons we may fail to meet the needs of our users and unable to attract or retain them. As such, our online advertising and Internet value-added services will have less exposure which may have a material and adverse effect on our business and prospects. Moreover, if we are not successful with approaches such as anticipating our user preferences, the change of the industry trend and/or modifying our products and services efficiently, we may be unable to maintain or grow our user base but experience a decrease in our users instead. As a result, our financial results could be adversely affected. In addition, as Internet technology continues to develop, our competitors may be able to offer products and services that are, or are perceived to be, substantially similar to or better than our products and services. To remain competitive to keep our user base and customers, we may have to invest significant resources in developing Internet technology, which may in turn affect our results of operations.

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## RISK FACTORS

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*If we fail to protect our proprietary data and user data, our reputation and business could be negatively affected.*

We believe that our ability to compile and analyze personal data and behavioral data is critical to our success as an Internet company. We collect user data, such as our individual users' ages, gender, address, and transaction history, and have built our own user data base. Any mishandling of the collection, storage, use or disclosure of personal information or other privacy-related matters by us could damage our reputation and results of operations. Furthermore, any actual or alleged leakage or unauthorized use of the user data we have collected could result in a decrease in our user base or the number of our online individual users, either of which could have a material adverse effect on our business, financial condition and results of operations. In addition, advances in technology, the expertise of hackers, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining and misappropriating our proprietary data and customer information.

In addition, we have limited control or influence over the security policies or measures adopted by third-party online payment service providers through which some of our individual users may elect to make online purchases.

Furthermore, the PRC laws and regulations governing the use of personal data are still under development and currently do not impose any mandatory restrictions on internal use of such data by us. Any change in the regulations governing the use of such personal data could adversely affect our ability to use such data or discourage our end-customers from using our online sales channels, either of which could have a material adverse effect on our business, financial condition and results of operations.

Proposed or new legislation and regulations of foreign countries on data privacy and data protection could also significantly affect our business in overseas markets. We launched our products in overseas markets and gained fair popularity in many foreign countries. Some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services. These laws and regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with and may delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices. In order to do business in those countries, we are required to collect and use the private information in accordance with the applicable laws and regulations in those countries. Violation of local laws and regulations could materially and adversely affect our business, financial condition and results of operation.

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## RISK FACTORS

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***If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.***

Our business has grown substantially in recent years and we expect continued growth in our business, revenues and number of employees. In addition, as we increase our products and service offerings, we will need to work with a larger number of business partners efficiently and maintain and expand mutually-beneficial relationships with our existing and new business partners. To support our expansion, we also need to continuously enhance and upgrade our infrastructure and technology, improve control over our operational, financial and management aspects, refine our reporting systems and procedures, and expand, train and manage our growing workforce. All these efforts will require significant managerial, financial and human resources. We cannot assure you that our historical growth rate will be sustainable or achieved at all in the future, that we will be able to effectively manage our growth, that our current infrastructure, systems, procedures and controls or any new measures to enhance them will be adequate and successful to support our expanding operations or that our business strategies and new business initiatives will be executed successfully. If we are not able to manage our growth or execute our business strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

In addition, if we are not able to timely adjust our business strategies or procurement channel of our newly developed business lines under the prevailing circumstances, our business and prospects may be materially and adversely affected.

***If we fail to maintain our existing user base of our utility software, we may lose a large amount of revenue from homepage directing service.***

Our homepage directing service constitutes an important part of our total revenue. We could generate such a significant part of revenue from this business due to the large user base of our utility software. However, we may fail to meet the needs of our users and be unable to attract or retain them. If this happens, our homepage directing service may have less users which may have a material and adverse effect on our business and prospects.

For the year ended 31 December 2018, and the four months ended 30 April 2018 and 2019, our revenue from online advertising services was approximately RMB174.6 million, RMB42.2 million and RMB65.2 million. Our sales to 360 Group which comprised a significant proportion of homepage directing service for the same period were RMB61.0 million, RMB16.5 million and RMB20.6 million. If the revenue relating to homepage directing service to 360 Group is reduced by 50%, our revenue from online advertising services would have been reduced by RMB30.5 million, RMB8.3 million and RMB10.3 million, respectively, and our net profit attributable to shareholders for the same period is estimated to be reduced by at least 37.1%, 38.0% and 32.9%, respectively.

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## RISK FACTORS

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*If we fail to keep up with rapid changes in technologies and internet-enabled devices, our business may be adversely affected.*

The Internet industry is a fast growing and rapidly changing industry which requires strong research and development capabilities of market participants. Most of our users are information technology savvy users and gamers, who pay close attention to and have their own understanding of high-tech products. Our future success will depend on our ability to respond to rapidly changing technologies, adapt our products and services to evolving industry standards and improve the performance and reliability of our products and services. Our failure to do so could materially and adversely affect our business.

In addition, changes in Internet-enabled devices resulting from technological development may also adversely affect our business. For example, the number of people accessing the Internet through devices other than PCs, including smartphones and other hand-held devices, has increased in recent years. In response to this market trend, we launched benchmarking and monitoring applications for mobile devices, mobile devices version of Ludashi Software, in 2013, being a key market player. However, if we are slow to develop products and services that are compatible with mobile devices, or if the products and services we develop are not widely accepted or applied by users of mobile devices, we may not be able to capture a significant share of this increasingly important market. Moreover, the widespread adoption of new Internet, networking and telecommunications technologies or other technological changes could require substantial expenditures to modify or adapt our products, services or infrastructure. If we fail to keep up with rapid technological changes to remain competitive, our business and prospects may be materially and adversely affected.

*Adverse changes on online advertising service may subject us to decrease in revenues.*

For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our online advertising revenue was RMB66.8 million, RMB97.7 million, RMB174.6 million, RMB42.2 million and RMB65.2 million, respectively, accounting for 95.7%, 79.7%, 54.5%, 43.2% and 57.4% of our total revenue, respectively. We offer online advertising service by (i) directing the homepage of our users' browsers to a designated website, (ii) offering popping-up mini-page window advertising, and (iii) providing banners and some other kinds of advertising space on our hardware and system benchmarking and monitoring products. Our advertising customers may not continue to do business with us, or major players among them will reduce the prices they are willing to pay to advertise with us by resetting the fee sharing rates adopted by them, if we do not deliver advertisements in an effective manner, or if they do not believe that their investment in advertising with us will generate a competitive return due to lack of potential customers. Our business and prospects may be materially and adversely affected.

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## RISK FACTORS

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*We generate a substantial portion of our revenue from 360 Group and Shanghai Songheng which may cause significant fluctuations in our revenue.*

360 Group and Shanghai Songheng were two of our largest customers during the Track Record Period. Revenues from 360 Group for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, amounted to RMB46.9 million, RMB50.6 million, RMB71.8 million, RMB19.2 million and RMB28.6 million, respectively, accounting for approximately 67.2%, 41.3%, 22.4%, 19.6% and 25.2% of our total revenue in the respective periods. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, the gross profit contributed from 360 Group was approximately RMB40.8 million, RMB43.0 million, RMB51.6 million, RMB15.3 million and RMB19.5 million, respectively, accounting for approximately 67.6%, 42.0%, 32.3%, 33.7% and 33.6% of our total gross profit in the respective years.<sup>(Note)</sup> Revenues from Shanghai Songheng for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, amounted to RMB9.0 million, RMB41.5 million, RMB24.0 million, RMB6.9 million and RMB11.0 million, respectively, accounting for approximately 12.9%, 33.9%, 7.5%, 7.1% and 9.7% of our total revenue in the respective periods. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, the gross profit contributed from Shanghai Songheng was approximately RMB7.8 million, RMB35.3 million, RMB17.2 million, RMB5.5 million and RMB7.5 million, respectively, accounting for approximately 13.0%, 34.5%, 10.8%, 12.2% and 12.9% of our total gross profit in the respective years.<sup>(Note)</sup> Although we expanded our business of sales of electronic devices to include certified pre-owned and factory smartphones in August 2017 and have, as a result, diversified our revenue sources substantially, our reliance on 360 Group and Shanghai Songheng may not decrease.

We have entered into 360 Homepage Directing Alliance Service Agreements (360 導航聯盟服務協議) with 360 Group, under which we direct the homepage of our users' browsers to <http://hao.360.cn>, and to the lesser extent, some other websites and provide banners to Qihu Technology's products on our Ludashi Software, and Qihu Technology makes payment to us based on the referral online user traffic directed by us. We expect that we will continue generating a substantial portion of our revenue from 360 Group in the foreseeable future.

Shanghai Songheng has maintained a contractual relationship with us since 2016. Being a customer of our mini-page advertising service and banner advertising service, Shanghai Songheng gained exposure to our users, which drove it to become a shareholder of us. We expect that we will continue generating a substantial portion of our revenue from Shanghai Songheng in the foreseeable future.

Consequently, any of the following events may cause material fluctuations or declines in our revenue:

- decreased business activities with 360 Group or Shanghai Songheng;

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*Note:* The gross profit amounts of specific customers including 360 Group and Shanghai Songheng are not contained in the financial statements of the Group. The Group's operating expenses in generating the related gross profits mainly comprise advertising and promoting expenses and server leasing expenses which cannot be allocated with a specific basis for the revenue in issue. As such, the gross profit amounts are calculated based on the overall gross profit margins of online traffic monetization for the respective years.

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## RISK FACTORS

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- 360 Group's or Shanghai Songheng's failure to make timely payments for our services; and
- 360 Group's or Shanghai Songheng's cessation of services in China.

In addition, if either of the two entities ceases to do business with us for any reason in the future, we may not be able to secure an alternative source of revenue with similar terms to those with them in a timely manner, or at all, which may materially and adversely affect our business, financial condition and results of operations.

If we did not provide online advertising services to 360 Group and Shanghai Songheng during the Track Record Period, our revenue would decrease by 32% and 14%, respectively. As such, our profitability shall be seriously affected.

***We face intense competition and may suffer from a loss of users and customers as a result.***

We face intense competition from PRC-based Internet companies in online advertising service and online game business and smartphone distributors in pre-owned and factory smartphone sales. Online advertising service and online game business are the most common monetization methods Internet companies adopt. The competitive standing of an Internet market player in China largely depends on the reputation of its brand, the size of its user base, its technological expertise, the effectiveness of its products and services as well as its business model. See "Industry Overview – Hardware and System Benchmarking and Monitoring Market in China – Entry Barriers and Competitive Landscape" and "Industry Overview – Pre-Owned Mobile Phones Trading Market in China – Competitive Landscape" for details of our principal competitors in each of our products and services categories. Some of our competitors have significantly greater financial resources, longer operating histories and more experience in attracting and retaining users and serving customers than we do. They may use their experience and resources to compete with us in ways including by offering more attractive products and services, investing more heavily in research and development and making strategic acquisitions. If any of our competitors provides better products and services than those provided by us, our user base and online user traffic may decline significantly. Any such decline could weaken our brand, result in loss of users and customers and have a material and adverse effect on our business, financial condition and results of operations. Furthermore, in an increasingly competitive environment, our competitors may adopt business practices or take other actions that could be harmful to us, and we may have difficulties in obtaining remedies against such actions. For example, if our competitors make their products incompatible with ours, effectively requiring users to either using their products or ours, we may lose part of our users. Any increase in competition could erode our market share, reduce our user base and customer base, and increase our expenditures on marketing as well as research and development activities, which could materially and adversely affect our business, financial condition and results of operations. Besides, as to the pre-owned and factory smartphone sales market, we also face fierce competition with other dealers. They may offer pre-owned and factory smartphones of better quality, or at a lower price.



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## RISK FACTORS

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***Our business depends on a strong brand and reputation, and we may not be able to maintain and enhance our brand or reputation or may suffer negative publicity.***

We believe that our *Ludashi* brand and our reputation have contributed significantly to the success of our business. We also believe that maintaining and enhancing the *Ludashi* brand and our reputation are critical to enlarge our user base and customer base. As our market becomes increasingly competitive, our success in maintaining and enhancing our brand and reputation will depend largely on our ability to remain as a leading provider of high-quality hardware and system benchmarking and monitoring products in China, which may become more expensive and challenging.

Historically, we have developed our user base primarily by word-of-mouth and incurred brand promotion expenses at lesser amounts than we do now. We began enhancing marketing and brand promotion efforts in 2016. However, we cannot assure you that our marketing and brand promotion activities in the future will achieve the expected effect. If we fail to maintain and further promote the *Ludashi* brand or our reputation, or if we incur excessive expenses to do so, our business and results of operations may be materially and adversely affected. In addition, we cannot assure you that there will not be negative publicity about us, our products and services and key members of our management team in the future. Any such negative publicity, regardless of its veracity, could harm our brand and reputation and in turn materially and adversely affect our business, financial condition and results of operations.

***We may not be able to manage our growth effectively due to failure to manage our expansion.***

We significantly expanded our operations in recent years. Since our inception in 2014, we have been expanding our product and service offerings to meet the needs of our users. We expect this expansion to continue as we grow our user and customer base and explore new opportunities. To manage further expansion of our business and growth of our operations and personnel, we need to continuously improve our operational and financial systems, procedures and controls, and expand, train, manage and maintain good relations with our growing employee base. In addition, we must maintain and expand our relationships with other websites, Internet companies and other third parties. However, our current and future personnel, systems, procedures and controls may not be adequate to support our expanding operations. If we fail to manage our expansion effectively, our business, financial condition and results of operations may be materially and adversely affected.

***Our limited operating history makes it difficult to evaluate our future prospects and results of operations.***

We have a limited operating history under our current business model upon which you can evaluate the viability and sustainability of our business. Although Chengdu Qilu commenced its business operation in 2014, the PC version of *Ludashi* Software was developed in 2007.



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## RISK FACTORS

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Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early-stage companies in evolving industries such as the Internet industry in China. Some of these risks and uncertainties relate to our ability to:

- continue to offer new and innovative products and services to attract and retain a large user base;
- increase operating expenditure to attract additional users;
- increase awareness of our brand and continue to enhance user and customer loyalty;
- respond to competitive market conditions;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control on our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and
- upgrade our technology and infrastructure to support enlarged user base and expanded product and service offerings.

If we are unsuccessful in addressing any of these risks and uncertainties, our business, financial condition and results of operations may be materially and adversely affected.

***Interruption or failure of our own information technologies and communications systems or those of third-party service providers we rely upon could impair our ability to effectively provide our products and services.***

Our ability to provide our products and services depends on the continuing operation of our information technologies and communications systems. Any damage to or failure of our systems could affect the performance and reliability of our products and services and directly impact our users. Service interruptions may damage our brand and reduce our user base if our products and services are perceived to be unreliable. Our systems are vulnerable to damage or interruption as a result of earthquakes, floods, fires, power loss, telecommunications failures, undetected errors or “bugs” in our software, computer viruses, interruptions in access to our websites and servers through the use of “denial of service” or similar attacks, hacking or other attempts to harm our systems and similar events. Our servers, which are leased from Qihu Technology and a third-party Internet data center, are vulnerable to break-ins, sabotage and vandalism. Additionally, the occurrence of a closure of an Internet data center by any of our third-party providers without adequate notice could result in lengthy service interruptions.

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## RISK FACTORS

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If we experience frequent or persistent system failures affecting our products and services, whether due to interruption and failure of our own information technologies and communications systems or those of third-party service providers we rely upon, our reputation and brand could be severely harmed. The steps we take to improve the reliability of our systems will increase our cost and reduce our operating margin and may not be successful in reducing the frequency or duration of service interruptions.

***Our success depends on the continuing and collaborative efforts of our management team and our highly skilled personnel, and our business may be harmed if we lose their services.***

Our future success depends heavily upon the continuing services of our management team, including Mr. Tian, our founder and chief executive officer, Mr. He, our chief technology officer, Mr. Zhang Fanchen (張凡琛), the chief financial officer of the Group, and Mr. Zhang Xiaozhen (張曉真), the general manager of Xiaolu Second-Hand. Competition for management and key personnel is intense, the pool of qualified candidates is limited, and we may not be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel in the future. If one or more of our executives or other key personnel are unable or unwilling to continue in their present positions or join a competitor or form a competing company, we may not be able to replace them in a timely manner or at all, and we may lose customers and know-how and our business may be disrupted.

Although our chief executive officer and our key employees have entered into employment agreements with us that contain confidentiality provisions, if any disputes arise between any of our executives or key personnel and us, we cannot assure you that such provisions will be fully enforced.

Our future success also depends on the talents and efforts of highly skilled individuals. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. Competition in the Internet industry for qualified employees is intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing highly skilled personnel. If we do not succeed in attracting additional highly skilled personnel or retaining our existing personnel, we may be unable to grow effectively.

***We may not be able to prevent others from unauthorized use of our intellectual property or brands, which could harm our business and competitive position.***

We rely on a combination of copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights and brands. We have registered our *Ludashi* brand in China and Hong Kong. The protection of intellectual property rights and brands in Mainland China may not be as effective as the protection of those in other countries and regions. The steps we have taken may be inadequate to prevent the misappropriation of our technologies or unauthorized use of our brands. Reverse engineering, unauthorized copying or other misappropriation of our technologies could enable third parties to benefit from our technologies without compensating us. Moreover,

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unauthorized use of our technologies could enable our competitors to offer products and services that are comparable to or better than ours, which could harm our business and competitive position. From time to time, we may have to enforce our intellectual property rights and brands through litigation. Such litigation may result in substantial costs and diversion of resources and management attention.

***The successful operation of our business depends upon the performance and reliability of the internet infrastructure in the PRC and the safety of our network and infrastructure.***

Our business depends on the performance and reliability of the Internet infrastructure in the PRC. Our information technology systems support the operation of our online traffic monetization and online sales channels. Almost all access to the Internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. There is no assurance that a more sophisticated Internet infrastructure will be developed in the PRC. We may not have access to alternative networks in the event of disruptions, failures or other problems with the PRC's Internet infrastructure. In addition, the Internet infrastructure in the PRC may not support the demands associated with continued growth in Internet usage. Although we believe we have sufficient control measures in place to prevent intentional disruptions, we expect our network and infrastructure to be targets of attacks specifically designed to impede the performance of our products and services, misappropriate proprietary information or harm our reputation. The techniques used by hackers to access or sabotage networks change frequently and may not be recognized until launched against a target. The theft, unauthorized use or publication of our trade secrets and other confidential business information could adversely affect our competitive position, brand reputation and user base, and our users and customers may assert claims against us related to losses arising from security breaches. If any of the above occurs, our business could be subject to significant disruption and our results of operations may be materially and adversely affected.

Furthermore, despite any precautions we may take, the occurrence of a natural disaster, such as an earthquake, flood or fire, or other unanticipated incidents at our information infrastructure facilities in China, including power outages, telecommunications delays or failures, break-ins to our systems or computer viruses, could result in delays or interruptions to our platform and operations as well as loss of our users' and other participants' data. Any of these events could damage our reputation, and may materially and adversely affect our business, financial condition and results of operations.

***The gross profit margin of our electronic devices sales may stay low for a certain period of time in the future.***

It is our strategy to develop our electronic devices sales and our revenue is expected to increase with the development of this business line. As the gross profit margin of the electronic devices sales is generally lower than that of our other business lines, our overall gross profit margin may be dragged down as a result.

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## RISK FACTORS

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***We face risks related to the impairment rate of our products and may not be able to sell it at desirable prices.***

We bear all of the risks related to the impairment rate of our products. There are uncertainties in whether we will be able to sell our products at desirable prices.

We sell our products to customers through both online and offline sales. A variety of reasons could cause the products market to experience considerable downward pricing pressure, which could further affect our ability to realize the impairment rate of our products. For example, a decline in new products sales prices may drive down products sales prices or discourage consumers from buying used products. Also, a large amount of products sales from our competitors may also impose additional pricing pressure on us. Therefore, our business may be materially and adversely affected by these risks.

***For electronic devices business, we may not be able to maintain proper inventory levels for our product sales operations.***

We need to maintain sufficient inventory levels to operate our product sales and supply chain solutions successfully as well as meet our customer demand. At the same time, we are exposed to the risk of inventory accumulation. In particular, we are exposed to inventory risk as a result of rapid changes in product life cycles, changing consumer preferences, uncertainty of success of product launches, manufacturer back orders and other vendor-related. We cannot assure you that we can accurately predict these trends and events and avoid over-stocking or under-stocking products.

Furthermore, demand for products could change significantly between the time product inventory is ordered and the time it is available for sale. When we begin to sell a product, it is difficult to forecast product demand accurately. We cannot assure you that we will be able to maintain proper inventory levels for our product sales operations and such failure may have an adverse effect on our business, financial condition, results of operations and profitability.

***We face risks related to liabilities resulting from the use of our products by our customers.***

Our products sales can expose us to claims for personal injury, death and property damage resulting from the use of our products by our customers. For example, if a customer uses a product that has some mechanical or other problem, including a manufacturing defect, which contributed to an accident that result in a personal injury or death or property damage. In that case, we may be a defendant of the claims for the alleged liabilities for the accident and the damage resulting from it. If a significant number of such claims cannot be resolved, our reputation may suffer.

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***Manufacturer safety recalls could create risks to our business.***

Our products may be subject to safety recalls by their manufacturers. During a recall period, we may attempt to retrieve recalled products from customers and decline to sell them until we have taken all of the steps described in the recall. If a large number of products are subject to simultaneous recalls, we may not be able to sell them to our customers for a significant period of time. These recalls, depending on their severity, could materially affect our revenues, damage our customer relations and brand image, and increase the depreciation rate of the products involved.

***Smartphone manufacturers' marketing plan and the release dates of the smartphones may adversely affect our certified pre-owned and factory smartphone sales.***

Our certified pre-owned and factory smartphone sales may be subject to smartphone manufacturers' marketing plans and the release dates of the smartphones. According to Frost & Sullivan, users who are susceptible to the iteration of smartphones usually replace their smartphones at least six months after purchasing. In other words, smartphones usually take approximately six months to enter into the pre-owned smartphones sales market after first-hand sales. The marketing plans of major smartphone manufacturers, such as Apple and Huawei, and the release dates of smartphones of certain popular brands or models may have a significant impact on our procurement plan and product mix of our certified pre-owned and factory smartphone sales. Therefore, we may have to adjust our procurement and sales plan of certified pre-owned and factory smartphone sales from time to time according to the release schedule of major smartphone manufacturers and various market conditions, which may adversely affect the revenue and profit margin of our certified pre-owned and factory smartphone sales.

***We rely on suppliers for the supply of products and any shortage or interruption in supply may significantly impact on our business and results of operations.***

We sourced our products for sale to our customers from Independent Third Party suppliers during the Track Record Period. As such, we rely on the ability, authorization and efficiency of suppliers to supply products to our customers. During the Track Record Period, we did not experience any incidents of interruption or delay in our supply chain or failure to secure sufficient quantities of products from our suppliers.

While we maintain good business relationships with them, we cannot assure you that our suppliers will not breach their contractual obligations to us, or that our agreements will not be suspended, terminated or otherwise expired without renewal. Also, we cannot guarantee that all of our suppliers are authorized by the brand owners/smartphone manufacturers to resell their products to us. Moreover, we cannot guarantee that it will have the capacity to meet our needs as we expand rapidly, or maintain the same level of quality in their products and services. In that case, we may not be able to find alternative providers if it is no longer able to meet our needs at acceptable cost and in a timely manner. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could materially and adversely affect our business, financial condition and results of operations.

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## RISK FACTORS

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***We have limited control over the operations of our offline business entity customers. Actions taken by our offline business entity customers may materially and adversely affect our business, prospects and reputation.***

We had several offline business entity customers for products sales and we rely on them in exploring and penetrating products markets for us. We have limited ability to manage the quality of service of our offline business entity customers. Our business entity customers are independent from us, and may take actions, including one or more of the following, which could have material adverse effect on our business, prospects and reputation:

- Sell products of third parties that compete with our products; and
- Fail to adequately promote our products.

Failure to adequately manage our sales network, or non-compliance by business entity customers with our sales agreements could harm our reputation and disrupt our sales. Furthermore, we could be held liable for actions taken by our business entity customers, including any violations of applicable law in connection with the sales of our products. In addition, our brand and reputation, our sales activities or the price of our products could be adversely affected if we become the target of any negative publicity as a result of actions taken by our business entity customers.

***The fair value change for and valuation uncertainty of our put option liability may materially and adversely affect our financial condition and results of operations.***

As our put option liability lacks an active market with quoted price of identical instruments, its fair value is measured by using unobservable inputs and the fair value of such instruments may not be reliably measured. For details of the accounting treatment, please refer to Note 26 of Appendix I to this Prospectus. Thus, our Group is exposed to changes in fair value and valuation uncertainty which may materially and adversely affect our financial conditions and results of operations.

***There are uncertainties relating to the growth, profitability and regulatory environment of the online sales industry in China.***

There is no guarantee that the online product sales in China will continue to grow at the estimated rate or at all. Furthermore, the long-term viability and prospects of various online retail business models in China remain relatively untested. The development of the online retail industry in China depends on many factors, most of which are beyond our control, including:

- the growth of Internet, mobile services, broadband, PC and mobile penetration and usage as well as online retailing in China;
- the trust and confidence level of online shoppers in China, as well as changes in customer demographics and customer tastes and preferences;

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## RISK FACTORS

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- the selection, price and popularity of products that we and our competitors offer online;
- the emergence and development of alternative retail channels or business models that better address the needs of end-customers; and
- the development of order fulfillment, payment and other ancillary services associated with online purchases.

A decline in the popularity of online shopping or any failure to improve the online shopping experience of individual customers in response to trends and customer requirements may adversely affect our sales, operations and growth prospects.

Furthermore, China's online electronic devices retail industry is sensitive to macroeconomic changes. Many factors that are beyond our control can adversely affect customer confidence and spending, including inflation, stock and property market conditions, interest rates, tax rates and other government policies and unemployment rates, which could in turn materially and adversely affect our growth prospects and profitability.

In addition, operation of our online sales channels is subject to extensive legal and governmental regulation in China as well as governmental supervision and regulation by PRC Government. The PRC Government promulgates and enforces regulations that cover many aspects of the operation of the online retail industry, including entry into the industry, the scope of permissible business activities, and licenses and permits for various business activities. If we are not able to obtain or renew the necessary government permits and licenses, our results of operations and prospects could be materially and adversely affected.

***We are subject to the credit risk in respect of our trade and other receivables and we may experience delays or defaults in collecting our receivables.***

We are subject to the credit risks of our customers and our cash flow are dependent on timely settlement of payments by our customers for the products and services we provide to them. Our trade receivables turnover days show an increasing trend from 32 days for the year ended 31 December 2016 to 41 days for the year ended 31 December 2017, and to 47 days for the year ended 31 December 2018, and further to 58 days for the four months ended 30 April 2019. Based on the management accounts of our Group, as of 31 July 2019, approximately 76.1% of our Group's total trade receivables outstanding as of 30 April 2019 were settled. For further discussions on the increasing trade receivables turnover days of our Group during the Track Record Period, please refer to the paragraph headed "Financial Information – Management's Discussion and Analysis of Financial Condition and Results of Operations – Discussion of certain items from the statements of financial position – Trade receivables" in this Prospectus.



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We cannot assure you that we will be able to collect all or any of our trade receivables within the credit period that we granted to our customers. If any of our customers face unexpected situations, including, but not limited to, financial difficulties caused by general economic downturn or fiscal constraints, we may not be able to receive payment of uncollected debts in full or at all from such customers and we may need to make provisions for receivables, which could in turn materially and adversely affect our financial condition and results of operations.

***We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties.***

Fraud or other misconduct by employees, such as unauthorized business transactions and breaches of our internal policies and procedures, or third parties, such as breach of law, may be difficult to detect and prevent and could subject us to financial loss and sanctions imposed by governmental authorities and seriously harm our reputation. Our risk management systems, information technology systems and internal control procedures are designed to monitor our operations and overall compliance. However, we may be unable to identify non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions we take to prevent and detect such activities may not be effective. Hence, there exists the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This may materially and adversely affect our business, financial condition, results of operations and prospects.

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

The licensing requirements within the PRC Internet industry are constantly evolving and we may be subject to more stringent regulatory requirements due to changes in the political or economic policies in China. See “Regulatory Overview” for more details. There can be no assurance that we will be able to satisfy such regulatory requirements and as a result we may be unable to retain or renew any existing or additional licenses, permits or approvals in the future. Failure to do so may materially and adversely affect our business, financial condition, results of operations and prospects.

***We may be involved in legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result.***

We may be involved in disputes arising from our operations. See “Business – Legal Proceedings and Compliance.” These disputes may lead to various forms of protests against us or legal or other proceedings and may result in substantial costs, damages to our brand and reputation and a diversion of resources and management’s attention. From time to time, we may receive claims that we have infringed the intellectual property rights of others. Such claims may be based on our use of trademarks, logos, technologies or other intellectual properties. Any such claim, with or without merit, could result in costly litigation and distract our



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management from day-to-day operations. If we fail to successfully defend such claims, we could be required to make unavailable or redesign our products and services, pay monetary amounts as damages, enter into royalty or licensing arrangements, or satisfy indemnification obligations that we have with some of our users. Any royalty or licensing arrangements that we may seek in such circumstances may not be available to us on commercially reasonable terms or at all. Also, if we acquire certain technology to include in our products from third parties, our exposure to infringement actions may increase because we must rely upon these third parties to verify the origin and ownership of such technology.

In addition, we may have disagreements with regulatory bodies in the course of our operations which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities or otherwise disrupt our business operations. We cannot assure you that we will not be involved in any major disputes or legal or other proceedings in the future. Furthermore, we endeavor to structure our business in a tax efficient manner. If any of our arrangements is successfully challenged by the relevant tax authorities, we may incur additional tax liabilities, which could adversely affect our financial condition or results of operations. In addition, from time to time, our Directors and senior management may be parties to litigation or other legal proceedings. Even though we may not be directly involved in such proceedings, such proceedings may affect our reputation and, consequently, adversely impact our business.

***We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all.***

To grow our business and remain competitive, we may require additional capital. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by Internet companies; and
- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our Shareholders.

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## RISK FACTORS

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### RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

*In order to comply with PRC laws and regulations limiting foreign ownership of internet businesses, we conduct our business through our consolidated affiliated entities in China by means of contractual arrangements. If the PRC Government determines that these contractual arrangements do not comply with applicable regulations, our business could be materially and adversely affected.*

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunications services, Internet cultural services and other related businesses, including the provision of online game operations. In particular, under the Special Administrative Measures, the operation of our online game platform falls into the Internet cultural services business and is considered “prohibited.” See “Regulatory Overview – Regulations Relating to Online Games.” As a result, we conduct our business in China through Chengdu Qilu and its subsidiaries, based on a series of Contractual Arrangements by and among WFOE, Chengdu Qilu and their shareholders. As a result of these Contractual Arrangements, we exert control over Chengdu Qilu and its subsidiaries and consolidate or combine their results of operations into our financial statements. Chengdu Qilu and its subsidiaries hold the licenses, approvals and key assets that are essential for the operations of our Internet-related businesses.

Our PRC Legal Advisers are of the view that:

- the Contractual Arrangements are valid, feasible and enforceable against signatories under any PRC laws, rules and regulations;
- the Contractual Arrangements are not in breach of any articles of association of the relevant onshore companies;
- the Contractual Arrangements are in compliance with the PRC Contract Law;
- no permits or approvals from relevant authorities are needed except that the Equity Pledge Agreement takes effect upon registration with the AIC; and
- upon a series of consultations in ways of interviews or telephone calls in April and July 2018 with Sichuan Communications Administration (四川省通信管理局), Department of Culture of Sichuan Province (四川省文化廳) and Sichuan News, Publishing, Broadcasting, Film and Television Bureau (四川省新聞出版廣電局(四川省版權局)) and relevant authorities in charge of online game operation, Internet audio-visual service and Internet information service (the “**Relevant Authorities**”), the Relevant Authorities are of the view that the Contractual Arrangements do not fall into their respective authority, or render the relevant onshore companies violative of any PRC laws, rules and regulations, resulting in any punishment over the relevant onshore companies.

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

- revoke the agreements constituting the Contractual Arrangements;
- revoke our business and operating licenses;
- require us to discontinue or restrict operations;
- restrict our right to collect revenue;
- shut down all or part of our websites or services;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;
- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions that could be harmful to our business.

Furthermore, any of the assets under the name of any record holder of equity interest in our consolidated affiliated entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our consolidated affiliated entity and its subsidiary or the right to receive their economic benefits, we would no longer be able to consolidate our consolidated affiliated entity and its subsidiary, thus adversely affect our results of operations.

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*Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the 2015 draft PRC foreign investment law and how it may impact the viability of our current corporate structure, corporate governance and business operations.*

The MOFCOM published a discussion draft of the proposed foreign investment law (the “**2015 Draft Foreign Investment Law**”) in January 2015 for consultation purposes. While MOFCOM solicited comments on the 2015 Draft Foreign Investment Law in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The 2015 Draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects. For more information, see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – The 2015 Draft Foreign Investment Law.”

Among other things, the 2015 Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise (“**FIE**”). Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a “negative catalog” to be separately issued by the State Council later, if the FIE is engaged in the industry listed in negative catalog, which calls for market entry clearance by the MOFCOM. Under the 2015 Draft Foreign Investment Law, variable interest entities, or consolidated affiliated entities, that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors.

Although the 2015 Draft Foreign Investment Law was released for consultation purposes, there are substantial uncertainties regarding the 2015 Draft Foreign Investment Law, including with respect to its final content, especially the provisions dealing with VIE structure, adoption timeline or effective date. Mr. Tian, our chief executive officer, is a Chinese national and will be capable of exerting material influence on the Board and Shareholders’ meeting of the Company, and is therefore the “actual controller” of the Company. However, our PRC Legal Advisers advised that it was still unclear as of the Latest Practicable Date as to: (i) what level of “actual control” is required to qualify as a domestic enterprise; (ii) how domestic enterprises operated by foreign investors under a contractual arrangement are to be regulated; and (iii) what businesses are to be classified as “restricted business” or “prohibited business” in the negative catalog under the 2015 Draft Foreign Investment Law.

If, upon its enactment, the 2015 Draft Foreign Investment Law: (i) does not recognize our structure under our Contractual Arrangements as domestic investment; (ii) does not provide any preferential treatment to investors from Hong Kong, Macau and Taiwan; (iii) requires WFOE to apply for access permission (准入許可), a government permit that allows foreign investors to invest in “restricted” and/or “prohibited” businesses on the negative catalog, our Contractual Arrangements may be regarded as invalid and illegal if we have not obtained such access permission. As a result, we may be required to unwind the Contractual Arrangements and/or dispose of such online games business and we would not be able to continue our business in China through the Contractual Arrangements. As we primarily conduct our online

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game business in the PRC, the occurrence of such an event could have a material and adverse effect on our business, financial condition and results of operations such that our PRC Operating Entities would no longer be able to consolidate their financial results into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition. Our compliance with the 2015 Draft Foreign Investment Law depends on our adherence to such measures. In the event of any failure to comply with such measures, the Contractual Arrangements may be deemed invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of the PRC Operating Entities, which could have a material and adverse effect on our business, financial condition and results of operations.

In addition, it is uncertain whether the measures to be adopted by us to maintain control over and receive economic benefits from the PRC Operating Entities alone will be effective in ensuring compliance with the 2015 Draft Foreign Investment Law (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us, such as suspension of trading in our Shares, which may have a material adverse effect on the trading and liquidity of our Shares. For details of the 2015 Draft Foreign Investment Law and the negative catalog, its potential impact on our Company, and our measures to maintain control over and receive economic benefits from the PRC Operating Entities, please see "Contractual Arrangements – Development in the PRC Legislation on Foreign Investment" for further details.

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

On 23 December 2018, the 7th meeting of the 13th SCNPC reviewed the 2018 draft foreign investment law, and submitted the second draft of the 2018 draft foreign investment law to the NPC for deliberation on 29 January 2019. On 15 March 2019, the NPC adopted the PRC foreign investment law\* (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the Law on Chinese-Foreign Equity Joint Ventures, the Law on Chinese-Foreign Contractual Joint Ventures and the Law on Wholly Foreign-Owned Enterprises. The Foreign Investment Law stipulates three forms of foreign investment, but does not explicitly stipulate the contractual arrangements as a form of foreign investment. For more information, please see "Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – The Foreign Investment Law." If the Foreign Investment Law becomes effective in the current form, and the then laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties.

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Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council.” There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of the PRC Operating Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. If future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be completed by companies with existing contractual arrangements, we may face substantial uncertainties as to the timely completion of such actions. In the extreme case scenario, we may be required to unwind the Contractual Arrangements and/or dispose of the PRC Operating Entities, which could have a material and adverse effect on our business, financial conditions and results of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding or disposal or when such requirements are not complied with, the Stock Exchange may consider us to be no longer suitable for listing on the Stock Exchange and delist our Shares.

For details of the Foreign Investment Law and its potential impact on our Company, please see “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – The Foreign Investment Law” in this Prospectus.

***Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and Chengdu Qilu or its shareholders may fail to perform their obligations under our Contractual Arrangements.***

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunications services, Internet cultural services and other related businesses, including the provision of online game operations. In particular, under the Special Administrative Measures, the operation of our online game platform falls into the value-added telecommunications services business and is considered “restricted.” As a result, we conduct our business in China through Chengdu Qilu and its subsidiaries, based on a series of Contractual Arrangements by and among WFOE, Chengdu Qilu and its shareholders. Our revenue and cash flows generated from our Internet-related businesses are attributed to Chengdu Qilu and its subsidiaries. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over Chengdu Qilu and its subsidiaries. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the Board of Chengdu Qilu, which, in turn, could affect changes, subject to any applicable fiduciary obligations at the management level. However, under the Contractual Arrangements, as a legal matter, if Chengdu Qilu or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal



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remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the shareholders of Chengdu Qilu were to refuse to transfer their equity interest in Chengdu Qilu to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our affiliated entities and may lose control over the assets owned by Chengdu Qilu and its subsidiaries. As a result, we may be unable to consolidate Chengdu Qilu and its subsidiaries in our consolidated financial statements, which could materially and adversely affect our financial condition and results of operations.

***We may lose the ability to use and enjoy assets and licenses held by Chengdu Qilu and its subsidiaries that are important to the operation of our business if Chengdu Qilu or its subsidiaries declare bankruptcy or becomes subject to a dissolution or liquidation proceeding.***

Chengdu Qilu and its subsidiaries hold certain assets that are important to our business operations. The Contractual Arrangements with Chengdu Qilu and its shareholders contain terms that specifically obligate the shareholders of Chengdu Qilu to ensure the valid existence of Chengdu Qilu and that Chengdu Qilu may not be voluntarily liquidated. However, should the shareholders breach this obligation and voluntarily liquidate Chengdu Qilu, or should Chengdu Qilu or any of its subsidiaries declares bankruptcy, all or part of their assets may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

***Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.***

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities, additional taxes and interest may be imposed. We would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the Contractual Arrangements between WFOE and Chengdu Qilu were not conducted on an arm's-length basis as the PRC tax authorities have the authority to make special tax adjustments on Chengdu Qilu's tax position. Such adjustments may adversely affect us by increasing Chengdu Qilu's tax expenses without reducing the tax expenses of WFOE, subjecting Chengdu Qilu to late payment fees and other penalties for under-payment of taxes. Our consolidated results of operations may be adversely affected if Chengdu Qilu's tax liabilities increase or if it is subject to late payment fees or other penalties.

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***Shareholders of Chengdu Qilu may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.***

During the Track Record Period, we generated a substantial percentage of our revenue from transactions with shareholders relating to online advertising service. We generated online advertising revenue through our hardware and system benchmarking and monitoring products by selling advertising space in our products. We conduct business through Chengdu Qilu and its subsidiaries. Our control over these entities is based upon the Contractual Arrangements with Chengdu Qilu and its shareholders that allow us to control Chengdu Qilu. These shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us if they believe it would further harm their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and Chengdu Qilu, the shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favor.

In addition, these shareholders may breach or cause Chengdu Qilu to breach the Contractual Arrangements. If Chengdu Qilu or its shareholders breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control Chengdu Qilu and otherwise result in negative publicity. There is also substantial uncertainty as to the outcome of any such legal proceedings.

***We conduct our business operation in the PRC through Chengdu Qilu and its subsidiaries by way of the Contractual Arrangements, but certain of the terms of 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 our ability to enforce the Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over Chengdu Qilu and its subsidiaries, and our ability to conduct our business and our financial condition and results of operations 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 Chengdu Qilu, injunctive relief and/or winding up of Chengdu Qilu. 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



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relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Chengdu Qilu in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in Chengdu Qilu in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by Chengdu Qilu and/or its respective shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over Chengdu Qilu, which could negatively affect our ability to conduct our business.

*If we exercise the option to acquire equity ownership of Chengdu Qilu, the ownership transfer may subject us to certain limitations and substantial costs.*

Pursuant to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”) promulgated by the State Council, foreign investors are not allowed to hold more than 50% of the equity interests of any company providing value-added telecommunications services, including ICP services. According to the Special Administrative Measures, online game business, as value-added telecommunication service and Internet cultural service, is foreign investment prohibited service. In addition, the main foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirements**”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. Although we have taken many measures to meet the Qualification Requirements, we still face the risk of not satisfying the requirement promptly. If the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in China, we may be unable to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements, or if we attempt to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements we may be ineligible to operate our value-added telecommunication enterprises and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition and results of operations.

Pursuant to the Contractual Arrangements, WFOE, or any subsidiary within our Group, has the exclusive right to purchase all or any part of the equity interests in Chengdu Qilu from the respective shareholders for a nominal price, unless the relevant government authorities or PRC laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request. Subject to relevant laws and regulations, the respective shareholders shall return any amount of purchase price they have received to WFOE. If such a transfer takes place, the competent tax authority may require WFOE to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

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### RISKS RELATING TO DOING BUSINESS IN CHINA

*If we fail to obtain and maintain the requisite licenses and approvals required under the complex regulatory environment applicable to our businesses in China, or if we are required to take compliance actions that are time-consuming or costly, our business, financial condition and results of operations may be materially and adversely affected.*

The Internet industry in China is highly regulated. We currently derive a significant portion of our revenue and cash flows generated from Chengdu Qilu, our consolidated affiliated entity, and its respective subsidiaries. Chengdu Qilu and its subsidiaries are required to obtain and maintain applicable licenses and approvals from different regulatory authorities in order to provide their current services. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the MIIT, the MOC, and the NRTA, jointly regulate major aspects of the Internet industry. Operators must obtain various government approvals and licenses for relevant businesses.

We have obtained an ICP license for provision of Internet value-added services and Online Cultural Operating Licenses for the operation of online games, which are essential to the operation of our business and are generally subject to regular review or periodic renewal. We cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient to conduct all of our present or future business. See “Business – Licenses and Permits.”

Considerable uncertainties exist regarding the interpretation and implementation of existing and future PRC laws and regulations governing our online business activities. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities’ interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenue that were generated through the unlicensed Internet activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

*Possible suspension in the approval and registration process of new online games by SAPPRFT may adversely affect our business in the long run.*

Since March 2018, the SAPPRFT suspended the approval and registration process of new online games. The SAPPRFT has resumed the issuance of license for publishing new games since 19 December 2018. According to the official statistics published on the website of SAPPRFT, SAPPRFT has issued licenses to 164 new games in December 2018. For the year ended 31 December 2018 and the four months ended 30 April 2019, our online game business is not affected by this policy because all the games we have operated so far and expect to operate by the end of April 2019 have already been licensed for publishing. Although such suspension did no materially impact our ability to launch new games, possible suspension from

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time to time may affect our online game operation in the future as there will be a limited number of new games to be published as a result of such suspension, thus we may not be able to introduce proper new games at its regular updating rate. We cannot assure you that regulators will not take a stricter view on updates and enhancements in the future. In addition, if the suspension occurs again, our ability to introduce new games and our business expansion may be adversely affected.

***As a substantial percentage of our operations is conducted in China, we are vulnerable to adverse changes in economic, political and social conditions and government policies in China.***

A substantial percentage of our operations and assets are located in China, and a substantial percentage of our revenue is derived from our business in China. Accordingly, our financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political, social and legal conditions in China. The PRC economy differs from that of most developed countries in many respects, including the extent of government involvement, level of economic development, investment control, resource allocation, growth rate and control over foreign exchange. We believe the PRC Government has indicated its commitment to the continued reform of the economic system as well as the structure of the government. The PRC Government's reform policies have emphasized the independence of enterprises and the use of market mechanisms. Since the introduction of these reforms, significant progress has been achieved in economic development, and enterprises have enjoyed an improved environment for their development. However, any changes in the political, economic or social conditions in China may materially and adversely affect our business, financial condition and results of operations.

***Any slowdown in the PRC economy may affect the industry in which we operate, as well as the industries in which our customers operate.***

Most of our revenue is derived from the provision of online advertising service. We rely exclusively on domestic demand to achieve growth in our revenue. Such demand is materially affected by industrial development and the overall economic growth in China, as well as policy support for our customers' industries and for our online advertising service. Any deterioration of these industries in China resulting from a global economic downturn or the PRC Government's macroeconomic measures affecting these industries may have a material adverse impact on our business, financial condition, results of operations and prospects. Furthermore, any deterioration in the financial conditions of our customers in these industries or any industry-specific difficulties encountered by these customers could affect our business, such as decreased number of online advertising service customers, thereby materially and adversely affecting our business, financial condition and results of operations and prospects.

Furthermore, the global crisis in financial services and credit markets since 2008 caused a slowdown in the growth of the global economy with a corresponding impact on the PRC economy. Although there are signs of recovery in the global and PRC economies, there can be no assurance that any such recovery is sustainable. As a result of global economic cycles, we

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cannot assure you that the PRC economy will grow in a sustained or steady manner. Any slowdown or recession in the PRC economy may affect our ability to attract users and customers, which may in turn materially and adversely affect our business, financial condition and results of operations and prospects.

*We may be deemed a PRC resident enterprise for PRC EIT purposes under the EIT Law and be subject to PRC taxation on our global income.*

Pursuant to the EIT Law, which came into effect on 1 January 2008, an enterprise established outside of China whose “de facto management body” is located in China is considered a “PRC resident enterprise” and will generally be subject to the uniform enterprise income tax rate, or EIT rate, of 25% on its global income. The Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) defines “de facto management body” as the organization body that effectively exercises management and control over aspects such as the business operations, personnel, accounting and properties of the enterprise.

On 22 April 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (“**Circular 82**”), as amended on 29 December 2017, which sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of China and controlled by PRC enterprises or PRC enterprise groups is located within China. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China. Further to Circular 82, the SAT issued Chinese-Controlled Offshore Incorporated Resident Enterprises Income Tax Regulation (《境外註冊中資控股居民企業所得稅管理辦法(試行)》) (“**Bulletin 45**”), which took effect on 1 September 2011 and amended on 1 June 2015, 1 October 2016 and 15 June 2018, to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises.” Bulletin 45 provides procedures and administrative details for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises which are registered outside of China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general. If our global income were to be taxed under the EIT Law, our financial condition and results of operations may be materially and adversely affected.

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***You may be subject to PRC income tax on dividends from us or on any gain realized on the sale or other disposition of our shares under PRC law.***

Under the EIT Law, subject to any applicable tax treaty or similar arrangement between China and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from sources within China payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within China unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20%, and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

Although substantially all of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax is imposed on gains realized from the transfer of our Shares or on dividends paid to our non-PRC resident investors, the value of our investors' investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

***The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.***

On 3 February 2015, the SAT issued (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“**SAT Circular 7**”) which was amended on 1 December and 29 December 2017. SAT Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities' scrutiny over, indirect transfers by a nonresident enterprise of PRC taxable assets. Under SAT Circular 7, the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC taxable assets, when a non-resident enterprise transfers PRC taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC taxable assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC enterprise income taxes and without any other reasonable commercial purpose. However, SAT Circular 7 contains certain exemptions, including (i) where a non-resident enterprise derives income from the indirect transfer of PRC taxable assets by acquiring and selling shares of an overseas listed holding company which holds such PRC taxable assets on a public market;

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and (ii) where there is an indirect transfer of PRC taxable assets, but if the non-resident enterprise had directly held and disposed of such PRC taxable assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement.

We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our Shares were transferred by certain then shareholders to our current Shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

***Failure to obtain any preferential tax treatments or the discontinuation, reduction or delay of any of the preferential tax treatments that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.***

Operating in the high-technology industry, a number of our PRC Operating Entities enjoy various types of preferential tax treatment according to the prevailing PRC tax laws. Our PRC subsidiaries qualify for certain preferential tax treatment. Under the PRC Enterprise Income Tax Law effective from 1 January 2008, foreign-invested companies, such as WFOE, and domestic companies, such as our consolidated affiliated entity and its subsidiaries, are subject to a unified income tax rate of 25%. Various favorable income tax rates are, however, available to qualified enterprises in certain encouraged sectors of the economy. Companies that qualify as software enterprises are exempt from PRC income tax for two years and subject to a preferred income tax rate of 12.5% for the following three years, starting from the first profit-making calendar year. Chengdu Qilu is a software enterprise, and is eligible for such preferential tax treatment commencing from its first profit-making year upon receipt of the qualification of software enterprises. Chengdu Qilu renewed its qualification of software enterprises on 28 August 2018 and such qualification is valid for one year. For more information, see “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Description of Components of Results of Operations – Taxation.” Enterprises qualified as “High and New Technology Enterprise” are entitled to a preferential rate of 15%. Chengdu Qilu qualifies as a “software enterprise” and its software is properly registered with relevant authorities according to relevant rules and regulations. Such a qualification and registration will remain effective until December 2019. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our tax saving attributable to tax concession was RMB7.5 million, RMB7.4 million, RMB10.0 million, RMB3.0 million and RMB4.5 million, respectively. If we were not awarded any preferential tax treatments during the Track Record Period, the profit before taxation would decrease by 9.8%. However, if any of our PRC subsidiaries and consolidated affiliated entity that qualifies for preferential tax treatment fails to maintain their respective qualification under the relevant PRC laws and regulations, their applicable income tax expenses may increase, which could materially and adversely affect our net income and results of operations.



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***We rely on dividends paid by WFOE for our cash needs, and any limitation on the ability of WFOE to pay dividends to us could have a material adverse effect on our ability to conduct our business.***

We conduct substantially all of our business through WFOE, Xiaolu Second-Hand, Lubang Technology, Chengdu Qilu and Liu Liuyou Technology. Therefore, we rely on the dividends received from WFOE and Chengdu Qilu to pay dividends to our Shareholders. Currently, PRC regulations permit the payment of dividends only out of distributable profits determined in accordance with the accounting standards and regulations in China. Our PRC subsidiaries are required to allocate certain percentages of any accumulated profits after tax each year to their statutory common reserve fund as required under the PRC Company Law, until the aggregate accumulated statutory common reserve funds exceed 50% of its registered capital. These reserve funds cannot be distributed as cash dividends. In addition, if our PRC subsidiaries incur debt on their own or enter into certain agreements in the future, the instruments governing the debt or such other agreements may restrict their ability to pay dividends or make other distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may materially and adversely affect our ability to pay dividends to our Shareholders.

***The PRC Government's control over currency conversion may limit our foreign exchange transactions, including dividend payments on our shares.***

The Renminbi is not presently a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign currencies to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following completion of the Global Offering, do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE. There is no assurance that we will be able to receive these approvals in time, or at all. This could restrict the ability of our PRC subsidiaries to obtain debt or equity financing in foreign currencies.

The existing foreign regulations allow us, following completion of the Global Offering, to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that the PRC Government will continue to adopt this policy going forward. The PRC Government may also restrict our access to foreign currencies for current account transactions at its discretion. Any insufficiency of foreign currencies may impair our ability to obtain sufficient foreign currencies for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

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***Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC Government, including restrictions on our PRC subsidiaries' ability to pay dividends or make distributions to us and our ability to increase investment in our PRC subsidiaries.***

The SAFE promulgated Circular 37 in July 2014. Pursuant to Circular 37, PRC residents must register with local branches of SAFE in connection with their direct or indirect offshore investments in an overseas special purpose vehicle, or SPV, directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests or any inbound investment through SPVs. Such PRC residents are also required to amend their registrations with the SAFE when there is a significant change to the registered SPV, such as changes of its PRC resident individual shareholder, name, operation period or other basic information, or the PRC individual resident's increase or decrease in its capital contribution in the SPV, or any share transfer or exchange, merger or division of the SPV. In accordance with Circular 13, the foreign exchange registration aforesaid has been directly reviewed and handled by banks since 1 June 2015, and the SAFE and its branches perform indirect regulation over such foreign exchange registration through local banks. Under this regulation, failure to comply with the registration procedures set forth in Circular 37 may result in restrictions being imposed on the foreign exchange activities of WFOE, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and its settlement of foreign exchange capital, and may also subject the relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

We are committed to complying with, and to ensuring that our Shareholders who are subject to the regulations will comply with, the relevant rules. However, there is no assurance that the PRC Government will not have a different interpretation of the requirements of Circular 37 in the future. Moreover, we may not at all times be fully aware or informed of the identities of all of our Shareholders who are PRC residents, and we may not always be able to compel our Shareholders to comply with the requirements of Circular 37.

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

Any loans or capital contributions that we, as an offshore entity, make to our PRC subsidiaries, including those from the net proceeds of the Global Offering, are subject to PRC regulations. For example, any overseas loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment that our PRC subsidiaries are approved to make under the relevant PRC laws and the amount of their registered capitals. Such loans must also be registered or filed on record. Furthermore, capital contributions we may make to our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain such registrations and approvals or to complete such filing procedures on a timely basis, or at all, with respect to future loans or capital contributions that



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we may make to our PRC subsidiaries. If we fail to receive such registrations or approvals, or to complete such filing procedures, our ability to use the proceeds of the Global Offering and to fund our operations may be negatively affected, which would in turn materially and adversely affect our liquidity and ability to expand our business.

In addition, pursuant to Circular 19 promulgated on 30 March 2015 by SAFE which became effective on 1 June 2015, foreign-invested enterprises shall be allowed to settle foreign exchange capitals on a discretionary basis. Furthermore, where the foreign-invested enterprises engaged in equity investment in the PRC, it shall follow the regulations on reinvestment in territory of PRC. Circular 19 unlocks the restriction on foreign exchange capital settlement, but it is still uncertain whether it is practicable and may adversely affect our prospects.

*Fluctuations in the value of Renminbi could have an adverse effect on our business, financial condition and results of operations.*

The value of the Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC Government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. From 1994 to July 2005, the official exchange rate for the conversion of the Renminbi to the U.S. dollar was generally stable. In July 2005, the PRC Government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. The current policy permits the Renminbi to fluctuate within a regulated band against a basket of foreign currencies. The Renminbi has appreciated since the end of 2016 from approximately RMB6.94 per U.S. dollar as of 30 December 2016 to approximately RMB6.53 per U.S. dollar as of 29 December 2017, and then depreciated to approximately RMB6.9247 per U.S. dollar as of 14 June 2019. It is difficult to predict how market forces and the PRC Government's policies will continue to impact Renminbi exchange rates going forward. The Renminbi may appreciate or depreciate significantly in value against the Hong Kong dollar, the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in significant appreciation or depreciation of the Renminbi against the U.S. dollar or other foreign currencies.

Even though substantially all of our revenue and expenses are denominated in RMB, fluctuations in exchange rates may nonetheless in the future adversely affect the value of our net assets and earnings. In particular, distributions to our Shareholders are made in Hong Kong dollars. Any unfavorable movement in the exchange rate of the Renminbi against the Hong Kong dollar may adversely affect the value of our distribution. In addition, any unfavorable movement in the exchange rate of the Renminbi against other foreign currencies may also lead to an increase in our costs, which could adversely affect our business, financial condition and results of operations.

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*Uncertainties with respect to the PRC legal system could limit the legal protection available to our shareholders.*

The PRC legal system has inherent uncertainties that could limit the legal protection available to our Shareholders. As substantially all of our business operations are in China, we are principally governed by PRC laws, rules and regulations. The PRC legal system is based on the civil law system. Unlike the common law system, the civil law system is established on the written statutes and their interpretation by the Supreme People's Court (最高人民法院), while prior legal decisions and judgments have limited significance for guidance. The PRC Government has been developing a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters, such as corporate organization and governance, foreign investments, commerce, taxation and trade.

However, many of these laws and regulations are relatively new, and because of the limited volume of published decisions, their implementation and interpretation involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violation of these policies and rules until sometime after such violation has occurred. Furthermore, the legal protection available to our Shareholders under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and diversion of resources and management attention.

*You may experience difficulties in effecting service of process or enforcing foreign judgments against us, our executive Directors or senior management residing in China.*

Substantially all of our assets are located in China and all of our executive Directors and senior management reside in China. Therefore, it may not be possible to effect service of process within Hong Kong or elsewhere outside of China upon us or our Directors or senior management. Moreover, China has not entered into treaties for the reciprocal recognition and enforcement of court judgments with Japan, the United Kingdom, the United States and many other countries. As a result, recognition and enforcement in China of a court judgment obtained in other jurisdictions may be difficult or impossible.

In addition, on 14 July 2006, China and Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (“Arrangement”). Pursuant to the Arrangement, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement

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in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to enforce a Hong Kong court judgment against our assets or our Directors or senior management in China.

***Inflation in China could negatively affect our profitability and growth.***

Economic growth in China has been accompanied by periods of high inflation in the past. In order to control inflation in the past, the PRC Government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such measures could inhibit economic activities and lead to a slowing of economic growth in China, both of which could materially adversely affect our results of operations and prospects. High inflation in the future may cause the PRC Government to once again impose controls on credit and/or price of commodities, or to take other actions, which may have a negative impact on our business.

***Negative publicity regarding certain illegal online game business practices in China may indirectly affect our business.***

Negative publicity regarding certain illegal online game business practices in China could harm the public perception of our industry. If the public associates the Internet industry with abusive illegal financial practices, we may face a decrease in demand for online advertising and Internet value-added services. Damage to the industry's reputation could also lead to increased scrutiny from the government or the tightening of regulations, which may materially and adversely affect our business.

***PRC laws and regulations establish more complex procedures for some acquisitions of PRC companies by foreign investors, which could make it difficult for us to pursue growth through acquisitions in China.***

A number of PRC laws and regulations, including the M&A Provisions, the Anti-Monopoly Law (《反壟斷法》), and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》) (“**Security Review Rules**”) promulgated by MOFCOM on 25 August 2011 and effective from 1 September 2011, have established procedures and requirements that are expected to make the review of certain merger and acquisition activities by foreign investors in China more time consuming and complex. These include requirements in some instances to notify MOFCOM in advance of any transaction in which foreign investors take control of a PRC domestic enterprise, or to obtain

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approval from MOFCOM before overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control or security review.

The Security Review Rules prohibits foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. If we are found to be in violation of the Security Review Rules and other PRC laws and regulations with respect to the merger and acquisition activities in China, or fail to obtain any of the required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violations, including levying fines, confiscating our income, revoking our PRC subsidiary's business and operating licenses, requiring us to restructure or unwind the relevant ownership structure or business operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. Furthermore, if the business of any target company we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, thus affecting our ability to expand our business or maintain our market share.

### **RISKS RELATING TO THE GLOBAL OFFERING**

*The state of political environment in Hong Kong may adversely affect the market price of our Shares.*

Hong Kong is a special administrative region of the PRC and enjoys a high level of autonomy under the principle of "one country, two systems" according to the Basic Law of Hong Kong. However, there is no assurance that this principle and the level of autonomy will be fully implemented and maintained in the future, in light of the recent political and social unrest. Therefore, the stability of Hong Kong's economy and financial markets is not guaranteed and the market price of our Shares may be adversely affected as a result.

*There has been no prior public market for our shares and there can be no assurance that an active market would develop.*

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators on behalf of the Underwriters and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. There is no assurance that the Global Offering will result

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in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

*The liquidity, trading volume and market price of our shares following the Global Offering may be volatile.*

The price at which our Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- fluctuations in the market prices of our services;
- announcements of new technologies;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we operate and compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- dispute, litigation or loss of key personnel suffered by us;
- general market sentiment regarding the PRC Internet industry;
- our inability to compete effectively in the market;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- changes in laws and regulations in China; and
- political, economic, financial and social developments in China and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our results of operations or prospects.

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***Because the initial public offer price per share is higher than the net tangible book value per share, purchasers of our Shares in the Global Offering will experience immediate dilution.***

The Offer Price of our Offer Shares is higher than the net tangible book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Offer Shares in the Global Offering will experience an immediate dilution in pro forma adjusted and consolidated net tangible asset value of HK\$1.37 per Share and HK\$1.53 per Share, respectively, assuming an Offer Price of HK\$2.30 per Offer Share and HK\$3.00 per Offer Share, respectively, and existing Shareholders will receive an increase in the pro forma adjusted and consolidated net tangible asset value per Share of their Shares. If we issue additional Shares in the future, purchasers of our Offer Shares may experience further dilution.

***Substantial future sales or the expectation of substantial sales of our shares in the public market could cause the price of our shares to decline.***

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares. There will be 260,000,000 issued Shares immediately following the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account any Shares, which may be issued upon exercise of any share options, which may be granted under the Share Option Scheme. Our Controlling Shareholders agreed that any Shares held by them will be subject to a lock-up after the Listing. For more information, see “Underwriting – Underwriting Arrangements and Expenses.” However, the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry of the lock-up period. Shares which are not subject to a lock-up arrangement represent approximately 24.8435% of the total issued share capital immediately following the Global Offering and will be freely tradable immediately following the Global Offering.

***Our Controlling Shareholders have substantial influence over the Company and their respective interests may not be aligned with the interests of Shareholders who subscribe for Shares in the Global Offering.***

Immediately following the completion of the Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account any Shares, which may be issued upon exercise of any share options, which may be granted under the Share Option Scheme, our Controlling Shareholders will directly and indirectly own an aggregate of 53.1073% of our Shares. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of the Company, which could deprive our Shareholders of an opportunity to



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receive a premium for their Shares in a sale of the Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interest of our other Shareholders, the interests of our other Shareholders may be disadvantaged or harmed.

***A sale of Shares by 360 may have a material and adverse effect on Mr. Tian's control over our Company.***

Pursuant to the Entrustment Agreements, aside from holding approximately 21.2823% of the issued share capital of our Company, Dashi Technology Holdings, which is directly wholly owned by Mr. Tian, is entrusted by True Thrive, an indirect wholly-owned subsidiary of 360, to hold approximately 31.8250% of the issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering and to exercise all of True Thrive's rights as a Shareholder. As a result, Mr. Tian and Dashi Technology Holdings will be entitled to exercise or control the exercise of an aggregate of 53.1073% of the voting power at general meetings of our Company upon Listing. Therefore, both Mr. Tian and Dashi Technology Holdings will be considered as a group of Controlling Shareholders. The purpose of the Entrustment Arrangements is to motivate Mr. Tian, who is the key personnel in our business, to continue to manage and develop the business of our Group. His service is pivotal to our execution of business plans. For further details, please refer to "History, Reorganization and Corporate Structure – Entrustment Arrangements" in this Prospectus.

In the event of any sale of Shares by 360 through True Thrive or otherwise termination of the Entrustment Arrangements, assuming no other arrangements similar to the Entrustment Arrangements would be entered into between Mr. Tian and the transferee of the sale Shares, Mr. Tian may cease to be our Controlling Shareholder and lose control over our Company. The possibility of losing control over our Company would defeat the aforesaid purpose of the Entrustment Arrangements, which may lead to the possible departure of Mr. Tian from our Company. As a result, the loss of services of Mr. Tian, being a key executive of our Company, would have a material and adverse effect on our business and operations as more particularly described in "– Risks Relating to our Business and Industry – Our success depends on the continuing and collaborative efforts of our management team and our highly skilled personnel, and our business may be harmed if we lose their services" in this section.

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

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

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

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering to expand our business, improve our financing structure and fund our working capital and general corporate purpose. For more information, see “Future Plans and Use of Proceeds – Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

***We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from the report prepared by Frost & Sullivan contained in this Prospectus.***

Certain facts and statistics in this Prospectus, including but not limited to information and statistics relating to the PRC Internet industry, are based on the report prepared by Frost & Sullivan, or are derived from various publicly available publications, which our Directors believe to be reliable. We cannot, however, guarantee the quality or reliability of such facts and statistics. Although we have taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such publications and the report prepared by Frost & Sullivan, they have not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. We therefore make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the report prepared by Frost & Sullivan, contained in this Prospectus.

***Forward-looking statements contained in this Prospectus are subject to risks and uncertainties.***

This Prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate,” “believe,” “could,” “going forward,” “intend,” “plan,” “project,” “seek,” “expect,” “may,” “might,” “ought to,” “should,” “would” or “will” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this Prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this Prospectus to the public, whether as a



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result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.

***You may face difficulties in protecting your interests under the laws of the Cayman Islands.***

Our corporate affairs are governed by, among other things, our Memorandum and Articles, the Cayman Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

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

There may be, subsequent to the date of this Prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. To the extent such information is inconsistent with, or conflict with, the information contained in this Prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this Prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this Prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this Prospectus and the Application Forms.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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For the purpose of the Listing, our Company has sought the following waivers and exemption from the Stock Exchange in relation to certain requirements under the Listing Rules.

### MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Given that our business and operation are primarily located, managed and conducted in the PRC, it would be practically difficult and commercially unnecessary for us to relocate two of our executive Directors to Hong Kong.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules on the following conditions:

- (i) our Company will appoint two authorized representatives pursuant to Rule 3.05 of the Listing Rules, namely, Mr. Tian, an executive Director and the chairman of our Board and Mr. Cheng Ching Kit (鄭程傑), our Company's company secretary, who will act as our Company's principal channel of communication with the Stock Exchange. Mr. Cheng Ching Kit is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorized representatives is authorized by our Board to communicate on behalf of our Company with the Stock Exchange. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance, and Mr. Cheng Ching Kit has been authorized to accept service of legal process and notice in Hong Kong on behalf of our Company;
- (ii) each of our Company's authorized representatives has means to contact all members of our Board (including the independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact them or any of them for any matters. To enhance the communication between the Stock Exchange, the authorized representatives and the Directors, our Company will implement a number of policies whereby (a) each Director shall provide his mobile phone numbers, office phone numbers, fax numbers and email addresses to the authorized representatives; (b) in the event that such Director expects to travel and be out of office, he shall provide the phone number of the place of his accommodation to the authorized representatives; and (c) all the Directors and authorized representatives will provide their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange;

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

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- (iii) Guosen Securities (HK) Capital Co., Ltd. will be appointed as our Company's compliance adviser, pursuant to Rule 3A.19 of the Listing Rules, to provide our Company with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorized representatives of our Company, as our Company's additional channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules and publishes its annual report in respect of its first full financial year commencing after the Listing Date. The contact person of the compliance adviser will be fully available to answer enquiries from the Stock Exchange;
- (iv) each of the Directors (including independent non-executive Directors) not ordinarily resident in Hong Kong has confirmed that he possesses or can apply for valid travel documents to visit Hong Kong and would be able to meet with the Stock Exchange in Hong Kong upon reasonable notice; and
- (v) our Company will also appoint other professional advisers (including its legal advisers in Hong Kong) after the Listing to assist our Company in addressing any enquiries which may be raised by the Stock Exchange and to ensure that there will be prompt and effective communication with the Stock Exchange.

### **WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS**

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to certain non-exempt continuing connected transactions. Details of such non-exempt continuing connected transactions and the waiver are set out in "Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions."

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

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

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

### **INFORMATION ON THE GLOBAL OFFERING**

This Prospectus is published solely in connection with the Hong Kong Public Offering, which is part of the Global Offering. For applications under the Hong Kong Public Offering, this Prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. Details of the terms of the Global Offering are described in “Structure of the Global Offering.”

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

Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering,” and the procedures for applying for the Hong Kong Offer Shares are set out in “How to Apply for the Hong Kong Offer Shares” and in the relevant Application Forms.

Neither the delivery of this Prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Prospectus or that the information in this Prospectus is correct as of any subsequent time.

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

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### **UNDERWRITING**

The Listing is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company. The International Offering is managed by the Joint Global Coordinators and is expected to be underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price between our Company and the Joint Global Coordinators, for themselves and on behalf of the other Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) on or before the Price Determination Date, or such later date or time as may be agreed between the Joint Global Coordinators (for themselves or on behalf of the other Underwriters) and our Company, the Global Offering will not proceed and will lapse. Further details of the Underwriters and the underwriting arrangements are set out in “Underwriting.”

### **RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares was not under public offering or sale, directly or indirectly, in China or the U.S..

Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries or their respective citizenship, residence or domicile.

Each person acquiring the Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of the Offer Shares to, confirm that he is aware of the restrictions on offers and sales of the Offer Shares described in this Prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

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

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### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee for the granting of listing of, and permission to deal in, the Shares in issue and to be issued by us pursuant to the Capitalization Issue and the Global Offering and additional Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

No part of equity or debt securities of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

### **REGISTER OF MEMBERS AND STAMP DUTY**

The principal register of members of our Company will be maintained by its principal share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and the branch register of members of the Company will be maintained by the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. All Shares to be issued pursuant to the Global Offering and any Shares to be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme will be registered on the branch register of members of our Company in Hong Kong. Only Shares registered on the branch register of members of our Company in Hong Kong may be traded on the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

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

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Dealings in our Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the market value of our Shares being sold or transferred.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to the Shareholders listed on our Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named Shareholder therein in accordance with the Articles of Association.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Shares or exercising rights attached to them. None of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, or dealing in, the Shares or exercising any rights attached to, our Shares.

### **OVER-ALLOTMENT AND STABILIZATION**

Details of the arrangement relating to the Over-allotment Option and stabilization are set out in "Structure of the Global Offering."

### **COMMENCEMENT OF DEALINGS IN OUR SHARES**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 10 October 2019, it is expected that dealings in our Shares on the Main Board of the Stock Exchange will commence at 9:00 a.m. on Thursday, 10 October 2019. Shares will be traded in board lots of 1,000 Shares each.

The stock code of our Shares is 3601.

Our Company will not issue any temporary documents of title.

Dealings in our Shares on the Stock Exchange will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on the Stock Exchange's teletext page information system. Delivery and payment for the Offer Shares dealt on the Stock Exchange will be effected two trading days following the transaction date ("T+2"). Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading date. Only certificates for our Shares registered on the branch register of members of our Company in Hong Kong will be valid for delivery



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

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in respect of transactions effected on the Stock Exchange. If you are unsure about the procedures for dealings and settlement arrangement on the Stock Exchange on which our Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

### **CSRC APPROVAL AND OTHER RELEVANT PRC AUTHORITIES APPROVAL**

The Listing does not require the approval of the CSRC or any other PRC governmental authorities under the current PRC laws, rules and regulations.

### **LANGUAGE**

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. However, the English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

### **EXCHANGE RATE CONVERSION**

Unless otherwise specified, amounts denominated in RMB have been translated, for the purpose of illustration only, into Hong Kong dollars in this Prospectus at an exchange rate of RMB0.9028 to HK\$1.00, the prevailing rate on 16 September 2019 published by the PBOC.

Unless otherwise specified, the translations between Hong Kong dollars and U.S. dollars in this Prospectus were made at the exchange rate of HK\$7.8237 to US\$1.00 on the basis of the noon buying rate as set forth in the weekly H.10 statistical release of the Federal Reserve Board for 13 September 2019.

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

### **ROUNDING**

Certain amounts and percentages figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures proceeding them.

### **OTHER**

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.



## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Tian Ye (田野) . . . . .	16fl, Unit 3, Building 7 No. 966 Tianfu 2nd Street Chengdu, Sichuan Province, PRC (中國四川省成都市天府二街966號7棟3 單元16層)	Chinese
Mr. He Shiwei (何世偉) . . . . .	12-1-7, No. 1 Huarun Road Chengdu, Sichuan Province, PRC (中國四川省成都市華潤路1號12-1-7)	Chinese
<i>Non-executive Director</i>		
Mr. Sun Chunfeng (孫春鋒) . . .	15fl, Building 10, Jiayuwan Lane-1888 Songhu Road Shanghai, PRC (中國上海市淞滬路1888弄嘉譽灣10號樓 15層)	Chinese
<i>Independent Non-executive Directors</i>		
Mr. Li Yang (李洋) . . . . .	Room 211, 2/F, Tower E2 No. 1 Chang'an Street, Dongcheng District, Beijing, PRC (中國北京市東城區長安街1號 E2座2層211室)	Chinese
Mr. Wang Xinyu (王新宇) . . . .	Room 2003, Building 45 Vanke Linglongwan Suzhou Industrial Park Suzhou, Jiangsu Province, PRC (中國江蘇省蘇州市工業園區萬科玲瓏灣 45棟2003號)	Chinese
Mr. Zhang Ziyu (張子煜) . . . . .	Flat H, 3/F, Block 15 Laguna City Lam Tin, Kowloon Hong Kong (香港特別行政區九龍藍田 麗港城15座3樓H室)	Chinese

Please also refer to the section headed “Directors and Senior Management” for further details of the Directors.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor**

**Guosen Securities (HK) Capital Co., Ltd.**  
42/F, Two International Finance Centre  
No. 8 Finance Street  
Central  
Hong Kong

**Financial Advisor**

**Macquarie Capital Limited**  
Level 18, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

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

**Guosen Securities (HK) Capital Co., Ltd.**  
42/F, Two International Finance Centre  
No. 8 Finance Street  
Central  
Hong Kong

**Macquarie Capital Limited**  
Level 18, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**CCB International Capital Limited**  
12/F, CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

**Joint Bookrunners and  
Joint Lead Managers**

**Yue Xiu Securities Company Limited**  
28/F, Siu On Centre  
188 Lockhart Road  
Wan Chai  
Hong Kong

**Guotai Junan Securities (Hong Kong)  
Limited**  
28/F, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

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

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**Lead Securities (HK) Limited**

Unit A, 23/F, The Wellington  
198 Wellington Street  
Sheung Wan  
Hong Kong

**Fortune (HK) Securities Limited**

43/F, COSCO Tower,  
183 Queen's Road Central  
Hong Kong

**Haitong International Securities Company Limited**

8/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**China Investment Securities International Brokerage Limited**

Unit Nos. 7701A & 05B-08, Level 77  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**Joint Lead Managers****Guoyuan Securities Brokerage (Hong Kong) Limited**

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

**Zhongrong PT Securities Limited**

Room 201A, 2/F, China Building  
29 Queen's Road  
Central  
Hong Kong

**Zhongtai International Securities Limited**

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

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Legal advisers to our Company**

*As to Hong Kong law:*

**Jingtian & Gongcheng LLP**

Suites 3205-3207, 32/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law:*

**Jingtian & Gongcheng**

45/F, K. Wah Centre  
1010 Huaihai Road (M)  
Xuhui District  
Shanghai  
PRC

*As to Cayman Islands law:*

**Conyers Dill & Pearman**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Legal advisers to the Sole Sponsor  
and the Underwriters**

*As to Hong Kong law:*

**Stephenson Harwood**

18th Floor, United Centre  
95 Queensway  
Hong Kong

*As to PRC law:*

**Beijing DHH Law Firm**

12/F, Tower C, Yintai Center  
No. 2 Jianguomenwai Street  
Chaoyang District  
Beijing  
PRC

**Auditors and reporting accountants**

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*  
35/F One Pacific Place  
88 Queensway  
Hong Kong

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

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**Industry consultant**

**Frost & Sullivan (Beijing) Inc.,  
Shanghai Branch Co.**  
1018, Tower B  
No. 500 Yunjin Road  
Xuhui District  
Shanghai  
PRC

**Internal Control Consultant**

**RSM Consulting (Hong Kong) Limited**  
29/F, Lee Garden Two  
28 Yun Ping Road  
Causeway Bay  
Hong Kong

**Compliance adviser**

**Guosen Securities (HK) Capital Co., Ltd.**  
42/F, Two International Finance Centre  
No. 8 Finance Street  
Central  
Hong Kong

**Receiving bank**

**CMB Wing Lung Bank Limited**  
45 Des Voeux Road Central  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters and principal place of business in the PRC</b>	11/F, 11-24 Tianfu Software Site E1 1268 Tianfu Avenue High-tech zone Chengdu, Sichuan Province, PRC
<b>Place of business in Hong Kong</b>	40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
<b>Website address</b>	<b><u><a href="http://www.ludashi.com">www.ludashi.com</a></u></b> <i>(this website address and its contents do not form part of this Prospectus)</i>
<b>Company secretary</b>	Mr. Cheng Ching Kit (鄭程傑) 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong <i>(associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom)</i>
<b>Authorized representatives</b>	Mr. Tian Ye (田野) 16th Floor, Unit 3, Building 7 No. 966, Tianfu 2nd Street Chengdu, Sichuan Province, PRC  Mr. Cheng Ching Kit (鄭程傑) 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong

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## CORPORATE INFORMATION

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<b>Audit Committee</b>	Mr. Zhang Ziyu (張子煜) ( <i>chairman</i> ) Mr. Li Yang (李洋) Mr. Wang Xinyu (王新宇)
<b>Remuneration Committee</b>	Mr. Wang Xinyu (王新宇) ( <i>chairman</i> ) Mr. Zhang Ziyu (張子煜) Mr. Tian Ye (田野)
<b>Nomination Committee</b>	Mr. Tian Ye (田野) ( <i>chairman</i> ) Mr. Li Yang (李洋) Mr. Wang Xinyu (王新宇)
<b>Principal share registrar and transfer office</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Branch Share Registrar</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	<b>China Merchants Bank</b> <b>Chengdu Tianfudadao Sub-Branch</b> No. 69, 3rd Street Tianfu Street Gaoxin District Chengdu, Sichuan Province, PRC



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## INDUSTRY OVERVIEW

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*The information presented in this section has been derived from an independent report prepared by Frost & Sullivan. The industry report prepared by Frost & Sullivan is based on information from its database, publicly available sources, industry reports, data obtained from interviews and other sources. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in our Group. We believe that the sources of such information are appropriate and have taken 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, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, representatives, employees, agents or professional advisers or any other person or party involved in the Global Offering (which, for the purpose of this paragraph, excludes Frost & Sullivan) and neither do we make no representation as to the completeness, accuracy or fairness of such information and accordingly such information should not be unduly relied upon.*

### OVERVIEW

We have been the largest hardware and system benchmarking and monitoring solutions provider for PC and mobile devices in China in terms of user base, according to Frost & Sullivan. We launched our PC version of hardware and system benchmarking and monitoring software in 2007 and our mobile devices version of hardware and system benchmarking and monitoring App for both iOS and Android operating systems in 2013. Our products have gained significant market share since launched. We offer our hardware and system benchmarking and monitoring software to users free-of-charge. Leveraging on our strong brand awareness and big-data analytics capabilities, we monetize our large user base by providing advertisers with an online advertisement platform and online game players with access to finely selected online games.

### SOURCES OF INDUSTRY INFORMATION

In connection with the Global Offering, we commissioned Frost & Sullivan to conduct market research on certain Internet-related industries and China's smartphone industry.

#### *The Frost & Sullivan Report*

Frost & Sullivan is an independent global consulting firm that offers industry research and market strategies. Its industry coverage includes technology, media, telecom and consumer products. We have agreed to pay consulting fees of approximately RMB1,050,000 for the report prepared by Frost & Sullivan. In preparing the report, Frost & Sullivan conducted primary research, which involved discussions with industry experts and leading industry participants about the status of China's PC hardware and system benchmarking and monitoring,

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## INDUSTRY OVERVIEW

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online advertisement and games, pre-owned mobile phone, and smartphone accessories industries. Frost & Sullivan also conducted secondary research, which involved the review of public data published by official institutions, public company reports, independent research reports and data from Frost & Sullivan's own research database. Frost & Sullivan's market size projections are based on its market forecasting methodology, which takes into consideration various factors, including (i) historical data, (ii) macroeconomic environment, (iii) key market drivers and restraints anticipated by Frost & Sullivan, and (iv) expert opinions on future developments. Frost & Sullivan's market size projections of China's online advertising and games market, pre-owned mobile phones trading market, as well as the smartphone accessories market are based on certain assumptions, including: (i) the global and China's social, economic and political environments remain stable; (ii) related key industry drivers remain relevant and applicable during the forecast period; and (iii) subversive industry changes are absent during the forecast period.

### *Directors' Confirmation*

After making reasonable enquiries, our Directors confirm that there has been no adverse change in the market information presented in the report of Frost & Sullivan since the date of each report which may qualify, contradict or impact the information in this Industry Overview section.

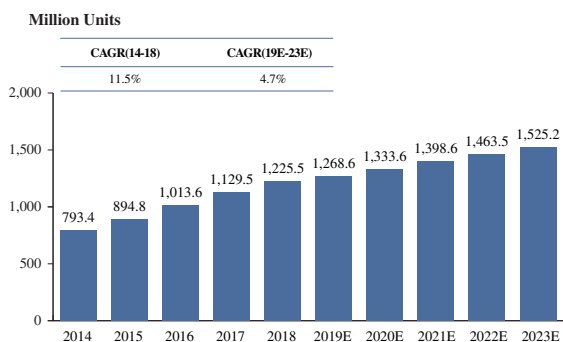
## OVERVIEW OF MACRO ECONOMY IN CHINA

The number of active mobile device experienced a rapid growth in China from 793.4 million units in 2014 to 1,225.5 million units in 2018, representing a CAGR of 11.5%. The rapid development of smart phones drove the growth of mobile device ownership from 2014 to 2018. As the innovative technology has been applied to smart phone gradually and become mature, the new demand for mobile devices has entered into a relatively stable stage, and the ownership is expected to reach 1,525.2 million units in 2023 with a lower CAGR of 4.7%.

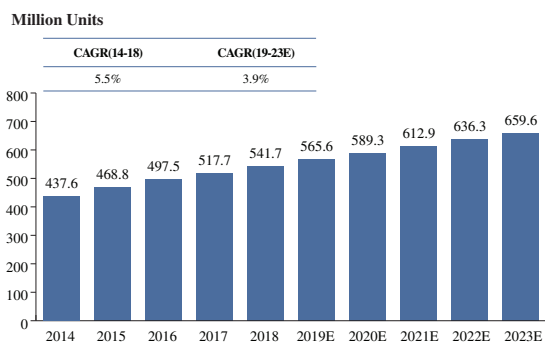
China saw a stable growth of personal computer ownership since 2014 and reached 541.7 million units in 2018 with a CAGR of 5.5%, and the ownership is expected to reach 659.6 million units in 2023. The forecast of number of active mobile devices and PCs is based on that (i) the number of mobile device and PC users in China is expected to keep increasing due to the increase in discretionary income of Chinese people; and (ii) the average number of active mobile devices and PCs per user is expected to keep increasing.

## INDUSTRY OVERVIEW

Number of Active Mobile Devices, China, 2014-2023E\*



Number of Active PCs, China, 2014-2023E\*



\* Active mobile devices/PCs are defined as those being used as least once during the year

Source: MIIT, Frost & Sullivan

## HARDWARE AND SYSTEM BENCHMARKING AND MONITORING MARKET IN CHINA

### Overview

Hardware and system benchmarking and monitoring solution providers offer hardware and system benchmarking and monitoring software and App products and assessment services mainly to individual users for free or to enterprise and professional users for licensing revenue. In China, free hardware and system benchmarking and monitoring software dominates the market in terms of the number of users. According to Frost & Sullivan, more than 99% of hardware and system benchmarking and monitoring software users are individual users in 2018. Providing free hardware and system benchmarking and monitoring software to users allows solution providers to accumulate users and to build brand image. Solution providers can monetize their large user traffic and brand awareness through offering Internet advertising, games, e-commerce or other value-added services such as performance certification.

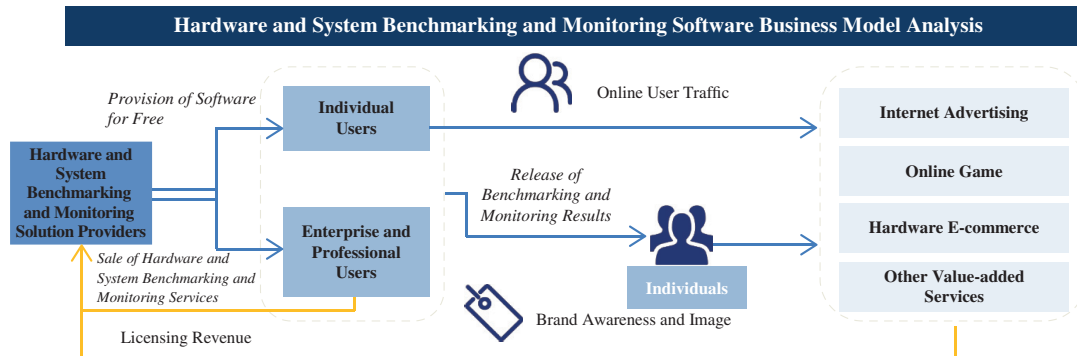
Potential users of hardware and system benchmarking and monitoring software have certain common demands. They may need shopping guidance or would like to optimize system performance for games. Such demands are associated with purchasing activities. In addition, a high proportion of users of this type of software are young male users who spend comparatively more on hardware, electronic devices' system and games. These characteristics increase the monetization potential of hardware and system benchmarking and monitoring software.

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## INDUSTRY OVERVIEW

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The following flowchart illustrates the common business model of hardware and system benchmarking and monitoring solutions:



Source: Frost & Sullivan

Hardware and system benchmarking and monitoring solutions can be monetized in the following ways:

- *Expansion in e-commerce:* Leading players are exploring opportunities in the electronics market, such as electronics accessories sales and mobile phone recycling. On the one hand, users of hardware and system benchmarking and monitoring software tend to have higher demands for electronic products. On the other hand, hardware and system benchmarking and monitoring software developers have established good brand reputations as electronics hardware experts. Their sales of electronics can benefit from their endorsement of the products.
- *Expansion into online game market:* Users of hardware and system benchmarking and monitoring software are more likely to spend more time and money on games. To leverage on this, leading hardware and system benchmarking and monitoring solution providers have expanded into the online game market. Having accumulated experience in online game operations, they are strengthening their presence in the online game market by vertical expansion – engaging in the development, operation and distribution of online games.
- *Precise delivery of advertisement:* Currently, hardware and system benchmarking and monitoring solution providers generally cooperate with advertisement agencies or advertisement networks to monetize their online traffic, and following a general advertising pricing scheme based on valid times of exhibition and valid clicks. With established sales networks and a deep understanding of user characteristics and needs, hardware and system benchmarking and monitoring solution providers can directly provide efficient advertising services with precise consumer targeting for advertisers, in exchange for higher advertising payments.

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## INDUSTRY OVERVIEW

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- *Application of wearable device:* Wearable devices such as VR and AR devices are expected to be the next generation of computing platform. Many technology companies are developing various kinds of wearable devices. The market of wearable devices experiences a rapid development in China. In particular, the market of VR and AR devices has experienced a high-speed growth since HTC and Oculus introduced VR and AR devices in 2016. VR and AR devices have been widely applied in various fields, such as entertainment, public service, healthcare, manufacturing, automotive industry and education. The wide application of VR and AR devices, to a great extent, upgrades user experience and changes the business direction of various industries. The total global revenue of VR and AR devices was about RMB54.2 billion in 2018. The accumulative shipment volume of VR and AR headsets in China increased from 0.2 million in 2014 to 2.7 million in 2018. Based on a greatly potential market demand, China is expected to be one of the most important VR and AR markets. Under such circumstance, there is an intense market need for benchmarking and monitoring system for wearable devices.

Hardware and system benchmarking and monitoring software can be applied in the following scenarios:

- *Transaction related:* With the increasingly diversified electronic products, more Chinese consumers use benchmarking and monitoring software, as an important reference, to assess the overall performance and conditions of electronic products and make the purchase decision. For the transaction of used electronic products, sellers use the testing result of benchmarking and monitoring software to demonstrate the conditions and performance of the used electronic products to consumers before the transaction. Consumers also access the benchmarking and monitoring software to evaluate whether the conditions and performance of the used electronic products are in accordance with the seller's descriptions after the transaction. For the purchasing of new electronic products, consumers use benchmarking and monitoring software, as an indicator, to check whether the overall performance and conditions of electronic products are in accordance with its product specification.
- *Daily application:* As the major functions of PCs are similar, consumers normally use utility software to enhance the performance of their PCs based on their specific requirements. In particular, the high visual demands by massive multiplayer games stimulate the upgrade of computer hardware. Consumers use benchmarking and monitoring software to (i) evaluate whether their devices can smoothly operate the massive multiplayer games and whether they need to explore additional accessories for better experience in the massive multiplayer games; (ii) provide a stable system environment for the operation of massive multiplayer games; and (iii) prevent the hardware damage caused by high temperature during the operation of massive multiplayer games.
- *Other scenarios:* The hardware manufacturers need a unified and credible indicator and ranking to demonstrate performance and quality of their products. In the meanwhile, the media also need a pervasive and well-known indicator to comment and advertise the electronic products.

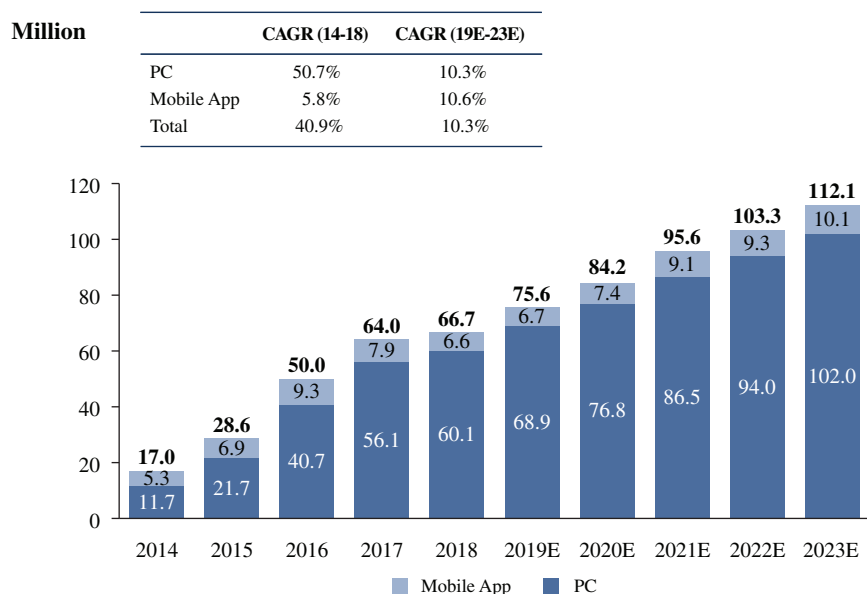
## INDUSTRY OVERVIEW

### Market Size

Except for Ludashi, other major players in the hardware and system benchmarking and monitoring software market for PCs include PC Mark and Geekbench. Other major players in the hardware and system benchmarking and monitoring software market for mobile electronic products include An Tu Tu, Geekbench and 3Dmark. The market size of the hardware and system benchmarking and monitoring software market has grown rapidly in the past five years. Since more than 99% of hardware and system benchmarking and monitoring software users are individual users, the market size of the hardware and system benchmarking and monitoring software is normally measured by average MAUs and DAUs. The average MAUs of hardware and system benchmarking and monitoring software for PCs increased from 11.7 million in 2014 to 60.1 million in 2018, representing a CAGR of 50.7%. The penetration rate of hardware and system benchmarking and monitoring software users, which is calculated as average MAUs for PCs divided by total PCs internet users in China, was 12.2% in 2018, indicating a potential for growth. The average MAUs of hardware and system benchmarking and monitoring App for mobile electronic products increased from 5.3 million in 2014 to 6.6 million in 2018, with a CAGR of 5.8%.

Due to the steady growth of user base of electronic products including PCs and mobile electronic products and the rising awareness of and improving functions of hardware and system benchmarking and monitoring software, the number of users of hardware and system benchmarking and monitoring software has increased over the past few years and is expected to increase in the next few years. The following chart illustrates the market size of hardware and system benchmarking and monitoring software in China in terms of average MAUs:

**Market Size of Hardware and System Benchmarking and Monitoring Software Market (by average MAUs), China, 2014-2023E**

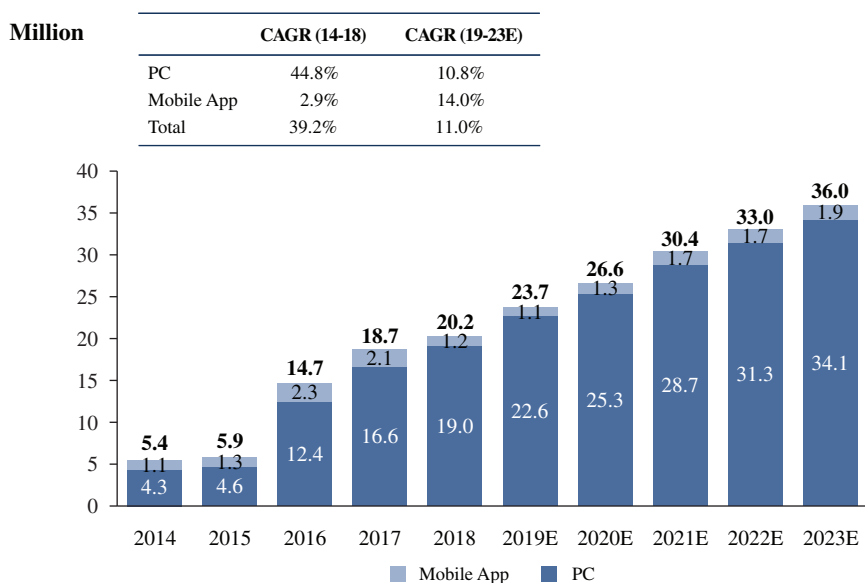


Source: Frost & Sullivan

## INDUSTRY OVERVIEW

The market size of hardware and system benchmarking and monitoring software increased rapidly in the past five years as measured by average DAUs. The average DAUs of hardware and system benchmarking and monitoring software for PCs increased from 4.3 million in 2014 to 19.0 million in 2018, representing a CAGR of 44.8%. The average DAUs of hardware and system benchmarking and monitoring software for mobile electronic products increased from 1.1 million in 2014 to 1.2 million in 2018, representing a CAGR of 2.9%. The number of users of hardware and system benchmarking and monitoring software is expected to keep increasing at a CAGR of 11.0% in the next few years. The following chart illustrates the market size of hardware and system benchmarking and monitoring software in China in terms of average DAUs:

**Market Size of Hardware and System Benchmarking and Monitoring Software Market  
(by average DAUs<sup>(1)</sup>), China, 2014-2023E**



Source: Frost & Sullivan

Note:

- (1) Such figure has been rounded to the nearest hundred thousand. For the years ended 31 December 2016, 2017 and 2018, the average DAUs of the PC version of hardware and system benchmarking and monitoring software in China before rounding adjustments was 12.423 million, 16.635 million and 19.038 million, respectively.

The forecast of the market size measured by MAUs and DAUs is based on that (1) the number of PC and mobile devices is expected to grow at CAGRs of 3.9% and 4.7%, respectively, from 2019 to 2023, and (2) the proportion of hardware and system benchmarking and monitoring software users over all PC and mobile devices will be driven by the continuous improvement of technology and functions in PC and mobile device, growing online purchase of electronic device and user's higher requirements on electronic devices.



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## INDUSTRY OVERVIEW

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The forecast of the increasing number of users of hardware and system benchmarking and monitoring software for mobile devices from 2019 to 2023 is based on that (1) the upcoming deployment of 5G network requires advanced performance of mobile devices, driving the users' demand to upgrade their mobile devices which leads to the growing market demand of benchmarking and monitoring software for mobile devices; (2) more mobile applications provided by benchmarking and monitoring software companies catering to the need of specific functions such as 3D and AI have emerged; (3) the transfer from PC games to mobile games requires improved performance of mobile devices, leading to growing need for mobile device hardware and system monitoring and optimization; and (4) some benchmarking and monitoring software companies have entered into the pre-owned mobile phones trading market, and their needs for testing lead to increasing adoption of benchmarking and monitoring software in pre-owned mobile phones transaction.

### *Market Drivers*

Main drivers of the development and growth of hardware and system benchmarking and monitoring software include:

- *Growing user base of electronic products:* With the improvement in living standards, telecommunications infrastructure and development of electronic products in China, ownership rates of electronic products including PCs and smartphones, have been increasing in China. Users of these electronic products are potential target users for hardware and system benchmarking and monitoring software. The growing user base of electronic products will drive the hardware and system benchmarking and monitoring software market in the future.
- *Consumer's higher requirements on electronic products:* With rising disposable income, higher education level and better knowledge on electronic products, consumers' requirements for performance of electronic products such as PCs and mobile phones are increasing. Under such circumstance, consumers generally rely on professional software, which can provides a comprehensive description of the selected electronic products, to help them to make the purchasing decision of new electronic products and monitor their existing electronic products to determine whether such products can catch up with their increasing requirements. The need of better understanding and evaluating the performance of electronic products will stimulate the demand for hardware and system benchmarking and monitoring software, which will drive the growth of the market.
- *Development of new electronic products:* In addition to mature products such as PCs and smartphones, other new electronic products, such as tablets, smart watches and wristbands, become more popular, which will lead to an increasing demand for benchmarking and monitoring of these products. Also, with the development of technology and software for intelligent functions, electronic products become smarter, which requires for higher performance of hardware. Thus, the development of new electronic products will stimulate the hardware and system benchmarking and monitoring software industry.

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## INDUSTRY OVERVIEW

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- *Growing online purchase of electronic products:* The rapid development of e-commerce and its related infrastructure such as logistic and delivery systems has transformed the sales of products, especially those standard products such as electronic products, from physical shops to online platforms. Without chance to personally test and experience electronic products, consumers may rely more on benchmarking and monitoring results for decision making, which will stimulate the use of hardware and system benchmarking and monitoring software.
- *Emerging new technology and functions:* More applications of advanced technologies such as AI and mobile VR in electronic products have been introduced to a larger base of users. The rollout of 5G technology will significantly increase the connection speed of mobile devices, which are asking for increasing processing speed and improving performance of hardware. The complexity of these technologies will make comparison of competing products for purchase decisions difficult, which will stimulate the need for testing and benchmarking of electronic products equipped with relevant modules or chips.
- *Application of data processing technologies:* Benchmarking and monitoring software company has a better position to monetize its data processing technologies based on its massive data base accumulated by its daily operation. Big-data technology has been applied in various areas in China, such as precision advertising and e-commerce platform. Under such circumstance, benchmarking and monitoring company can provide value-added service for customers in various areas, which will further expand its source of revenue.
- *Added functions and improvement of user experience:* Hardware and system benchmarking and monitoring software developers have integrated affiliated functions such as temperature monitoring, memory cleaning, driver installment, benchmarking and monitoring of specific functions and software for parallel Apps, which increases user retention and activeness as well as improve user experience. Also, some hardware and system benchmarking and monitoring software developers have been improving the UI of their products and the clarity of testing and benchmarking results to help more users understand the results and to enlarge their user base.
- *Increasing market demand for utility software:* Utility software helps the users to analyze, configure and optimize computers or mobile devices and it has been an essential and indispensable software for PC and mobile device users. With the increasing number of PCs and mobile devices, the market demand for utility software will also increase steadily. According to the MIIT, the cumulative number of downloads of utility apps reached 303.7 billion at the end of December 2018, increasing by 74.4% from 174.1 billion at the end of December 2017. Being one type of utility software, hardware and system benchmarking and monitoring software is expected to see continuous growth.

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## INDUSTRY OVERVIEW

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### *Competitive Landscape*

Entry barriers for offering hardware and system benchmarking and monitoring solutions in China include the following:

- *Brand awareness:* As potential users seek fair testing results from hardware and system benchmarking and monitoring software, they would favor well-established brands. Brand awareness is therefore a key consideration in users' selection of hardware and system benchmarking and monitoring tools. Once a strong brand awareness is established, it will reinforce the credibility of the hardware and system benchmarking and monitoring software, and facilitate the capture of more market share. The establishment of brand awareness takes time and continuous efforts and this process can be challenging for new entrants.
- *Research and development:* Users expect hardware and system benchmarking and monitoring software developers to be equipped with strong expertise to deliver precise and reliable hardware and system benchmarking results. With the emergence of new electronic products and new functions and applications, hardware and system benchmarking and monitoring software products need to keep up with hardware evolutions, which would require developers to have strong research and development capabilities. New entrants lacking such research and development capabilities may struggle to survive in the market.
- *Accumulated experience and data:* As there are various types and models of PC and smartphone hardware in the market, the generation of reliable benchmarking results would require the accumulated experience of testing a large sample of various hardware. This would require not only time but also the ability to acquire hardware data from different sources. It usually takes years to accumulate valuable experience and sources, which can be difficult for new entrants.
- *Network effect:* Network effect exists in the hardware and system benchmarking and monitoring software market where the products are generally provided for free. Software with a larger user base will be more valuable to potential users because the testing and benchmarking results will more likely be accepted, discussed and commented on by a larger population. Thus, the hardware and system benchmarking and monitoring software market has a high entry barrier as the user bases of existing players are already very large.

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## INDUSTRY OVERVIEW

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According to Frost & Sullivan, for the year ended 31 December 2018, we were the largest provider of hardware and system benchmarking and monitoring in China in terms of user base, occupying 98.8% and 58.9% of the market share based on the MAUs for PCs and mobile devices, respectively. The total market size for the year ended 31 December 2018 were 60.1 million MAUs for PCs and 6.6 million MAUs for mobile devices. We believe that the following strengths help us compete against other solution providers of hardware and system benchmarking and monitoring:

- *Large user base:* For the year ended 31 December 2018 and the four months ended 30 April 2019, the average MAUs of our Ludashi Software amounted to 59.3 million and 65.6 million for PCs and 3.9 million and 3.4 million for mobile devices, respectively. Furthermore, there were more than 349 million new installation of Ludashi Software from 2016 to 2018. Our large user base reflects the absolute leading position of our Company, as well as a solid foundation for our paid services and future revenue growth.
- *In-depth industry knowledge:* All members of our senior management team have many years of experience in the information technology and hardware and system benchmarking and monitoring industry. In addition, our talented and professional workforce also has strong expertise in software development and hardware and system benchmarking and monitoring. The in-depth industry knowledge we have ensures that our Company has the ability to upgrade hardware and system benchmarking and monitoring functions constantly and make appropriate strategic plans for our future development.
- *Strong brand recognition:* As the leading hardware and system benchmarking and monitoring solution provider with the largest user base, we have built a strong brand awareness throughout our years of operation starting from 2007. Our *Ludashi* brand has been associated with high professionalism and reliable benchmarking results. Our strong brand awareness will help us attract new customers in the hardware and system benchmarking and monitoring solution provision service market.

### ONLINE ADVERTISING MARKET IN CHINA

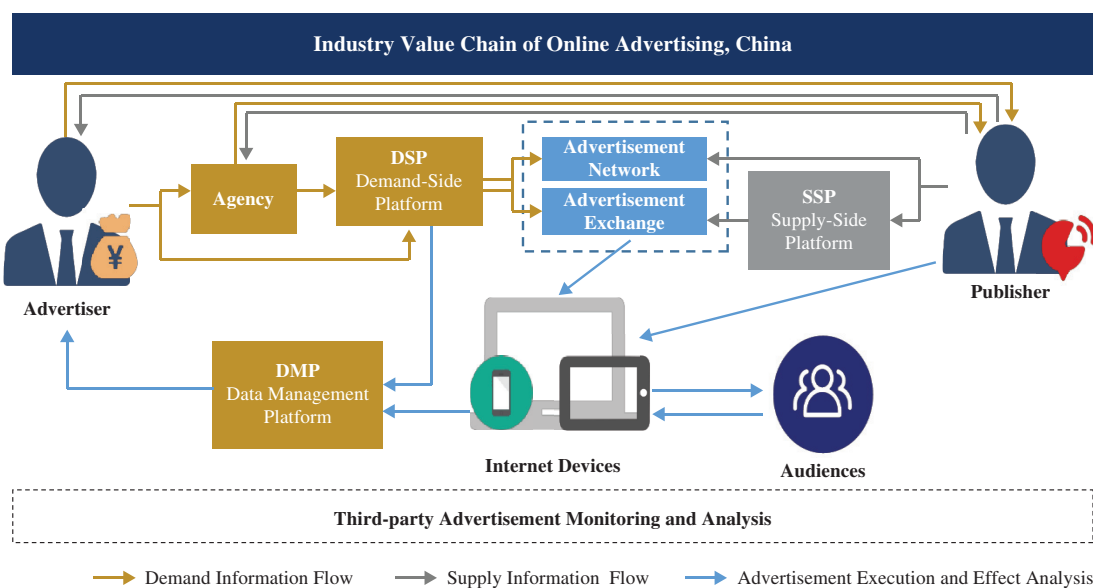
#### *Overview*

Online advertising, or Internet advertising, is a form of marketing and advertising which uses Internet media including websites, webpages and applications, to directly or indirectly deliver promotional marketing messages of goods or services to consumers. Mobile advertising is a method of advertising on mobile devices such as smartphones, tablets, wearables or PDAs that have wireless connections. In China, online advertising mainly takes the form of banners, text advertisements, email advertisements, pop-up advertisements, rich media, newsfeed advertisements, search advertisements and launch screen advertisements.

## INDUSTRY OVERVIEW

Online advertising generally involves both a publisher, who integrates advertisements into its online content, and an advertiser, who provides the advertisements to be displayed. Other potential participants include advertising agencies who help generate and place the advertisement, and advertisement servers which technologically deliver the advertisement and tracks statistics.

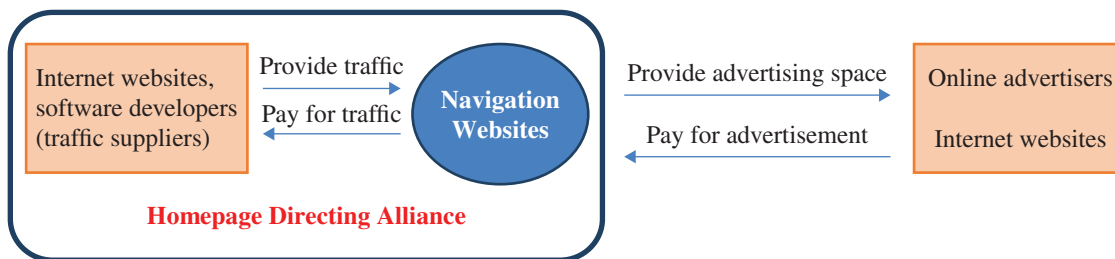
In typical online advertising process, an advertiser explains its demands, including its budget and target, to an advertising agency or directly to a demand-side platform. The agency or demand-side platform will look for an advertising space that matches the demands of the advertiser manually or automatically through an advertisement network or advertisement exchange where information of advertising spaces is published.



Source: Frost & Sullivan

For homepage directing of online advertising, as an example, navigation websites work with traffic suppliers and online advertisers in the monetization of online traffic and sharing the revenue from online advertising and promotion. The traffic suppliers and navigation websites are collectively referred to as homepage directing alliance. Homepage directing alliance operates navigation websites, which provides contents and website links including web portals, news, videos, games and other contents to Internet users. The traffic suppliers, such as Internet websites and software developers, provide sources of online traffic to navigation websites by enhancing and attracting online traffic through traffic suppliers' websites or software. Navigation websites provide advertising spaces to the online advertisers and charge them for advertising. According to the pricing mechanism adopted by homepage directing alliance, navigation websites pay the traffic suppliers based on the views from distinctive IPs and the total number of daily online users brought by them. The pricing mechanism is determined by homepage directing alliance, which is applicable to all traffic suppliers.

## INDUSTRY OVERVIEW



### *Pricing Mechanism*

The pricing models of advertising can be divided into two major categories, including exposure-based pricing and performance-based pricing. In the exposure-based pricing models, like CPM and CPT, fees are charged as long as the advertisements are exposed to viewers by certain times or over certain periods. In the performance-based pricing models, like CPC, CPA and CPS, specific results need to be achieved to charge fees. In the pricing scheme for advertisement networks, usually the advertisers set and adjust pricing strategies in their accounts on advertising network platforms for different advertising space with varied requirement. Through the advertising network, the information of the advertiser with highest bidding price will be presented on eligible advertising spaces offered by publishers who will then receive payment from the advertising network.

### *Major Pricing Models of Online Advertising, China*

Pricing Model	CPM	CPT	CPC	CPA	CPS
<b>Definition</b> . . . . .	Cost Per Mille	Cost Per Time	Cost Per Click	Cost Per Action (e.g. download, register, share)	Cost Per Sale
<b>Typical Application</b> . . .	Brand advertisements targeting specific groups	Brand advertisements requiring high exposure in certain periods of time	Real-time bidding and key-word advertisements	App store advertisements and integral wall	E-commerce advertisements
<b>Pricing Range</b> . . .	RMB1~500	RMB80~3,000 per Thousand	RMB0.1~1 per Click	RMB0.3~5 per Action	Percent of Sales Value: 10~30%

Advertising network refers to online advertisement network which aggregates advertisement supply from online publishers and matches it with advertiser's demand. Advertising network uses a central advertising server to deliver advertisements to consumers, which enables targeting, tracking and reporting of impressions. Therefore, advertising network can establish an automatic pricing and settlement mechanism to paying online publishers for supply of advertising space and charge advertisers for advertising based on the statistics of

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## INDUSTRY OVERVIEW

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advertising. Since the statistics of advertising are monitored and offered by the advertising network, advertising networks need to guarantee the fairness and transparency of cooperation rules and pricing mechanism in order to attract and retain publishers and advertisers. Advertisement networks in China, like Alimama, Baidu Union, Tencent Advertising Union and 360 Navigation Union, have established uniform cooperation rules and pricing mechanisms for all the publishers in the union.

Navigation website is the website which gathers the addresses or links of various websites and categorizes them in order to help users find the websites they need. Navigation websites also establish uniform cooperation rules and pricing mechanism for their suppliers of online user traffic. The price is usually calculated based on the views from daily distinctive IPs brought by publishers in the union. Most of navigation websites adopt progressive pricing mechanism based on the daily online user traffic the publisher can bring.

### *Pricing of Online User Traffic, Major Navigation Websites in China, 2018*

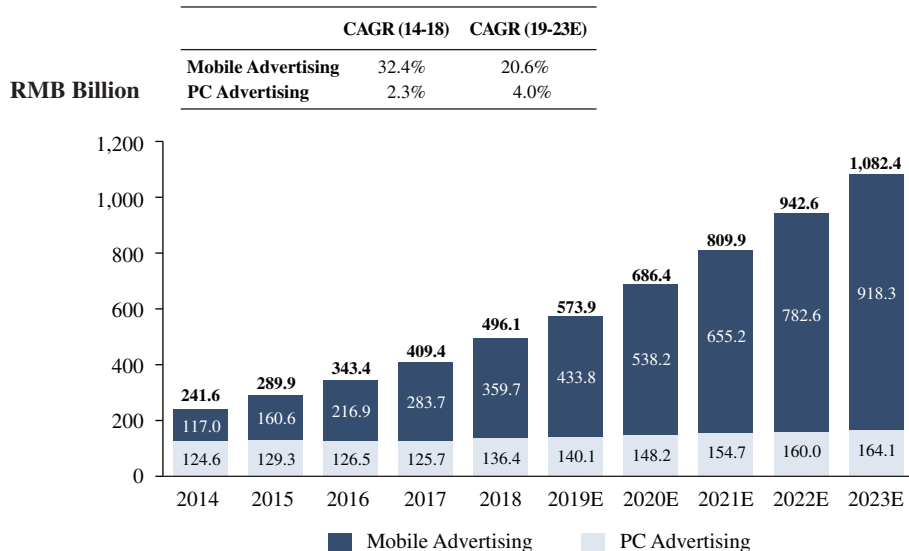
Website	Website A	Website C	Website D	Website F	Website G
Pricing (per 1,000 distinctive IPs on a daily basis) .....	RMB60-105	RMB50-60	RMB50-100	RMB50-70	RMB80

### *Market Size*

Driven by the continuous growth of China's economy and the rapid development of the Internet industry in China, the market size of online advertising market in China increased from RMB241.6 billion in 2014 to RMB496.1 billion in 2018 with a CAGR of 19.7%. It is expected to further increase to RMB1,082.4 billion in 2023 with a CAGR of 17.2% from 2019 to 2023. The market size of the PCs online advertising market in China increased from RMB124.6 billion in 2014 to RMB136.4 billion in 2018, representing a CAGR of 2.3%. It is expected to further increase to RMB164.1 billion in 2023 with a CAGR of 4.0% from 2019 to 2023. The market size of the mobile devices online advertising market in China increased from RMB117.0 billion in 2014 to RMB359.7 billion in 2018, representing a CAGR of 32.4%. It is expected to further increase to RMB918.3 billion in 2023 with a CAGR of 20.6% from 2019 to 2023. The forecast of online advertising market is based on that (1) the penetration of internet users over total population will further increase from 59.3% in 2018 to 72.4% in 2023; (2) the average time spent on the internet by end customers will keep increasing; and (3) technological innovations of online advertising, like precise advertising, RTB and big-data, will keep expanding the advantage of online advertising over offline advertising.

## INDUSTRY OVERVIEW

### *Market Size of Online Advertising Market (by Revenue), China, 2014-2023E*



Source: Frost & Sullivan

The below quarterly analysis of the market size of online advertising market in China for the six quarters ending 30 June 2019 shows that the market size of the first quarter of 2019 represents a decrease as compared to that of the last quarter of 2018. Based on the estimate of Frost & Sullivan, the market size for the first quarter of each year is usually lower than that of other quarters of the year due partly to more holidays in the first quarter of the year in China, which lead to reduced spending of advertisers. Despite the decrease in the market size in the first quarter of 2019 compared with the last quarter of 2018, it is estimated that the total market size of 2019 will record a year-on-year growth on the back of the recovering economic environment and other factors in China. The online advertising market is estimated to experience a higher growth rate in the second quarter of 2019 compared with the first quarter of 2019 mainly based on the improvement of some key economic indicators in April and May 2019, such as the growth rate of retail sales and real estate sentiment index. These indicators reflect the improvement of China’s macro economy and major downstream industries of online advertising.

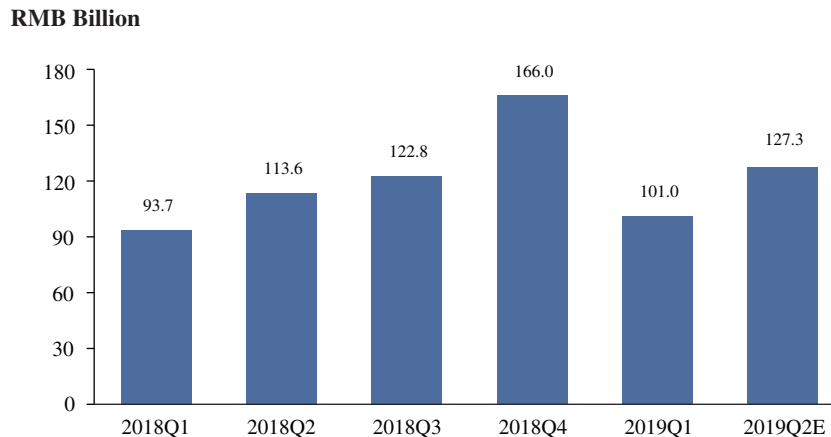


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## INDUSTRY OVERVIEW

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### *Market Size of Online Advertising Market (by Revenue), China, 2018Q1-2019Q2E*



Source: Frost & Sullivan

#### **Market Drivers**

Main drivers of the development and growth of online advertising in China include:

- *Continuous growth of China's economy:* Advertising spending is closely related to the macroeconomic expectations which have great economic impact. China's economy has been growing and the outlook for China's economy is increasingly optimistic. Furthermore, the PRC Government has been promoting an economic structural reform aimed at boosting growth momentum driven by consumption. Therefore, the continuous growth of the macro economy and increase in consumption expenditure will keep spurring the growth of the advertising market, creating favorable environment for online advertising in China.
- *Increasing number of Internet and mobile Internet users:* Backed by a huge population base and the rapid development of the telecom industry, China has a massive number of Internet users. With the rapid spread of electronic devices, such as smartphones, the number of mobile Internet users is also increasing quickly. The large population base and continuous increase of Internet and mobile Internet users lay a solid foundation for online advertising and mobile advertising in China.
- *Development of online advertising technologies:* The continuous development of online advertising technologies such as programmatic buying and real-time bidding increases the effectiveness and capability of online advertising services significantly. As a result, advertisers can reach target audiences more effectively and accurately and their demands can be met in more personalized and valuable ways, encouraging more investment in online advertising channels.

## INDUSTRY OVERVIEW

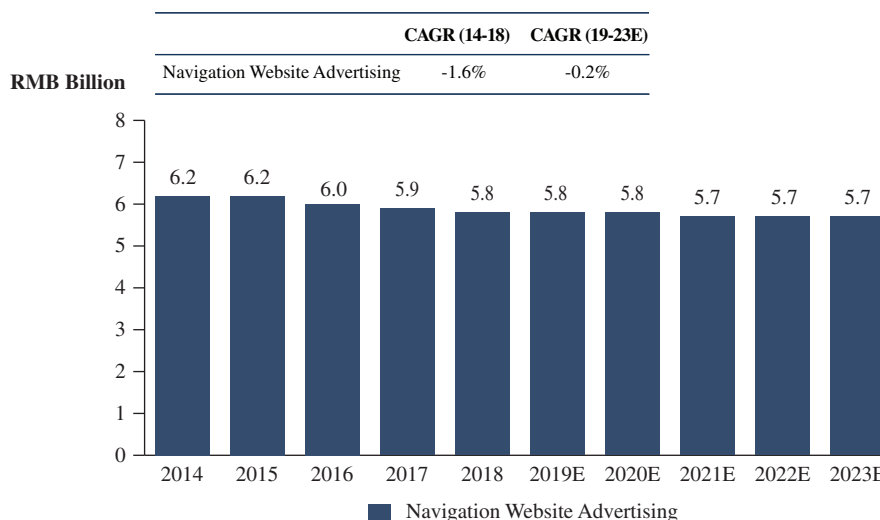
- Change of lifestyle and consumption habits:** With the development of the Internet industry, consumers spend more time on the Internet for social and entertainment activities in China, especially the younger generation. Consumers are increasingly reliant on the Internet for the sourcing of products and services. Therefore, online advertising is increasingly crucial for advertisers to reach and attract consumers.

### *Competitive Landscape*

Generally online advertising publishers compete with each other on traffic and audience attention through their offerings of various software, websites and mobile applications to consumers. The online advertising market for advertising publishers is relatively concentrated as leading market players, such as Tencent, Baidu, Alibaba, Toutiao and 360, have cumulated a large number of users. However, there is no direct competition between online advertising publishers offering different products with different functions and target customers.

The market size of navigation website advertising market in China was RMB6.2 billion in 2014 and RMB5.8 billion in 2018, respectively, representing a negative CAGR of 1.6%. The market size of navigation website advertising market in China was RMB5.8 billion in 2018, accounting for 1.2% of the total online advertising market, and is expected to slightly decrease to RMB5.7 billion in 2023 with a negative CAGR of 0.2% from 2019 to 2023. As online users are shifting from PCs to mobile devices, information is more likely to be acquired by users via mobile applications or in-app gadgets. Therefore, the traffic of navigation websites encountered certain decrease and the overall navigation advertising market is expected to experience slight decline in the future. Among the PCs online advertising market, navigation advertising services account for approximately 4% in the year of 2018. Ludashi accounted for a market share of 1.2% of navigation advertising market in terms of revenue in 2018.

### *Market Size of Navigation Advertising (by Revenue), China, 2014-2023E*



Source: Frost & Sullivan

## INDUSTRY OVERVIEW

The following table sets forth the key market players in navigation website advertising market and their relevant market shares. Website A ranked the first with a market share of 27.7%, followed by Website B and Website C. In terms of average daily unique visitors in December 2018, Website A ranked the first among all navigation websites.

*Market Share of Navigation Websites  
(by Average Daily Unique Visitors),  
China, December 2018*

	Website	Daily Unique Visitors (million)	Market Share
1	Website A	16.2	21.4%
2	Website B	7.7	10.1%
3	Website C	7.5	10.0%
4	Website D	5.3	7.0%
5	Website E	2.4	3.1%
	Others	36.5	48.4%
	<b>Total</b>	<b>75.6</b>	<b>100%</b>

*Market Share of Navigation Websites  
(by Revenue), China, 2018*

	Website	Revenue (RMB million)	Market Share
1	Website A	1,624.1	27.7%
2	Website B	699.8	11.9%
3	Website D	548.1	9.4%
4	Website C	443.6	7.6%
5	Website E	215.7	3.7%
	Others	2,225.2	39.7%
	<b>Total</b>	<b>5,856.5</b>	<b>100%</b>

Source: Frost & Sullivan

Traffic suppliers direct internet users to navigation websites and are paid by navigation websites in return. Traffic suppliers to navigation websites mainly include software and internet browser developers, website owners, internet cafe owners and PC sales and repair service providers who help their customers install operating system and software. The market landscape of traffic suppliers to navigation websites is fragmented and there are more than tens of thousand suppliers to navigation websites in China.

### ONLINE GAME MARKET IN CHINA

#### *Overview*

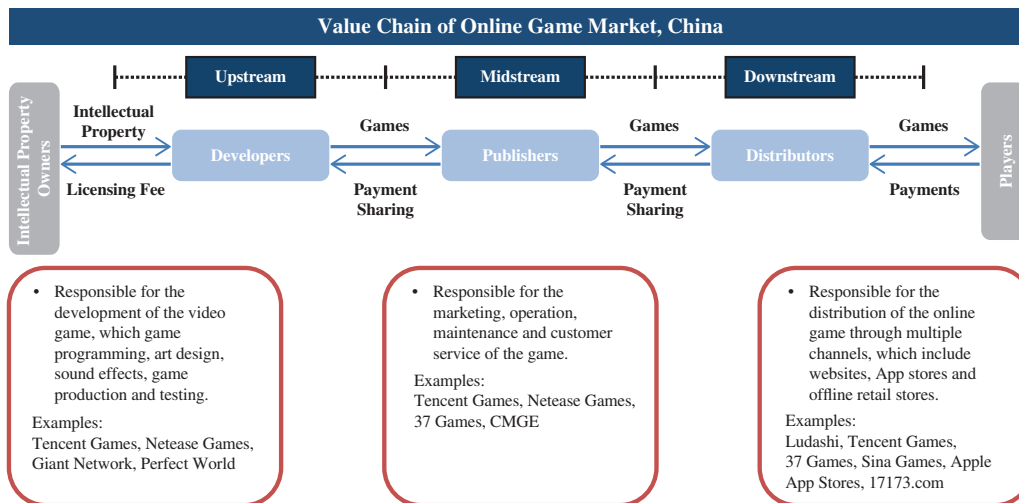
Online games can be categorized into three types, namely PC client game, PC web game, and mobile games. PC client games require the installation of client software on a PC to play a game, while with PC web games, games can be played directly on PC websites. With mobile game, game can be played on mobile devices. The development cycle varies among these three types of games. PC client games typically take the longest time to develop and test due to the programming complexity of the games, while PC web game normally require the shortest time input, allowing lower development spending expenditures.

## INDUSTRY OVERVIEW

The business model of online game can be categorized into three types – free-to-play and freemium, pay-to-play, and advertising. As the traditional method of monetizing online game, a pay-to-play game either adopts time-based pricing or charges a one-time fee when the game is downloaded. This model has been used in PC client game and mobile game. The most common monetizing method of online game is free-to-play and freemium, which allows players to have access to the game for free but charging them for new features, improved extensions or virtual goods that help advancement in the game play. The game company attracts players with free games first, and then monetizes its product through charging users for premium features. Advertising, which includes in-game, around-game and web advertising, is another source of revenue for game companies.

As the upstream player of the online game market, game developers are responsible for the programming, art design, sound effects, production and testing of online games. After the production and testing processes are completed, the game will be published and operated by publishers. End users can gain access to online games through downstream distributors like App stores and online game websites. For PC web game, game players are charged directly by online game distributors, and the distributors share the payments with the online game publishers and developers, usually at a 70/30 split (around 70% for distributors and around 30% for game publishers and developers). If the online game makes use of licensed intellectual property, developers would need to pay the intellectual property owner a licensing fee.

The following flowchart illustrates the common business model of online game businesses:



Source: Frost & Sullivan

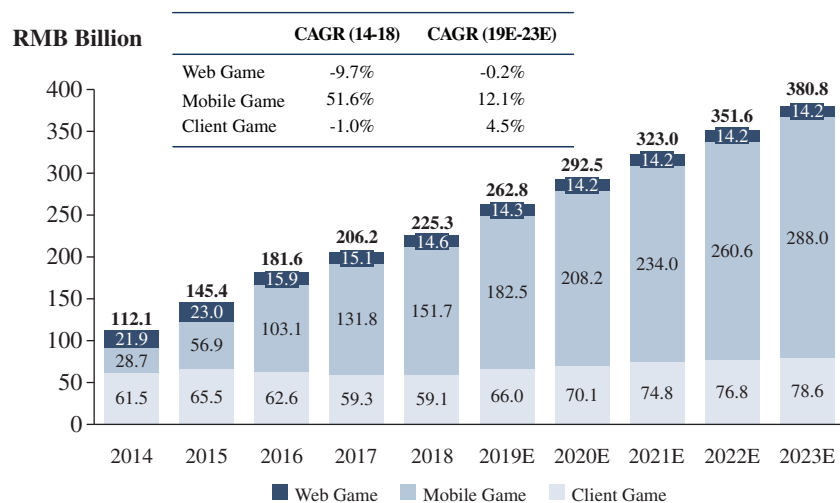
## INDUSTRY OVERVIEW

### Market Size

China saw a rapid growth of the online game market since 2014, and the market size grew from RMB112.1 billion in 2014 to RMB225.3 billion in 2018 with a CAGR of 19.1%. Client game had been the largest component of the market before 2016, while mobile game experienced a boom and surpassed client game for the first time in 2016 in terms of revenue. Web game also experienced a rapid growth before 2015 driven by the increasing number of paying users and the increase in average payment per user. However, the web game market declined in 2015 and 2018 as some existing customers switched to mobile game and the user base of web game decreased.

According to Frost & Sullivan, the general online game market is expected to keep growing and reach RMB380.8 billion in 2023, and the market share of mobile game is expected to continue expanding in China from 2019 to 2023. The forecast of online game market is based on that (1) the internet users base of China is expected to continue growing with a CAGR of 4.7% from 2019 to 2023; (2) the number of online game users is expected to grow with increasing internet users and diversification of online games; and (3) the number of paid online game users and their average spending will keep growing.

### *Market Size of Online Game Market (by Revenue), China, 2014-2023E*



Source: Frost & Sullivan

The web game market shrunk with a negative CAGR of 9.7% from 2014 to 2018 and is expected to shrink with a negative CAGR of 0.2% from 2019 to 2023. The mobile game market increased with a CAGR of 51.6% from 2014 to 2018 and is expected to continue growing with a CAGR of 12.1% from 2019 to 2023. The client game market slightly decreased with a negative CAGR of 1.0% from 2014 to 2018 and is expected to increase with a CAGR of 4.5% from 2019 to 2023. The trend of users' shifting from web game to mobile game is expected to continue in the following years. Some successful web games are adapted to mobile games to

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## INDUSTRY OVERVIEW

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attract users. However, the average payment on web games by each player is expected to continue growing due to the increasing disposable income of those players. Some web games based on established intellectual property have achieved great success in attracting players, which encourages more web game developers to develop web games according to popular intellectual property. Also, to meet players' growing demands, web game developers and operators are improving the game quality and making efforts on operation and promotion to extend the lifetime of an individual web game.

### *Market Drivers*

Main drivers of the development and growth of the online game market in China include:

- *Further development of Internet infrastructures:* Online game is dependent on the development of fiber optic and mobile Internet network, which are components of the Internet infrastructure for online games. In line with the continuous growth of penetration rate of fiber optic and 4G networks and the commencement of large-scale deployment of 5G networks in 2020, the availability and coverage of high-speed and stable internet are expected to keep growing, providing well-developed Internet infrastructure for online game. Therefore, developers can design and develop more complex games that have higher requirements on Internet speed, and end users can have improved online game experiences.
- *Increasing number of paying users and higher ARPU:* The disposable income per capita and entertainment expenditures of Chinese consumers are growing rapidly, and the demand side growth is expected to drive the development of the online game market in China. Although the total number of online gamers is expected to remain relatively stable, the increasing number of paying users and higher ARPU will increase the revenue for online game companies.
- *Broader range of content resources for online games:* Driven by the rapid development of the film and literature markets in China, popular film and literature intellectual property has been widely used in the creation and development of online games like The Legend of Sword and Fairy (仙劍奇俠傳) and Hua Qian Gu (花千骨). Successful film and literature intellectual property provides online game developers with extensive game content resources and can help attract film audiences and literature readers to play the online games, which will contribute to the growth of the online game market in China.

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## INDUSTRY OVERVIEW

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### *Competitive Landscape*

The online game market is concentrated. Top two players, Tencent Games and Netease Games, who are integrated online game companies covering development, publishing and distribution business, accounted for over 60% of the market share in terms of revenue in 2018. The web game market is relatively fragmented and major players in the web game market include Tencent, 37 Interactive Entertainment, Tanwan, KingNet and 360. Top five players accounted for nearly 60% of the market in terms of revenue in 2018. Ludashi accounted for a market share of 0.02% and 0.3% of online game market and web game market, respectively, in terms of revenue from online game in 2018.

### *Market Share of Web Gaming Companies (by Revenue), China, 2018*

Rank	Company Name	Revenue (Billion RMB)	Market Share
1	Tencent (騰訊)	4.2	28.7%
2	37 Interactive Entertainment (三七互娛)	2.1	14.4%
3	Tanwan (貪玩信息)	0.8	5.2%
4	KingNet (愷英網絡)	0.6	4.2%
5	360 (三六零)	0.6	4.0%
	Others	6.3	43.4%
	<b>Total Market Size</b>	<b>14.6</b>	<b>100.0%</b>

Source: Frost & Sullivan

## PRE-OWNED MOBILE PHONES TRADING MARKET IN CHINA

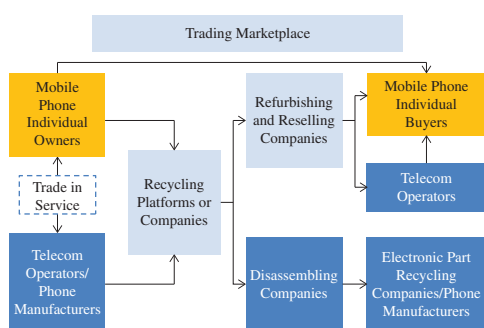
### *Overview*

Due to various reasons, such as massive number of mobile phone users and continuous innovation in mobile phone market, people in China started considering purchasing pre-owned mobile phones in recent years. Pre-owned mobile phone buyers share a few characteristics: most of them are male, influenced by the rapid growth of online channels and prefer mobiles phones in the medium or low-price range. iPhone is the most popular brand in pre-owned mobile phones trading market in China. However, consumers are concerned about the quality, price, after-sale services and source of pre-owned mobiles phones. The pre-owned mobile phones trading market in China is still in change and needs to be improved.

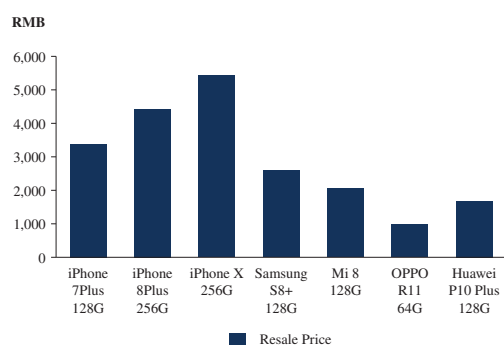
## INDUSTRY OVERVIEW

When recycling pre-owned mobile phones, phone recycling companies conduct a comprehensive examination and evaluation of the devices covering the model, casing, storage, screen and warranty and, based on their evaluation results, make offers to original owners. The pre-owned mobile phone sellers provide buyers with a selection of different models of pre-owned mobile phones at prices influenced by different factors including the quality of the devices, the supply and demand for the devices and additional services offered. Average selling prices and demand for a particular smartphone model typically decline during its life cycle. For pre-owned and factory mobile phones, newly-launched models of the same series tend to be priced higher than older models, as newer generation of mobile phones generally tend to offer high quality, better performance and more features. The following chart illustrates the business model and average resale price for pre-owned mobile phones trading businesses:

**Industry Value Chain of Pre-owned Mobile Phone Recycling, China**



**Average Resale Price of Pre-owned Mobile Phones, China, 2018**



Source: Frost & Sullivan

### Market Size

The pre-owned mobile phones trading market in China is still developing. The sales volume of pre-owned mobile phones in China increased from 8.4 million in 2014 to 36.2 million in 2018, representing a CAGR of 44.0%. It is expected that the sales volume will further increase to 108.4 million in 2023, representing a CAGR of 22.3%. The revenue of pre-owned mobile phones in China increased from RMB22.4 billion in 2014 to RMB103.1 billion in 2018, representing a CAGR of 46.5%. It is expected that the revenue of pre-owned mobile phones will further increase to RMB358.1 billion in 2023, representing a CAGR of 26.0%. The forecast of pre-owned mobile phone market is based on that (1) the total number of mobile phones is expected to keep increasing from 2019 to 2023; (2) the pre-owned mobile phone trading market is increasingly normalized in China with improvement of detecting techniques and regulations of the market; and (3) the proportion of consumers who are willing to choose pre-owned mobile phone instead of new mobile phone will keep increasing, primarily because (i) the choice of pre-owned mobile phone is expected to be diversified; (ii) pre-owned mobile phone has a strong price advantage as compared with new mobile phone; and (iii) pre-owned mobile phone becomes widely acceptable by young-generation buyers. The major target customers of pre-owned mobile phones usually have relatively high consumption ability



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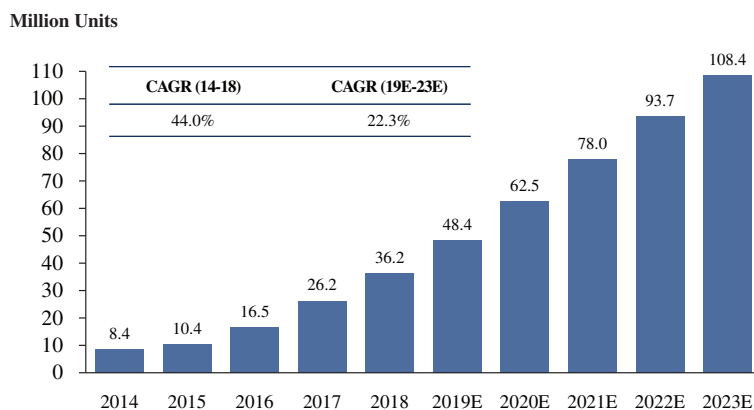
## INDUSTRY OVERVIEW

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with more than RMB8,000 monthly salary. The target customers of pre-owned mobile phones are mainly aged from 20 to 35 and willing to embrace new concept and lifestyle. They usually upgrade their mobile phones frequently and are price sensitive.

The following chart illustrates the sales volume of pre-owned mobile phones for the period mentioned:

*Sales Volume of Pre-owned Mobile Phones, China, 2014-2023E*



*Note:* The sales volume refers to the number of pre-owned mobile phones sold to the end users.

*Source:* Frost & Sullivan

### **Market Drivers**

Main drivers of the development and growth of the pre-owned mobile phones trading market in China include:

- *Massive number of mobile phone users:* According to the MIIT, by the end of 2018, there were more than 1.5 billion mobile phone users in China, creating a huge annual replacement demand for mobile phones. The massive replacement demand indicates that there is a great potential market for pre-owned mobile phones.
- *Price advantage of pre-owned mobile phones:* The price of new mobile phones is primarily affected by their brand, performance, features and design. Compared with new mobile phones, pre-owned mobile phones have a price advantage for the similar level of brand, performance, features and design. Although the new mobile phones have a wide price range and, sometimes, the price of new mobile phones of certain models or brands is lower than the price of pre-owned mobile phones of certain popular brands with similar performance, features and design, many consumers also prefer to purchase pre-owned mobile phones of certain popular brands, such as iPhone and Huawei. In particular, the performance, features and design of the pre-owned mobile phone of the latest models under certain popular brands are much

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## INDUSTRY OVERVIEW

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better than those of the new models under other brands with similar market price. The pre-owned mobile phones provide an attractive and economical option for consumers who would like to experience new models but are unwilling to pay the original price.

- *Fierce competition among mobile phone manufacturers:* The competition among mobile phone manufacturers is increasingly fierce in China. The product qualities of different brands are reaching similarly high levels, the product cycle of mobile phones becomes shorter and different brands continue to introduce unique features or design to attract consumers. For consumers who want to use high-end devices or try other brands to sample different features, pre-owned mobile phones are an economical option.
- *Advances in examination and evaluation technologies:* Reliable examinations and evaluations of pre-owned mobile phones are crucial for all parties in the market to reach a consensus on the quality and value of pre-owned mobile phones. With more and more companies entering the pre-owned mobile phones trading market, including recycling companies, wholesalers and retailers, examination and evaluation technologies for pre-owned and factory smartphones have significantly improved, encouraging transactions of pre-owned mobile phones.
- *Increased environmental awareness of consumers:* Driven by economic growth and the government's promotion of environmental protection, consumers' environmental awareness has increased. Under this trend, more and more consumers sell their idle pre-owned mobile phones to phone recycling companies and are willing to buy pre-owned mobile phones.

### *Competitive Landscape*

We believe that the following strengths help us compete against other sellers of pre-owned mobile devices:

- *Large user base:* For the year ended 31 December 2018 and the four months ended 30 April 2019, we had around 63.2 million and 69.0 million average MAUs for our PC and mobile devices versions of Ludashi Software, respectively, and the benchmarking and monitoring results generated for those users have an impact on a larger population. We have built a strong brand image of expertise and authoritativeness in the hardware and system benchmarking and monitoring market among a large user base during the long history of our software products. As potential buyers of pre-owned mobile phones are concerned about ineffective quality assessments and non-transparent pricing schemes, we can attract buyers by leveraging on our strong brand recognition and guaranteeing the quality of pre-owned mobile phones with warranties.

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## INDUSTRY OVERVIEW

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- *Strong testing technology:* We have been continuously upgrading our testing technology and had rich experience in detecting potential faults and verifying the authenticity of smartphones and components. We have established testing facilities to conduct thorough examinations of pre-owned mobile phones to ensure the quality of our products.
- *Flexible sales channels:* We are devoted to expanding the *Ludashi* brand to cover pre-owned mobile phones, which distinguishes us from other Internet players who are building transaction marketplaces or sales channels in the pre-owned mobile phone market. This differentiation enables our products to be sold on both self-operated and third-party platforms through physical or online channels.

In terms of sales volume, Platform A, Platform B and Platform C are the top 3 pre-owned phone trading platforms. Most of pre-owned phones are traded through offline channels and the offline market is very fragmented.

***Market Share of Online Pre-owned Phone Trading Platform  
(by Sales Volume), China, 2018***

Rank	Name	Sales Volume (million)	Market Share
1	Platform A	4.5	12.5%
2	Platform B	2.6	7.3%
3	Platform C	1.5	4.0%
	Others	27.6	76.2%
	<b>Total</b>	<b>36.2</b>	<b>100.0%</b>

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Source: Frost & Sullivan

### SMARTPHONE ACCESSORIES MARKET IN CHINA

#### *Overview*

Smartphone accessories include any hardware that is not integral to the operation of a smartphone as designed by the manufacturer. The smartphone accessories can provide various functions including protection, decoration, power supply, data transmission, storage expansion and supporting. Generally, the smart phone accessories can be divided into major categories of cases, power supply, external enhancement and phone charms.

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## INDUSTRY OVERVIEW

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### *Market Drivers*

Main drivers of the development and growth of the smartphone accessories market in China include:

- *Increasing proliferation of wireless solutions:* As customers' preference for comfort and simplicity is drawing demand for wireless solution and the leading smartphone manufacturers are always pursuing innovation, a number of wireless smartphone accessories, such as wireless earphones, wireless chargers and wireless speakers, has been launched the market in the recent years. Wireless solutions allow consumers to connect smartphones and accessories without cables, reducing the trouble and potential safety threat brought by wires. Considering the superiorities of wireless devices, key market players are going to contribute more to the wireless accessories market, which will make wireless solutions become more ubiquitous in the future.
- *Rising popularity of electronic devices:* With the high penetration of smartphones in China, there is a rising desire from consumers to optimize smartphones usage and enhance user experience, which could be satisfied by smart accessories. Manufacturers, who aim to grab the future market share of mobile accessories, endeavor to make innovations through adopting the intelligent technologies such as artificial intelligence solution, voice recognition technology, health monitoring function, remote sensing system and other advanced technologies into traditional accessories, bringing great convenience and new upgrade experience for customers. Furthermore, with the increasing disposable income per capita, smart accessories, as relatively expensive products, are becoming more affordable for customers. Therefore, more and more smart accessories are expected to be innovated and enjoy a promising future in the coming years.
- *Intensive market competition:* After years of development, smartphone market is now coming into a mature stage in China, leaving the market opportunities for smartphone accessories. Considering the large customer base of smartphones, more market players are making increasing investment in smartphone accessories market. With relatively low entry barriers, many existing players in related fields such as digital product and Apps are also coming to get a pie of this flourishing market of smartphone accessories, increasing market competition in the future.

### *Market Size*

Driven by the rapid development of China's smartphone market in the past few years, the market size of China's smartphone accessories market increased from RMB221.2 billion in 2014 to RMB362.7 billion in 2018 with a CAGR of 13.2%. In the future, the smartphone market in China is expected to grow stably and the variety and quality of smartphone accessories will keep improving. As a result, the market size of smartphone accessories is expected to reach RMB676.7 billion in 2023, indicating a CAGR of 17.0% from 2019 to 2023. The forecast of the market size measured by sales volume is based on that (1) the shipment of

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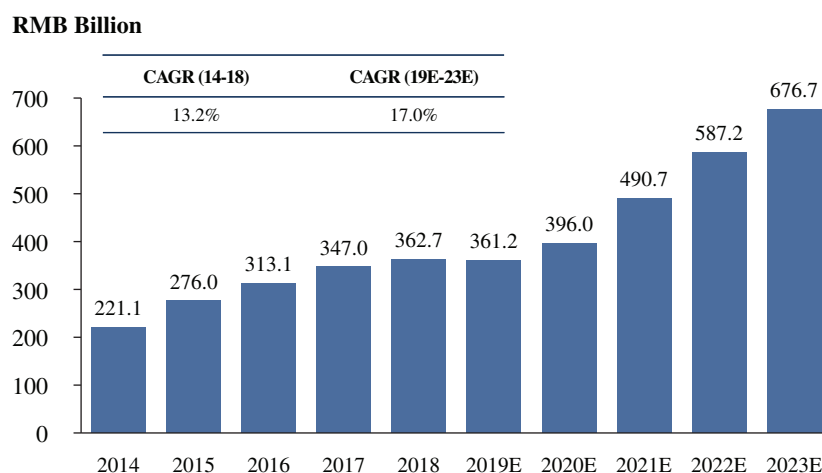
## INDUSTRY OVERVIEW

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Smart phones will keep increasing at a CAGR of 7.9% during the period from 2019 to 2023, driving the development of smart phone accessories market in China; (2) the number of users who are using different accessories to enhance or personalize their smart phones, like customized cases, power banks and smartphone holder, will continue to increase; and (3) the consumers are willing to accept increase in price for better quality with higher income level.

The following chart illustrates the sales volume of smartphone accessories for the period mentioned:

*Market Size of Smartphone Accessories Market (by Sales Volume), China, 2014-2023E*



Source: Frost & Sullivan

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## REGULATORY OVERVIEW

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### REGULATIONS RELATING TO FOREIGN INVESTMENT

Investment activities in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Catalog. The Catalog, as amended, became effective on 28 July 2017 and contains specific provisions guiding market access of foreign capital. Under the Catalog, foreign-invested industries are divided into several categories, namely (i) the encouraged foreign-invested industries, and (ii) the restricted and prohibited foreign-invested industries which are subject to the special administrative measures for access of foreign investment (the “**Negative List**”). On 28 July 2018, the Negative List was replaced by the Special Administrative Measures on Access of Foreign Investment (Negative List) (2018 Edition) (外商投資准入特別管理措施(負面清單) (2018年版)). On 30 July 2019, the Special Administrative Measures on Access of Foreign Investment (Negative List) (2018 Edition) was further replaced by the Special Administrative Measures. The Special Administrative Measures contains a list of fields that foreign investment is restricted or forbidden, including Internet information services, online publishing services, Internet cultural business (except music). For example, some restricted industries are limited to Sino-foreign equity/cooperative joint ventures, and in some cases, Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to higher-level government approvals. Furthermore, foreign investors are not allowed to invest in companies in industries in the prohibited category. Any industry not listed in the Catalog and Special Administrative Measures is a permitted industry, and is generally open to foreign investment unless specifically prohibited or restricted by the PRC laws and regulations.

According to the Catalog and the Special Administrative Measures, our online game business, which falls under value-added telecommunications services (except for e-commerce) and the Internet cultural business, is subject to the Special Administrative Measures and thus within a restricted and prohibited industry for foreign investment.

#### *Restrictions on Foreign-owned Enterprises*

The establishment, operation and management of corporate entities in China are governed by the PRC Company Law (《中華人民共和國公司法》), which was promulgated by the SCNPC on 29 December 1993 and amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018, respectively, and became effective on 26 October 2018. Under the Company Law, companies are generally classified into two categories, i.e. limited liability companies and companies limited by shares. The PRC Company Law also applies to foreign-invested limited liability companies. According to the PRC Company Law, any stipulations by other PRC laws governing foreign investment shall prevail over the PRC Company Law.

Pursuant to the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated by the SCNPC on 12 April 1986, first amended and became effective on 31 October 2000, and last amended on 3 September 2016 and became effective on 1 October 2016, where the establishment of wholly foreign-owned enterprises does not involve the implementation of special access administrative measures prescribed by the state, the establishment, breakup, merger, or any other major change and the operation period of such enterprises are subject to record-filing administration.

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## REGULATORY OVERVIEW

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Implementing Rules for the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》) (the “**Implementing Rules on Wholly Foreign-owned Enterprises**”) was promulgated by the State Council on 12 December 1990, then was amended on 12 April 2001 and 19 February 2014, and became effective on 1 March 2014. According to the Implementing Rules on Wholly Foreign-owned Enterprises, industries in which the establishment of wholly foreign-owned enterprises (the “**WFOEs**”) is prohibited or restricted shall be regulated in accordance with the provisions of the State about foreign investment orientation and the Catalog. Pursuant to the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》), which was promulgated by MOFCOM on 8 October 2016 and newly amended on 29 June 2018 and became effective on 30 June 2018, establishment and modifications of foreign-invested enterprises not subject to the approval under the special entry management measures shall be filed with the delegated commercial authorities.

On 23 December 2018, the 7th meeting of the 13th SCNPC reviewed the 2018 draft foreign investment law first submitted by the State Council, which was promulgated by the NPC on its official website on 26 December 2018 for public consultation until 24 February 2019, and further submitted the second draft of the 2018 draft foreign investment law to the NPC for deliberation on 29 January 2019. On 15 March 2019, the NPC adopted the PRC foreign investment law\* (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the Law on Chinese-Foreign Equity Joint Ventures\* (《中外合資經營企業法》), the Law on Chinese-Foreign Contractual Joint Ventures\* (《中外合作經營企業法》) and the Law on Wholly Foreign-Owned Enterprises\* (《外資企業法》) to become the legal foundation for foreign investment in the PRC.

### REGULATIONS RELATING TO SOFTWARE SERVICES

#### *Restrictions on Software Products*

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



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## REGULATORY OVERVIEW

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### *Restrictions on Software Enterprises*

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

## REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

### *Restrictions on Foreign Investment*

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), promulgated by the State Council on 25 September 2000 and last amended on 6 February 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (《電信業務分類目錄》), attached to the Telecommunications Regulations and last amended by the MIIT on 6 June 2019, information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

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



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requirements must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for the commencement of that investor of value-added telecommunication business in China.

On 13 July 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “**MIIT Notice**”), pursuant to which, domestic telecommunications enterprises were prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Notice, the Internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

### *Regulations on the Provision of Internet Content Services*

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Information Measures**”), which was promulgated by the State Council on 25 September 2000 and amended on 8 January 2011, set out guidelines on the provision of Internet information services. The Internet Information Measures categorized Internet information services into two groups, commercial Internet information services and non-commercial Internet information services, and a commercial operator of Internet content provision services must obtain an ICP License for the provision of Internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing (《電信業務經營許可管理辦法》), which was promulgated by the MIIT on 3 July 2017 and became effective on 1 September 2017, provides that a commercial operator of value-added telecommunications services must first obtain an ICP License, from the MIIT or its provincial level counterparts. According to the Administrative Measures for Telecommunications Businesses Operating Licensing, a telecom service operator that has obtained a permit for telecom service operation shall, within the first quarter of the year following the report year, participate in annual inspection, and the MIIT or its provincial level counterparts shall examine thoroughly.

According to the Internet Information Measures, violators may be subject to penalties, including criminal sanctions, for providing Internet content that: contravene the fundamental principles stated in the PRC Constitution, compromises national security, divulges national secrets, subverts national power or damages national unity, harms national dignity or interest, incites ethnic hatred or racial discrimination or damages inter-ethnic unity, undermines the PRC’s religious policy or propagates superstition, disseminates rumors, disturbs social order or disrupts social stability, disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime, insults or slanders a third party or infringes upon the lawful rights and interests of a third party, or is otherwise prohibited by law or administrative regulations. An Internet information service provider may not post or disseminate any content that falls within prohibited categories and must stop providing any

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such content on their websites. The PRC Government may order ICP License holders that violate any of the above-mentioned content restrictions to correct those violations and revoke their ICP Licenses under serious conditions.

Internet information service providers are required to monitor their websites. They may not post or disseminate any content that falls within prohibited categories provided by laws or administrative regulations and must stop providing any such content on their websites. The PRC Government may order ICP License holders that violate the content restrictions to correct those violations and revoke their ICP Licenses under serious conditions.

### *Regulations on Mobile Internet Application Information Services*

In addition to the Telecommunications Regulations and other regulations above, the Apps are specially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the “**App Provisions**”), which were promulgated by the CAC on 28 June 2016 and became effective on 1 August 2016. The App Provisions regulate the App information service providers and the App Store service providers and the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local App information, respectively.

The App information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations as follows: (i) shall authenticate the identity information of the registered users including their mobile telephone number and other identity information under the principle that mandatory real name registration at the back-office end, and voluntary real name display at the front-office end; (ii) shall establish and perfect the mechanism for the protection of users’ information, and follow the principle of legality, rightfulness and necessity, indicate expressly the purpose, method and scope of collection and use and obtain the consent of users while collecting and using users’ personal information; (iii) shall establish and perfect the mechanism for the examination and management of information content, and in terms of any information content released that violates laws or regulations, take such measures as warning, restricting the functions, suspending the update and closing the accounts as the case may be, keep relevant records and report the same to relevant competent authorities; (iv) shall safeguard users’ right to know and to make choices when users are installing or using such applications, and shall neither start such functions as collecting the information of users’ positions, accessing users’ contacts, turning on the camera and recording the sound, or any other function irrelevant to the services, nor forcefully install any other irrelevant applications without prior consent of users when noticed expressly; (v) shall respect and protect the intellectual properties and shall neither produce nor release any application that infringes others’ intellectual properties; and (vi) shall record the users’ log information and keep the same for 60 days.

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### REGULATIONS RELATING TO ONLINE GAMES

#### *Regulations on Online Game Operation*

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

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

The Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”), issued by the MOC on 3 June 2010 and effective on 1 August 2010, and amended on 15 December 2017, regulated a broad range of activities related to the online game business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. According to the Online Game Measures, an applicant to engage in business activities involving online games, such as the operation of online games, the issuance of virtual currencies for online games, and the trading services in respect of virtual currencies for online games, shall obtain an Online Culture Business Permit (網絡文化經營許可證). The Notice of the MOC on the Implementation of the Interim Measure for the Administration of Online Games (《文化部關於貫徹實施〈網絡遊戲管理暫行辦法〉的通知》) issued by the MOC and which took effect on 29 July 2010 specifies entities regulated by the Online Game Measures and procedures related to the review of the MOC of the content of online games, emphasizes the importance of protecting minors playing online games and requests online game operators to promote real-name registration by their players.

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

### *Regulations on Anti-fatigue Compliance System and Real-name Registration*

On 15 April 2007, in order to curb addictive online game-playing by minors, eight PRC governmental authorities, including the GAPP, the Ministry of Education, the Ministry of Public Security and the MII, jointly issued the Notice on Protecting Minors Mental and Physical health and Implementation of Online Game Anti-fatigue System (《關於保護未成人身心健康實施網絡遊戲防沉迷系統的通知》) requiring the implementation of an anti-fatigue compliance system and a real-name registration system by all PRC online game operators.

### *Regulations on Online Game Virtual Currency*

On 4 June 2009, the MOC and the MOFCOM jointly issued the Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Virtual Currency Notice**”). The Virtual Currency Notice requires businesses that (i) issue online game virtual currency (in the form of prepaid cards and/or pre-payment or prepaid card points), or (ii) offer online game virtual currency transaction services to apply for approval from the MOC through its provincial branches within three months after the issuance of the notice. The Virtual Currency Notice prohibits businesses that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any business that fails to submit the requisite application will be subject to sanctions, including, without limitation, mandatory corrective measures and fines.

### *Regulation on Internet Publication*

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

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## REGULATORY OVERVIEW

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

On 24 May 2016, SAPPRFT issued the Circular on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》) (the “**Mobile Game Circular**”), effective as of 1 July 2016. According to the Mobile Game Circular, Mobile Game Publishing Services refer to the activities of publishing and operating mobile games that are available for the public to download and play online through the information network. Game publishing service entities shall be responsible for examining the contents of their games, applying for publication and applying for the game publication number. Mobile games joint operation entities, while operating mobile games with joint efforts, must verify whether such games have gone through all relevant approval formalities and whether relevant information has been displayed clearly, and shall not jointly operate any mobile game that has not been approved, or whose relevant information has not been clearly displayed. Concerning those mobile games (including pre-installed mobile games) that have been published and operated online before the implementation of the Mobile Game Circular, other requirements apply to maintain the publication and operation of such game online, and relevant approval procedures would have to be implemented by the game publishing service entities and enterprises in coordination with the provincial publication administrative departments before 1 October 2016 as required by the Mobile Game Circular. Otherwise, these mobile games shall cease to be published or operated online. Given the considerable amount of games that fail to obtain the pre-approval before launching in the industry as a whole, the Note on Extending the Time Limit under the Notice on the Administration over Mobile Game Publishing Services (《關於順延<關於移動遊戲出版服務管理的通知>有關工作時限的通知》) promulgated by the SAPPRFT on 19 September 2016 further extended the above time limit for application of pre-approval to 31 December 2016.

As of the Latest Practicable Date, in respect of the licensed games operated by us within the PRC, instead of our PRC Operating Entities, the relevant game licensor or its affiliates or other entities have completed the online publishing formalities through the qualified publishing agency. Therefore, it is not necessary for our PRC Operating Entities to obtain the online publishing service license.

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### REGULATIONS RELATING TO INTERNET ADVERTISING

On 26 October 2018, the SCNPC released the Advertising Law of the PRC (Revised in 2018) (《中華人民共和國廣告法》(2018修訂) (the “**Advertising Law**”), which was promulgated on 27 October 1994 and became effective on 1 February 1995 and amended on 1 September 2015, 26 October 2018. The Advertising Law provides that the Internet information service providers shall not publish medical, drugs, medical machinery or health food advertisements in disguised form of introduction of healthcare and wellness knowledge.

On 4 July 2016, the SAIC promulgated the Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) (the “**Internet Advertisement Measures**”) which became effective on 1 September 2016 and the Internet Advertisement Measures regulates any advertisement published on the Internet, including but not limited to through the website, webpage and App, in the form of word, picture, audio and video and provides more detailed guidelines for the advertisers, advertising operators and advertising distributors.

### REGULATIONS RELATING TO INFORMATION SECURITY AND CENSORSHIP

Internet content in China is regulated and restricted from a state security standpoint. The SCNPC enacted the Decisions on the Maintenance of Internet Security (《維護互聯網安全的決定》) on 28 December 2000, which was amended on 27 August 2009, that may subject persons to criminal liabilities in China for any attempt to gain improper entry to a computer or system of strategic importance and so on. In 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which were amended by the State Council on 8 January 2011 and prohibit using the Internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard.

On 7 November 2016, the SCNPC promulgated the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), which became effective on 1 June 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures to safeguard the safe and stable operation of the networks. Where the purchase of network products and services affects national security, it shall be subject to national cybersecurity review. On 2 May 2017, the CAC issued a trial version of the Measures for the Security Review of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法(試行)》), which took effect on 1 June 2017, to provide for more detailed rules regarding cybersecurity review requirements.



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### REGULATIONS RELATING TO PRIVACY PROTECTION

On 13 December 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), which took effect on 1 March 2006. These regulations require Internet service providers to take proper measures including anti-virus, data back-up and other related measures, and to keep records of certain information about their users for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records.

On 28 December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the Internet. On 16 July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection, use, disclosure and security of users' personal information in the provision of telecommunication services and Internet information services in China. Specifically, i) the users' personal information shall not be collected without prior consent; ii) the personal information shall not be used for any other purpose other than providing service; iii) the personal information shall be kept strictly confidential; and iv) a series of detail measures shall be taken to prevent any divulge, damage, tamper or loss of personal information of users.

On 29 December 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market (《規範互聯網信息服務市場秩序若干規定》), which became effective on 15 March 2012. The Provisions stipulate that without the consent of users, Internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information (hereinafter referred to as "personal information of users"), nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations.

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

### REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### *The Copyright Law*

The Copyright Law of the PRC (《中華人民共和國著作權法》), adopted on 7 September 1990 and revised, respectively, on 27 October 2001 and 26 February 2010, protects copyright and explicitly covers computer software copyright. On 20 December 2001, the State Council promulgated the new Regulations on Computer Software Protection (《計算機軟件保護條例》), adopted on 1 January 2002 and revised on 8 January 2011 and 30 January 2013, which are intended to protect the rights and interests of the computer software copyright holders and encourage the development of software industry and information economy. In the PRC, software developed by PRC citizens, legal person or other organizations is automatically protected immediately after its development, whether published or not. Software copyright may be registered with the designated registration authorities and if registered, the certificate of registration issued by the software registration authorities will be the preliminary evidence of the ownership of the copyright and other registered matters. On 20 February 2002, the National Copyright Administration, promulgated the Measures on Computer Software Copyright Registration (《計算機軟件著作權登記辦法》), which outline the operational procedures for registration of software copyright, as well as registration of software copyright license and transfer agreements. The Copyright Protection Center of China is mandated as the software registration agency under the regulations.

#### *The Trademark Law*

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

The Trademark Office under the SAIC, handles trademark registrations and grants a term of ten years to registered trademarks. As with trademarks, the Trademark Law of the PRC has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.



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### *Domain Names*

The MIIT promulgated the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) on 24 August 2017, which became effective on 1 November 2017. According to these measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to domain name registration service institutions.

### *The Patent Law*

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法》(2008年修訂)), which was promulgated by the SCNPC on 27 December 2008 and effective from 1 October 2009, and Implementation Rules of the Patent Law of the PRC (Revised in 2010) (《中華人民共和國專利法實施細則》(2010年修訂)), which was promulgated by the State Council on 9 January 2010 and became effective on 1 February 2010. The Patent Law of the PRC and its implementation rules provide for three types of patents, “invention,” “utility model,” and “design.” Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

## REGULATIONS RELATING TO FOREIGN EXCHANGE

### *General Administration of Foreign Exchange*

Under the Foreign Currency Administration Rules of the PRC (Revised in 2008) (《中華人民共和國外匯管理條例》(2008年修訂)), promulgated on 29 January 1996 and last amended on 5 August 2008, and various regulations issued by the SAFE and other relevant PRC governmental authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC territory for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its regional office. Payments for transactions that take place within the PRC territory must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its regional office. Foreign exchange proceeds under the current accounts may be either retained or sold to

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a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant laws and regulations of the PRC.

### *Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents*

The Circular 37 requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

The Circular 37 was issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) issued by SAFE on 21 October 2005. SAFE further enacted the Circular 13, which allows PRC residents or entities to register with qualified banks with respect to their establishment or control of an offshore entity established for the purpose of overseas investment or financing. However, remedial registration applications made by PRC residents that previously failed to comply with the Circular 37 continue to fall under the jurisdiction of the relevant local branch of SAFE. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of foreign exchange controls.

### *Regulations on Stock Incentive Plan*

On 15 February 2012, SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) replacing the previous rules issued by SAFE in March 2007. Under the notice and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on

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behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the Circular 37 provides that PRC residents who participate in a share incentive plan of an overseas unlisted special purpose company may register with SAFE or its local branches before exercising rights.

### REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the PRC Company Law, the Wholly Foreign-owned Enterprise Law of the PRC, the Equity Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》) promulgated in 1979 and last amended in 2016 and its implementation regulations promulgated in 1983 and last amended in 2019, and the Cooperative Joint Venture Law of the PRC (《中華人民共和國中外合作經營企業法》) promulgated in 1988 and last amended in 2017 and its implementation regulations promulgated in 1995 and last amended in 2017. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

### REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WARFARE

#### *The Labor Contract Law*

Pursuant to the Labor Contract Law (《中華人民共和國勞動合同法》), issued on 29 June 2007, amended on 28 December 2012 and newly effective on 1 July 2013, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner.

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According to the Labor Law (《中華人民共和國勞動法》) promulgated on 5 July 1994 and amended on 27 August 2009 and 29 December 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

### *Social Insurance and Housing Fund*

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on 1 January 2004 and amended on 20 December 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on 14 December 1998, The Unemployment Insurance Measures (《失業保險條例》) promulgated on 22 January 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on 1 July 2011 and amended on 29 December 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State Council in 1999 and amended in 2002 and 2019, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

## REGULATIONS RELATING TO TAX

### *Enterprise Income Tax*

According to the EIT Law and relevant implementation regulations, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have

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no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the SAT on 22 April 2009 and amended on 29 January 2014 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**Notice No. 81**”) issued on 20 February 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

According to the EIT Law and relevant implementation regulations, the EIT tax rate of a High and New Technology Enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), effected on 1 January 2008 and amended on 29 January 2016.

The Notice on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》), which was promulgated by the MOF and the SAT and effected on 1 January 2011 and the Notice on Issues Relating to the Preferential Policies for Enterprise Income Tax in Software and Integrated Circuits Industry (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) promulgated by the MOF, the SAT, the NDRC and the MIIT on 4 May 2016, provide that, upon certification, newly established integrated circuit design enterprises and eligible software enterprises shall be exempt from the enterprise income tax for



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## REGULATORY OVERVIEW

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the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before 31 December 2017.

### *Value-added Tax and Business Tax*

The Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994 which were subsequently amended on 10 November 2008 and came into effect on 1 January 2009 and subsequently amended on 6 February 2016 and newly amended and became effective on 19 November 2017. The Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the PRC (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則》(2011年修訂)) were promulgated by the MOF on 15 December 2008 which were subsequently amended on 28 October 2011 and came into effect on 1 November 2011 (collectively, the “**VAT Law**”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%. According to the Notice on Adjusting the Value-added Tax Rates (《關於調整增值稅稅率的通知》), which was promulgated on 4 April 2018 by the MOF and the SAT and became effective on 1 May 2018, the value-added tax rate was reduced to 16%. According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) issued on 20 March 2019 by the Ministry of Finance, SAT and General Administration of Customs and became effective on 1 April 2019, the value-added tax rate was reduced to 13%.

On 1 January 2012, the State Council officially launched a pilot VAT reform program (the “**Pilot Program**”), applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of the business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (the “**Pilot Industries**”) in Shanghai. The research and development and technical services, information technology services included in the Pilot Industries are subject to the VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to ten additional regions, including, among others, Beijing and Guangdong province, and nationwide to the designated pilot industry. According to the Notice Regarding Including the Telecommunications Sector under the Pilot Program of Replacing Business Tax with Value-Added Tax (《關於將電信業納入營業稅改徵增值稅試點的通知》), which was promulgated on 29 April 2014 and became effective on 1 June 2014, the entities and individuals providing telecommunications services within the territory of PRC shall pay VAT instead of business tax. The Trial Implementing Measures of the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》), which was promulgated on 23 March 2016, became effective on 1 May 2016, amended on 11 July 2017, and became effective retroactively as of 1 July 2017, and superseded the Notice Regarding the Including Telecommunications Sector under the Pilot Program of Replacing Business Tax with Value-Added Tax on the same date set out that it collected value-added tax in lieu of business tax in all regions and industries.

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## REGULATORY OVERVIEW

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### *Dividend Withholding Tax*

The EIT Law and relevant implementation regulations provides that since 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors who do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Notice No. 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement of the SAT on Issue concerning “Beneficial Owners” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) promulgated on 3 February 2018 by SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

### **M&A PROVISIONS AND OVERSEAS LISTINGS**

According to the M&A Provisions, foreign investors should comply with the M&A Provisions when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Provisions, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

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## REGULATORY OVERVIEW

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Based on the understanding of our PRC Legal Advisers on the M&A Provisions and other current PRC laws, rules and regulations, prior approval from the CSRC is not required under the M&A Provisions for our Listing because (i) WFOE is a foreign-invested enterprises established by a foreign company, (ii) we did not acquire any equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Provisions, and (iii) there is no provision that clearly classifies the contractual arrangements among our PRC subsidiary, the VIE and its shareholders as a transaction regulated by the M&A Provisions.

New laws, regulations or interpretation and implementing rules might be promulgated in the future so the opinion of our PRC Legal Advisers as summarized above is subject to change accordingly. If the CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies.



### BUSINESS DEVELOPMENT

#### *Overview*

We develop a series of PC and mobile devices utility software and offer them to users free-of-charge in exchange for online traffic that we monetize by online advertising and online game business. Our utility software, Ludashi (魯大師), is a well-known brand and software with a specialty in PC and smartphone hardware and system benchmarking and monitoring.

Our history can be traced back to November 2014 when Chengdu Qilu, our principal operating company, was established in the PRC. PC version of Ludashi Software was developed in 2007 by Ludashi Software's developer, Mr. Lu Jin (魯錦), an Independent Third Party. Ludashi Software was subsequently acquired by Qihu Technology, a wholly-owned subsidiary of 360 Technology, in 2010. Prior to the establishment of Chengdu Qilu, the Ludashi Software business was operated as an independent business division of Qihu Technology. In 2013, the mobile devices version of Ludashi Software was launched. Since early 2014, Mr. Tian started to manage and operate the Ludashi Software business division due to his previous management experience and great contribution to the 360 Group products he operated. Subsequently in November 2014, by way of establishing Chengdu Qilu as a separate entity in order to further develop, manage and operate Ludashi Software independently and to streamline Qihu Technology's product lines, Chengdu Qilu was spun off from Qihu Technology. As its investment in Chengdu Qilu, Qihu Technology transferred the software copyrights, trademarks and all other assets of Ludashi Software to Chengdu Qilu. Upon its establishment on 25 November 2014, Chengdu Qilu was owned by Qihu Technology, Chengdu Qiying and Mr. Tian with Qihu Technology and Chengdu Qiying contributing intellectual property rights and cash and Mr. Tian contributing cash as capital, respectively. Under the leadership of Mr. Tian, starting with online traffic monetization by online advertising, we further expanded and diversified our business to include online game business and subsequently sales of electronic devices.

We have accumulated a large user base pool through providing free download and installation of Ludashi Software, and are the largest PC and smartphone hardware and system benchmarking and monitoring solution provider in China, according to Frost & Sullivan.

#### *Business Milestones*

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

<u>Year</u>	<u>Key Milestones</u>
2007 . . . . .	PC version of Ludashi Software was developed.
2010 . . . . .	Qihu Technology acquired Ludashi Software.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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<u>Year</u>	<u>Key Milestones</u>
2013 . . . . .	The mobile devices version of Ludashi Software was launched.
2014 . . . . .	Chengdu Qilu was established as a limited liability company in the PRC and became the owner of our PC version of Ludashi Software and the operator of the “Ludashi (魯大師)” online platform.
2016 . . . . .	We cooperated with KingNet via directing our online user traffic to its online game platform, <a href="http://www.xy.com">www.xy.com</a> .
2017 . . . . .	We launched Dual Space under Android operating system, which runs a virtual Android system to operate a duplicate of an original application so as to operate different social media accounts on the same device.  We commenced our business of certified pre-owned and factory smartphones sales.
2018 . . . . .	We expanded our online game business by developing smartphone games.  We launched AImark, a smartphone AI chip performance evaluation application, under both iOS and Android operating systems.  The MAUs for our products, comprising that of our utility software of 105.9 million and that of game library of 7.7 million, amounted to approximately 113.6 million in December 2018.  We launched Easy Clean, a powerful cleaner App to clear cache files and free up storage on mobile devices running under Android operating system, abroad in July 2018.

### CORPORATE DEVELOPMENT

The followings set forth the corporate development of each member of our Group since their respective date of incorporation.

#### *Our Company*

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 February 2018. Our Company is principally engaged in investment holding.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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As of the Latest Practicable Date, our Company was held as to 27.6670%, 3.3677%, 1.3405%, 1.6549%, 41.3725%, 23.6414%, 0.7060% and 0.2500% by Dashi Technology Holdings, Hongmeng Investment, BullRock Capital, China Celestial, True Thrive, Songchang International and Lima High Tech and Templar, respectively.

Pursuant to the Company Shareholder Rights Entrustment Agreement, which is more particularly described in “– Entrustment Arrangements” in this section, True Thrive has entrusted Dashi Technology Holdings to exercise all of its rights as a Shareholder (including voting right).

For further details of the corporate development of our Company, please refer to “– Pre-IPO Investments” and “– Reorganization” in this section.

### *Ludashi Consulting*

Ludashi Consulting was incorporated in the BVI with limited liability on 27 March 2018. Ludashi Consulting is principally engaged in investment holding. As of the Latest Practicable Date, Ludashi Consulting was held as to 100% by our Company. For further details of the corporate development of Ludashi Consulting, please refer to “– Reorganization” in this section.

### *HK Company*

HK Company was incorporated in Hong Kong with limited liability on 15 February 2018. HK Company is principally engaged in investment holding. As of the Latest Practicable Date, HK Company was held as to 100% by Ludashi Consulting. For further details of the corporate development of HK Company, please refer to “– Reorganization” in this section.

### *WFOE*

WFOE was established in the PRC with limited liability on 20 October 2015, with a registered share capital of RMB1,000,000. WFOE is principally engaged in software development, online advertising and investment holding. Upon its establishment, WFOE was held as to 90% and 10% by Mr. Tian and Mr. He, respectively. On 26 December 2016, Mr. Tian and Mr. He transferred 90% and 10% equity interests in WFOE to Chengdu Qilu, respectively. After the aforesaid transfer and immediately before the Reorganization, WFOE was held as to 100% by Chengdu Qilu.

For further details of the corporate development of WFOE, please refer to “– Reorganization” in this section. After the Reorganization and as of the Latest Practicable Date, WFOE was held as to 100% by HK Company.

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### *Chengdu Qilu*

Chengdu Qilu was established in the PRC with limited liability on 25 November 2014, with an initial registered share capital of RMB10,000,000. Chengdu Qilu is now principally engaged in online traffic monetization in the form of online game business. Upon its establishment, Chengdu Qilu was held as to 48.6% by Qihu Technology, 36.4% by Qiyong Technology and 15% by Mr. Tian, respectively.

As acknowledged by Qihu Technology and Mr. Tian in the Chengdu Qilu Shareholder Rights Entrustment Agreement, which is more particularly described in “– Entrustment Arrangements” in this section, Qihu Technology has entrusted Mr. Tian to exercise all of its rights as a shareholder of Chengdu Qilu (including voting right).

The following table sets out the changes in registered capital and shareholders of Chengdu Qilu since its establishment and up to the Latest Practicable Date:

<u>Date</u>	<u>Change</u>	<u>Registered share capital immediately after the change</u>	<u>Shareholding percentage immediately after the change</u>
October 2015 . . . . .	Transfer of 33.6% equity interest by Qihu Technology to Qiyong Technology	RMB10,000,000	(i) Qiyong Technology (70%); (ii) Qihu Technology (15%); and (iii) Mr. Tian (15%)
December 2016 . . . . .	Transfer of 11% and 59% equity interests by Qiyong Technology to Mr. Tian and Qihu Technology	RMB10,000,000	(i) Qihu Technology (74%); and (ii) Mr. Tian (26%)
January 2017 . . . . .	Transfer of 25% equity interest by Qihu Technology to Shanghai Songheng	RMB10,000,000	(i) Qihu Technology (49%); (ii) Mr. Tian (26%); and (iii) Shanghai Songheng (25%)
March 2018 . . . . .	(i) Increase in registered capital by RMB500,000  (ii) Transfer of 5% equity interest by Qihu Technology to Qilu Haochen	RMB10,500,000	(i) Qihu Technology (41.6667%); (ii) Mr. Tian (29.5238%); (iii) Shanghai Songheng (23.8095%); and (iv) Qilu Haochen (5.0000%)

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

<u>Date</u>	<u>Change</u>	<u>Registered share capital immediately after the change</u>	<u>Shareholding percentage immediately after the change</u>
August 2018 . . . . .	Transfer of 1.4083% equity interest by Mr. Tian to Qilu Haochen	RMB10,500,000	(i) Qihu Technology (41.6667%); (ii) Mr. Tian (28.1155%); (iii) Shanghai Songheng (23.8095%); and (iv) Qilu Haochen (6.4083%)

On 31 August 2018, as part of the Reorganization, Chengdu Qilu and the Relevant Shareholders entered into the Contractual Arrangements with WFOE, and accordingly WFOE was deemed to hold 100% equity interest in Chengdu Qilu and its subsidiaries. For further details on our Reorganization, please refer to “– Reorganization” in this section.

### *Liu Liuyou Technology*

Liu Liuyou Technology was established in the PRC with limited liability on 17 April 2017, with a registered capital of RMB10,000,000. Liu Liuyou Technology is principally engaged in online game business. Upon its establishment and up to the Latest Practicable Date, Liu Liuyou Technology was held as to 68%, 12% and 20% by Chengdu Qilu, Mr. He and Shenzhen FTX Technology, respectively.

### *Xiaolu Second-Hand*

Xiaolu Second-Hand was established in the PRC with limited liability on 25 April 2017, with an initial registered capital of RMB10,000,000. Xiaolu Second-Hand is principally engaged in operation of pre-owned and factory smartphone and smart accessories sales platform. Upon its establishment, and immediately before the Reorganization, Xiaolu Second-Hand was held as to 20%, 50% and 30% by Chengdu Qilu, Mr. Hu Weibin (戶維斌), who holds the equity interest on trust in favor of Chengdu Qilu (the “**Nominee Shareholding Arrangement**”), and Mr. Zhang Xiaozhen (張曉真), respectively. In view of the initial uncertainties involved in the early stage of business and to avoid drawing attention of competitors to the entrance in the pre-owned smart-phone market of our Group, Chengdu Qilu decided to appoint Mr. Hu Weibin, an employee of the Company who previously introduced Mr. Zhang Xiaozhen to Chengdu Qilu and facilitated the cooperation between Chengdu Qilu and Mr. Zhang Xiaozhen, as the nominee shareholder on behalf of Chengdu Qilu. In light of the growing maturity of the business model of Xiaolu Second-Hand, Chengdu Qilu is set to fully enter the second-hand mobile phone market by terminating the Nominee Shareholding Arrangement, and accordingly Mr. Hu Weibin shall transfer the equity interest subject to the Nominee Shareholding Arrangement to Chengdu Qilu at the request of Chengdu Qilu.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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For further details of the corporate development of Xiaolu Second-Hand, please refer to “– Reorganization” in this section. After the Reorganization and as of the Latest Practicable Date, Xiaolu Second-Hand was held as to 82.86% and 17.14% by WFOE and Mr. Zhang Xiaozhen, respectively. Mr. Zhang Xiaozhen is a senior management and a director of Xiaolu Second-Hand.

### *Lubang Technology*

Lubang Technology was established in the PRC with limited liability on 23 November 2017, with a registered capital of RMB5,000,000. Lubang Technology is principally engaged in procurement and sales of pre-owned and factory smartphone. Upon its establishment, Lubang Technology was held as to 100% by Xiaolu Second-Hand. On 7 August 2018, Xiaolu Second-Hand transferred its 20% equity interest in Lubang Technology to Mr. Cui Wei (崔巍). Upon completion of the said transfer and as of the Latest Practicable Date, Lubang Technology was held as to 80% and 20% by Xiaolu Second-Hand and Mr. Cui Wei, respectively. Mr. Cui Wei is a director of Lubang Technology.

### *Zhongzhixing*

Zhongzhixing was established in the PRC with limited liability on 27 June 2017, with a registered capital of RMB100,000. Zhongzhixing is principally engaged in homepage directory services. Upon its establishment, Zhongzhixing was held as to 99% and 1% by Mr. Tian and Ms. Niu Yuanyuan (牛媛媛), spouse of Mr. Tian. On 28 June 2018, Mr. Tian and Ms. Niu Yuanyuan transferred their respective entire equity interests in Zhongzhixing to WFOE. Upon completion of the said transfer and up to the Latest Practicable Date, Zhongzhixing was held as to 100% by WFOE.

### *Xiaolu Zhidian*

Xiaolu Zhidian was established in the PRC with limited liability on 17 July 2018, with a registered capital of RMB5,000,000. Xiaolu Zhidian is principally engaged in smartphone and computer maintenance, detection and analysis, recycle and exhibition. Upon its establishment, and as of the Latest Practicable Date, Xiaolu Zhidian was held as to 80% and 20% by WFOE and Mr. Zhou Nangang (周楠綱). Mr. Zhou Nangang is a director of Xiaolu Zhidian.

### *Shanghai Qilu*

Shanghai Qilu was established in the PRC with limited liability on 15 January 2019, with a registered capital of RMB10,000,000. Shanghai Qilu has not commenced business yet. Upon its establishment, and as of the Latest Practicable Date, Shanghai Qilu was held as to 100% by WFOE. For further details of the corporate development of Shanghai Qilu, please refer to “– Reorganization” in this section.

### ENTRUSTMENT ARRANGEMENTS

As acknowledged by Qihu Technology and Mr. Tian in the Chengdu Qilu Shareholder Rights Entrustment Agreement, Qihu Technology has entrusted Mr. Tian to exercise all of its rights as a shareholder of Chengdu Qilu (including voting right) since 29 December 2016. As far as our Directors understand, the purpose of the Entrustment Arrangements is to motivate Mr. Tian, who is the key personnel in our business, to continue to manage and develop the business of our Group. Internet related business models require key management to be incentivised to execute business plans with creativity and sound strategies independently. To the best knowledge of our Directors, the Entrustment Arrangements are in line with the strategy of 360 Group in growing its non-core businesses by offering strong incentives to the management of such businesses to run the businesses independently and to implement growth strategies that may not be possible without the incentives and independence offered.

Before joining Qihu Technology, Mr. Tian had been an entrepreneur with expertise in developing his own information technology products, including music website platform, medical information website platform and video playing website platform. Leveraging Mr. Tian's experience in the industry, Qihu Technology invited Mr. Tian to join Qihu Technology in 2008 to further develop, manage and operate Qihu Technology's products with an understanding that Mr. Tian would be granted equity interests and management control of such products. Qihu Technology acquired Ludashi Software in 2010 and ran Ludashi Software business as an independent division. Mr. Tian started to manage and operate Ludashi division since early 2014, due to his previous management experience and great contribution to the 360 Group products he operated.

When founded in 2014, Chengdu Qilu was held as to 48.6%, 36.4% and 15% by Qihu Technology, Qiyong Technology and Mr. Tian, respectively. It was intended by the original shareholders of Chengdu Qilu that 11% equity interest of Chengdu Qilu held by Qiyong Technology would be used for management incentive scheme to be adopted by Chengdu Qilu in favor of Mr. Tian. To the best knowledge of our Directors, in around December 2016, in order to retain Mr. Tian, Qihu Technology decided to implement the management incentive scheme for Chengdu Qilu after it was spun off as a separate entity in 2014. In December 2016, Qiyong Technology transferred 11% equity interest of Chengdu Qilu to Mr. Tian. At the same time as the execution of the management incentive scheme, in order to further motivate Mr. Tian and provide him with independence in the operation and development of our Group, Qihu Technology decided to entrust its shareholder rights in Chengdu Qilu to Mr. Tian. On 15 January 2018, Qihu Technology and Mr. Tian entered into the Chengdu Qilu Shareholder Rights Entrustment Agreement to record the Entrustment Arrangements in the form of a formal agreement.

Despite the understanding between Qihu Technology and Mr. Tian regarding the entrustment arrangement since December 2016, the Chengdu Qilu Shareholder Rights Entrustment Agreement was formally entered into in January 2018 to evidence such arrangement in preparation for the Listing.

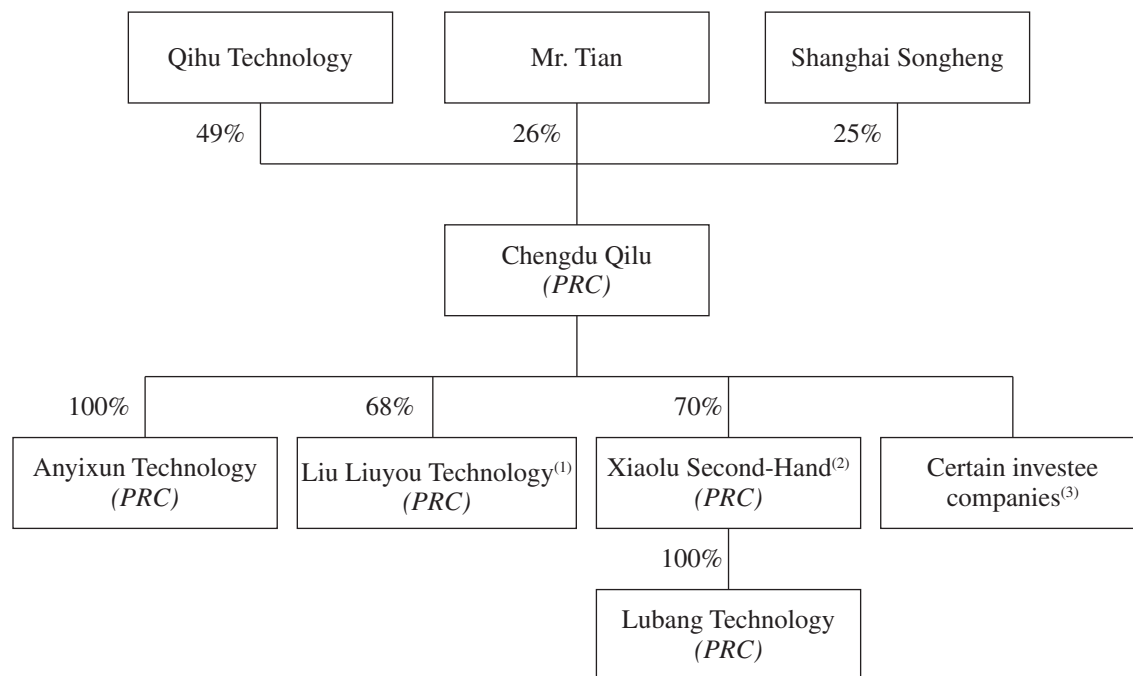


## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On 4 September 2018, in order to reflect the Entrustment Arrangements at our Company's level, True Thrive and Dashi Technology, being the respective investment holding companies of 360 Technology and Mr. Tian at our Company's level, entered into the Company Shareholder Rights Entrustment Agreement, pursuant to which Dashi Technology Holdings is entrusted by True Thrive to exercise all of True Thrive's rights as a Shareholder (including but not limited to True Thrive's voting power at general meetings of the Company) with effect from the date of the Company Shareholder Rights Entrustment Agreement. The Entrustment Arrangements shall remain effective unless terminated (i) by a non-defaulting party under the circumstance that the defaulting party has materially breached his/its undertaking or obligation under the Company Shareholder Rights Entrustment Agreement and such breach has not been cured within ten days after the delivery of the written notice from non-defaulting party or within a reasonable time, (ii) upon agreement by all parties should the force majeure events last for sixty consecutive days or more, or (iii) upon written consent by each party with requisite power and authority to terminate the Company Shareholder Rights Entrustment Agreement.

### REORGANIZATION

Below sets forth the corporate structure of our Group immediately before the Reorganization:



*Notes:*

1. The remaining equity interest in Liu Liuyou Technology was held as to 20% by Shenzhen FTX Technology and 12% by Mr. He.
2. 50% equity interest in Xiaolu Second-Hand was held by Mr. Hu Weibin (戶維斌) on trust for Chengdu Qilu. The remaining 30% equity interest in Xiaolu Second-Hand is held by Mr. Zhang Xiaozhen (張曉真), a senior management of our Group.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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3. Chengdu Qilu held equity interests in certain investee companies as follows: (i) 15% in Kuleng Technology; (ii) 18% in Aiyu Technology (through Liu Liuyou Technology); (iii) 15% in Aidai Technology; (iv) 19% in Sudu Technology; (v) 19% in Zhonghe Yilian; (vi) 15% in Jiubake Technology (through Liu Liuyou Technology); (vii) 15% in Xiaofeiniaio Technology; (viii) 7% in Zhonghe Lianchuang; and (ix) 10% in Ju'a Network. As part of the Reorganization, our Group disposed of its respective equity interests in investments in Kuleng Technology, Aidai Technology, Sudu Technology, Xiaofeiniaio Technology, Zhonghe Lianchuang and Ju'a Network in 2018. On 13 November 2018 and 6 June 2019, the relevant government authority approved the de-registration of Aiyu Technology and Jiubake Technology, respectively. For more details, please refer to "Business – Venture Investments" and "Financial Information – Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidation of invested business."

In preparation for the Listing, we carried out a series of Reorganization steps for the purpose of establishing and streamlining our corporate structure for the Listing and to facilitate our growth and expansion strategy.

### *Incorporation of Offshore Investment Holding Companies, our Company and Offshore Subsidiaries*

#### **Dashi Technology Holdings**

On 31 January 2018, Dashi Technology Holdings was incorporated in the BVI with limited liability with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. Dashi Technology Holdings is principally engaged in investment holding. Upon incorporation, 5,000 shares were allotted and issued to Mr. Tian at par.

#### **Hongmeng Investment**

On 16 March 2018, Hongmeng Investment was incorporated in the BVI with limited liability with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. Hongmeng Investment is principally engaged in investment holding. Upon incorporation, 5,000 shares were allotted and issued to Mr. He at par.

#### **BullRock Capital**

On 16 March 2018, BullRock Capital was incorporated in the BVI with limited liability with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. BullRock Capital is principally engaged in investment holding. Upon incorporation, 5,000 shares were allotted and issued to Ms. Huang Xiaohong (黃孝紅) at par.

#### **China Celestial**

On 13 March 2018, China Celestial was incorporated in the BVI with limited liability with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. China Celestial is principally engaged in investment holding. Upon incorporation, 50,000 shares were allotted and issued to Mr. Wang Fan (王凡) at par.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### **Our Company**

On 7 February 2018, our Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorized share capital of HK\$380,000 divided into 38,000,000 Shares with par value of HK\$0.01 each. Upon its incorporation, one Share was allotted and issued to the initial subscriber, which was transferred to Mr. Tian on the same day.

On 12 July 2018, (i) Mr. Tian transferred 1 Share to Dashi Technology Holdings; and (ii) our Company allotted and issued 265,070 Shares to Dashi Technology Holdings, 50,000 Shares to Hongmeng Investment, 13,500 Shares to BullRock Capital, 16,667 Shares to China Celestial, 416,667 Shares to True Thrive and 238,095 Shares to Songchang International, respectively. The transfer and allotments had been properly and legally settled, and completed with the register of members of our Company updated on 12 July 2018. On 24 July 2018, Hongmeng Investment transferred 16,084 Shares to Dashi Technology Holdings. The transfer had been properly and legally settled, and completed with the register of members of our Company updated on 24 July 2018. Following the aforesaid transfers and allotments, 28.1155%, 3.3916%, 1.3500%, 1.6667%, 41.6667% and 23.8095% of the Company was held by Dashi Technology Holdings, Hongmeng Investment, BullRock Capital, China Celestial, True Thrive and Songchang International, respectively. In relation to the investments by Templar and Lima High Tech, on 21 and 22 August 2018, (i) Dashi Technology Holdings transferred 2,518 Shares to Templar; and (ii) the Company allotted and issued 7,110 Shares to Lima High Tech, respectively. For details of the investments of Templar and Lima High Tech, please refer to “– Pre-IPO Investments” in this section. Following the aforesaid transfer and issue, 27.6670%, 3.3677%, 1.3405%, 1.6549%, 41.3725%, 23.6414%, 0.7060% and 0.2500% of the Company was held by Dashi Technology Holdings, Hongmeng Investment, BullRock Capital, China Celestial, True Thrive, Songchang International, Lima High Tech and Templar, respectively.

### **Ludashi Consulting**

On 27 March 2018, Ludashi Consulting was incorporated with limited liability in the BVI with an authorized share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each. Ludashi Consulting is principally engaged in investment holding. Upon incorporation, 50,000 shares were allotted and issued to our Company. Since its incorporation and up to the Latest Practicable Date, Ludashi Consulting was 100% held by our Company.

### **HK Company**

On 15 February 2018, HK Company was incorporated with limited liability in Hong Kong with a share capital of HK\$10,000 divided into 10,000 shares which were allotted and issued as fully paid to Mr. Tian. On 5 July 2018, Mr. Tian transferred 10,000 shares in HK Company to Ludashi Consulting at a consideration of HK\$10,000. As of the Latest Practicable Date, HK Company was 100% held by Ludashi Consulting.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *Restructuring of WFOE*

Pursuant to an equity transfer agreement dated 28 June 2018, Chengdu Qilu transferred 1% equity interest in WFOE to an Independent Third Party, who is a natural person of Taiwan and an Independent Third Party, at a consideration of RMB100,000, which was determined based on the net asset value of WFOE as appraised by an independent valuer in the PRC. As advised by our PRC Legal Advisers, the transfer had been properly and legally settled. After completion of the said transfer on 9 July 2018, WFOE was converted into a Sino-foreign joint venture and was held as to 99% and 1% by Chengdu Qilu and the Independent Third Party, respectively.

Pursuant to an equity transfer agreement dated 15 July 2018, Chengdu Qilu and the Independent Third Party transferred 99% and 1% equity interests in WFOE to HK Company at a consideration of RMB9,900,000 and RMB100,000, respectively which were determined based on the net asset value of WFOE as appraised by an independent valuer in the PRC. As advised by our PRC Legal Advisers, the transfers had been properly and legally completed. After the completion of the said transfers on 26 July 2018 and up to the Latest Practicable Date, WFOE was converted into a wholly foreign owned enterprise and was held as to 100% by HK Company. WFOE is the PRC holding company for the purpose of the Contractual Arrangements.

### *Transfer of an aggregate of 6.4083% equity interests in Chengdu Qilu by Qihu Technology and Mr. Tian to Qilu Haochen*

Pursuant to the capital increase and equity transfer agreement dated 10 February 2018, among others, Qihu Technology transferred 5% equity interest in Chengdu Qilu to Qilu Haochen at the consideration of RMB30,000,000, which was determined based on the net asset value of Chengdu Qilu as appraised by an independent valuer in the PRC. As advised by our PRC Legal Advisers, the transfer had been properly and legally settled. After the completion of the said transfer on 20 March 2018, 29.5238%, 41.6667%, 23.8095% and 5% of Chengdu Qilu was held by Mr. Tian, Qihu Technology, Shanghai Songheng and Qilu Haochen, respectively.

Pursuant to the equity transfer agreement dated 23 March 2018, Mr. Tian transferred 1.4083% equity interest in Chengdu Qilu to Qilu Haochen at the consideration of RMB8,450,000, which was determined based on the net asset value of Chengdu Qilu as appraised by an independent valuer in the PRC. As advised by our PRC Legal Advisers, the transfer had been properly and legally settled. After the completion of the said transfer on 23 August 2018 and up to the Latest Practicable Date, 28.1155%, 41.6667%, 23.8095% and 6.4083% of Chengdu Qilu was held by Mr. Tian, Qihu Technology, Shanghai Songheng and Qilu Haochen, respectively.

For further details of the investment by Qilu Haochen, please refer to “– Pre-IPO Investments” in this section.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *Restructuring of Xiaolu Second-Hand*

Pursuant to the equity transfer agreement dated 26 April 2018, Mr. Hu Weibin (戶維斌) transferred 50% equity interest in Xiaolu Second-Hand to Chengdu Qilu at nil consideration. The 50% equity interest in Xiaolu Second-Hand had been originally held on trust by Mr. Hu Weibin in favor of Chengdu Qilu. On the same date, Chengdu Qilu contributed to the increase in registered capital of Xiaolu Second-Hand by RMB7,500,000. Following completion of the aforesaid transfer and capital increase on 27 April 2018, Xiaolu Second-Hand was owned as to 82.86% and 17.14% by Chengdu Qilu and Mr. Zhang Xiaozhen, respectively. Pursuant to the share transfer agreement dated 15 May 2018, Chengdu Qilu transferred 82.86% of the equity interest in Xiaolu Second-Hand to WFOE at a consideration of RMB17,000,000. Upon completion of the said transfer on 15 May 2018 and up to the Latest Practicable Date, Xiaolu Second-Hand was held as to 82.86% and 17.14% by WFOE and Mr. Zhang Xiaozhen, respectively. As advised by our PRC Legal Advisers, the transfers and capital increase had been properly and legally completed.

### *Acquisition of Zhongzhixing*

Pursuant to two equity transfer agreements both dated 27 June 2018, Mr. Tian and Ms. Niu Yuanyuan (牛媛媛) transferred their respective 99% and 1% equity interests in Zhongzhixing to WFOE both at nil consideration, after arm's length negotiation taking into accounts the fact that the initial registered capital had not been taken up. As advised by our PRC Legal Advisers, the transfers had been properly and legally settled. After the completion of the said transfers both on 28 June 2018 and up to the Latest Practicable Date, 100% of Zhongzhixing was held by WFOE.

### *Incorporation of Shanghai Qilu*

On 15 January 2019, Shanghai Qilu was incorporated with limited liability in the PRC with an initial registered capital of RMB10,000,000 contributed by WFOE. Shanghai Qilu has not commenced business yet. Since its establishment and up to the Latest Practicable Date, Shanghai Qilu was 100% held by WFOE.

### *Disposals of minority interests in certain investee companies*

Immediately before the Reorganization, Chengdu Qilu had held equity interests as investments in a number of investee companies. The respective principal businesses of the investee companies are different from and irrelevant to the principal business of our Group. For the purpose of establishing and streamlining the corporate structure of the Group for the Listing, Chengdu Qilu had disposed of these investments. Our Group ceased to have interest in any of these investee companies after the disposals. As advised by our PRC Legal Advisers, all the transfers had been properly and legally completed. Save for Xiaofeinao Technology, all these investments were disposed of to Independent Third Parties.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Details of the investee companies disposed are set out below:

<u>Name of investee company</u>	<u>Principal business</u>	<b>Percentage of equity interest held by Chengdu Qilu immediately before the Reorganization</b>	<u>Details of disposal</u>
Xiaofeiniao Technology . . . . .	Provision of PC wallpapers	15%	Pursuant to the equity transfer agreement dated 1 August 2018, Chengdu Qilu transferred 15% equity interest in Xiaofeiniao Technology to Mr. Tian at the consideration of RMB550,000, which was determined with reference to a valuation appraised by an independent valuer in the PRC. The said transfer was completed on 4 September 2018.
Kuleng Technology . . . . .	Provision of information and advertising	15%	Pursuant to the equity transfer agreement dated 20 August 2018, Chengdu Qilu transferred 15% equity interest in Kuleng Technology to an Independent Third Party at the consideration of RMB3,000,000, which was determined after arm's length negotiation. The said transfer was completed on 28 August 2018.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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<u>Name of investee company</u>	<u>Principal business</u>	<b>Percentage of equity interest held by Chengdu Qilu immediately before the Reorganization</b>	<u>Details of disposal</u>
Sudu Technology . . . . .	Development of document format conversion software	19%	Pursuant to the equity transfer agreement dated 20 August 2018, Chengdu Qilu transferred 19% equity interest in Sudu Technology to an Independent Third Party at the consideration of RMB3,000,000, which was determined after arm's length negotiation. The said transfer was completed on 29 August 2018.
Aidai Technology . . . . .	Operation of micro-credit loan platform	15%	Pursuant to the equity transfer agreement dated 21 May 2018, Chengdu Qilu transferred 15% equity interest in Aidai Technology to Mr. Hu Weibin, an employee of the Company, at a consideration of RMB3,000,000, which was determined after arm's length negotiation. On 1 August 2018, Mr. Hu Weibin transferred the aforesaid 15% equity interest in Aidai Technology to an Independent Third Party at the consideration of RMB3,000,000, which was determined after arm's length negotiation. The said transfer was completed on 27 August 2018.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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<u>Name of investee company</u>	<u>Principal business</u>	<b>Percentage of equity interest held by Chengdu Qilu immediately before the Reorganization</b>	<u>Details of disposal</u>
Zhonghe Lianchuang . . . . .	Production and sales of intelligent hardware	7%	Pursuant to the equity transfer agreement dated 1 August 2018, Chengdu Qilu transferred 7% equity interest in Zhonghe Lianchuang to an Independent Third Party at nil consideration, which was determined based on net asset per valuation. The said transfer was completed on 20 August 2018.
Ju'a Network . . . . .	E-commerce directing service	10%	Pursuant to the equity transfer agreement dated 27 August 2018, Chengdu Qilu transferred 10% equity interest in Ju'a Network to Sudu Technology at the consideration of RMB5,000,000, which was determined after arm's length negotiation. The said transfer was completed on 12 October 2018.

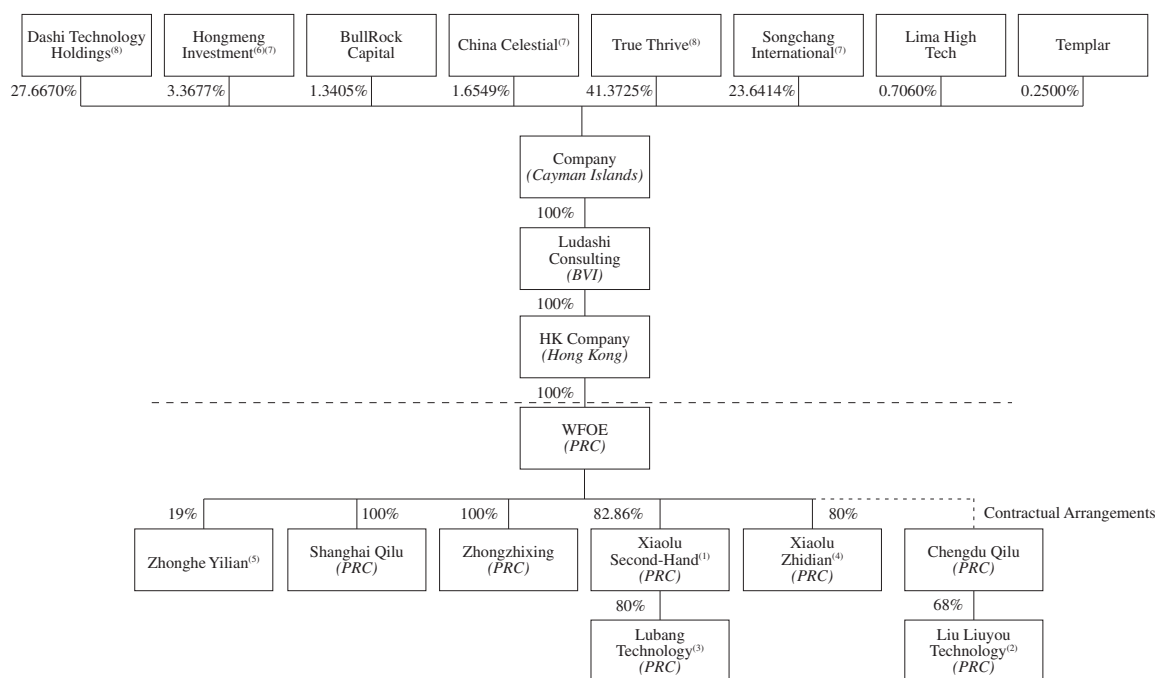
## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### *Implementation of the Contractual Arrangements*

For the implementation of the Contractual Arrangements, the following structured contracts were entered into on 31 August 2018 with respect to the contractual arrangements of the Operating Entities with WFOE, details of which are set out in “Contractual Arrangements” in this Prospectus:

- (a) Exclusive Option Agreement
- (b) Exclusive Business Cooperation Agreement
- (c) Share Pledge Agreement
- (d) Voting Rights Proxy Agreement and Powers of Attorney

The following diagram shows the shareholding and corporate structure of our Group immediately after completion of the Reorganization but before completion of the Capitalization Issue and the Global Offering:



*Notes:*

1. The remaining 17.14% equity interest in Xiaolu Second-Hand is held by Mr. Zhang Xiaozhen (張曉真), a senior management of our Group.
2. The remaining 32% equity interest in Liu Liuyou Technology is held as to 20% by Shenzhen FTX Technology and 12% by Mr. He.
3. The remaining 20% equity interest in Lubang Technology is held by Mr. Cui Wei (崔巍). Mr. Cui Wei is a director of Lubang Technology and a connected person at subsidiary level of our Company for the purpose of the Listing Rules.

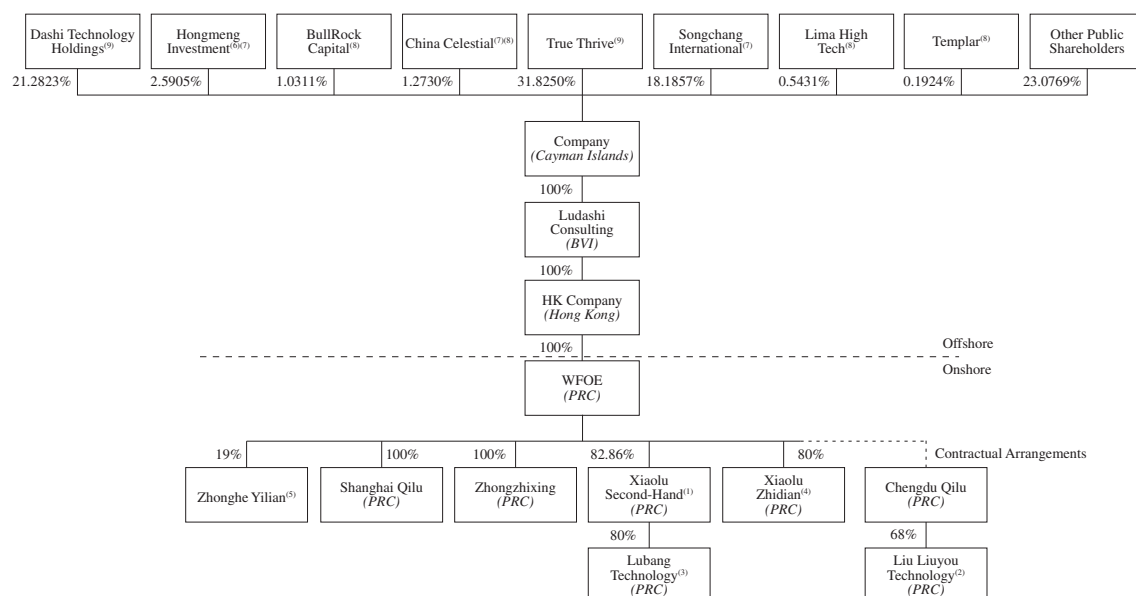
## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- The remaining 20% equity interest in Xiaolu Zhidian is held by Mr. Zhou Nangang (周楠綱). Mr. Zhou Nangang is a director of Xiaolu Zhidian and a connected person at subsidiary level of our Company for the purpose of the Listing Rules.
- Zhonghe Yilian is an investee company, in which WFOE held 19% equity interests upon completion of the Reorganization and as of the Latest Practicable Date.
- The 3.3677% equity interest in the Company is held through Hongmeng Investment, an offshore investment holding company of Mr. He, as to 2.7844% by Mr. He for his personal interest and 0.5833% by Mr. He on trust for Jue Hong'an through verbal agreement. Mr. He is an executive Director of the Company and a connected person of our Company for the purpose of the Listing Rules.
- Each of Hongmeng Investments, China Celestial and Songchang International has voluntarily given a 6-month lock-up undertaking to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) in respect of, any of those Shares in respect of which it is shown by this Prospectus to be the beneficial owner.
- Pursuant to the Company Shareholder Rights Entrustment Agreement, Dashi Technology Holdings is entrusted by True Thrive to exercise all of True Thrive's rights as a Shareholder (including but not limited to True Thrive's voting power at general meetings of the Company). Please refer to "– Entrustment Arrangements" in this section for further details.

## GLOBAL OFFERING AND CAPITALIZATION ISSUE

Conditional upon the creation of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Global Offering, our Directors are authorized to capitalize an amount of HK\$1,989,928.90 standing to the credit of the share premium account of our Company by applying such sum towards paying up in full at par a total of 198,992,890 Shares for allotment and issue to the then existing Shareholders.

The following diagram shows the shareholding and corporate structure of our Group immediately after completion of the Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme:



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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*Notes:*

1. The remaining 17.14% equity interest in Xiaolu Second-Hand is held by Mr. Zhang Xiaozhen (張曉真), a senior management of the Group.
2. The remaining 32% equity interest in Liu Liuyou Technology is held as to 20% by Shenzhen FTX Technology and 12% by Mr. He.
3. The remaining 20% equity interest in Lubang Technology is held by Mr. Cui Wei (崔巍). Mr. Cui Wei is a director of Lubang Technology and a connected person at subsidiary level of our Company for the purpose of the Listing Rules.
4. The remaining 20% equity interest in Xiaolu Zhidian is held by Mr. Zhou Nangang (周楠綱). Mr. Zhou Nangang is a director of Xiaolu Zhidian and a connected person at subsidiary level of our Company for the purpose of the Listing Rules.
5. Zhonghe Yilian is an investee company, in which WFOE held 19% equity interests upon completion of the Reorganization and as of the Latest Practicable Date.
6. The 2.5905% equity interest in the Company is held through Hongmeng Investment, an offshore investment holding company of Mr. He, as to 2.1418% by Mr. He for his personal interest and 0.4487% by Mr. He on trust for Jue Hong'an through verbal agreement. Mr. He is an executive Director of the Company and a connected person of our Company for the purpose of the Listing Rules, and the Shares held by Hongmeng Investment will not be counted towards public float after the Listing for the purpose of Rule 8.08 of the Listing Rules.
7. Each of Hongmeng Investments, China Celestial and Songchang International has voluntarily given a 6-month lock-up undertaking to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) in respect of, any of those Shares in respect of which it is shown by this Prospectus to be the beneficial owner.
8. The respective Shares held by BullRock Capital, China Celestial, Lima High Tech and Templar will be counted towards public float after the Listing for the purpose of Rule 8.08 of the Listing Rules.
9. Pursuant to the Company Shareholder Rights Entrustment Agreement, Dashi Technology Holdings is entrusted by True Thrive to exercise all of True Thrive's rights as a Shareholder (including but not limited to True Thrive's voting power at general meetings of the Company). Please refer to "– Entrustment Arrangements" in this section for further details.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### PRE-IPO INVESTMENTS

#### *Investment by Qilu Haochen*

The following table summarizes the details of the investment of Qilu Haochen:

Name of the pre-IPO investor	Chengdu Qilu Haochen Enterprise Management Consulting Company Limited* (成都奇魯昊宸企業管理諮詢有限公司)
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Information of the pre-IPO investor	Qilu Haochen is a limited liability company established in the PRC and as of the Latest Practicable Date, was held as to 43.7581%, 21.0663%, 26.0078% and 9.1678% by Mr. He, Ms. Huang Xiaohong (黃孝紅), Mr. Wang Fan (王凡) and Juhe Hong'an, respectively. Each of Ms. Huang Xiaohong (黃孝紅), Mr. Wang Fan (王凡) and Juhe Hong'an is an Independent Third Party.
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Mr. He is an executive Director. For details of Mr. He, please refer to the section headed "Directors and Senior Management" in this Prospectus.

Both Ms. Huang Xiaohong (黃孝紅) and Mr. Wang Fan (王凡) are personal friends of Mr. Tian. Ms. Huang Xiaohong (黃孝紅) has been acted as the finance manager and general manager of various enterprises, possessing over 40 years of experience in finance and general management. Mr. Wang Fan (王凡) has over seven years of experience in the investment industry and is currently serving as the deputy general manager of an asset management and investment firm in Beijing specializing in equity and venture capital investment.

Each of Ms. Huang Xiaohong (黃孝紅), Mr. Wang Fan (王凡) and Juhe Hong'an is an Independent Third Party. Juhe Hong'an is an a limited partnership established in the PRC, and is managed by its sole general partner, Chengdu Zhongshunyi Equity Investment Fund Management Company Limited\* (成都中順易股權投資基金管理有限公司), formerly known as Sichuan Juhe Equity Investment Fund Management Company Limited\* (四川聚禾股權投資基金管理有限公司) (“**Sichuan Juhe**”), a fund management company focusing on investments in companies in telecommunications, media and technology (TMT). Juhe Hong'an is a specific fund set up by Sichuan Juhe to invest in our Company. Sichuan Juhe is held as to 65% and 35% by Shenzhen Zhongshunyi Asset Management Company Limited\* (深圳中順易資產管理有限公司) and Sichuan Juxin Development Equity Investment Fund Management Company Limited\* (四川聚信發展股權投資基金管理有限公司), who are Independent Third Parties.

Each of Mr. He, Ms. Huang Xiaohong (黃孝紅), Mr. Wang Fan (王凡) and Juhe Hong'an realizes the strong growth potential and prospect of online advertising business and online game markets in the PRC and is also optimistic about the potential business growth of our Group, and therefore decided to invest in Chengdu Qilu through Qilu Haochen. Our Directors believe that the investment of Qilu Haochen demonstrates the confidence of Mr. He, Ms. Huang Xiaohong (黃孝紅), Mr. Wang Fan (王凡) and Juhe Hong'an in the operations of our Group and serve as endorsements of our Company's performance, strength and prospects.

### Details of investment

Pursuant to the capital increase and equity transfer agreement (the “**First Qilu Haochen Investment Agreement**”) dated 10 February 2018 entered into among Chengdu Qilu, Mr. Tian, Qihu Technology, Shanghai Songheng and Qilu Haochen, among others, Qihu Technology transferred 5% equity interest in Chengdu Qilu to Qilu Haochen at the consideration of RMB30,000,000, which was determined based on the net asset value of Chengdu Qilu as appraised by an independent valuer in the PRC.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Pursuant to the equity transfer agreement (the “**Second Qilu Haochen Investment Agreement**” together with the First Qilu Haochen Investment Agreement, the “**Qilu Haochen Investment Agreements**”) dated 23 March 2018 entered into between Mr. Tian and Qilu Haochen, Mr. Tian transferred 1.4083% equity interest in Chengdu Qilu to Qilu Haochen at the consideration of RMB8,450,000, which was determined based on the net asset value of Chengdu Qilu as appraised by an independent valuer in the PRC.

At the time of First Qilu Haochen Investment Agreement, Qilu Haochen was held as to 96% and 4% by Mr. He and Ms. Huang Xiaohong (黃孝紅), respectively. Subsequently, Qilu Haochen increased its share capital with capital contribution by Mr. Wang Fan (王凡) in March 2018, and Mr. He transferred certain equity interest in Qilu Haochen to Juhe Hong’an in May 2018. As of the Latest Practicable Date, Qilu Haochen was held as to 43.7581%, 21.0663%, 26.0078% and 9.1678% by Mr. He, Ms. Huang Xiaohong (黃孝紅), Mr. Wang Fan (王凡) and Juhe Hong’an, respectively. It was then the understanding of the relevant parties that their respective investments through Qilu Haochen in Chengdu Qilu would be reflected in our Company after its incorporation as part of the Reorganization. For administrative convenience purpose, Juhe Hong’an decided to have its interest held on trust through verbal agreement by Mr. He through his offshore investment holding company, Hongmeng Investment. Accordingly, in July 2018, an aggregate of 64,083 Shares, representing approximately 6.3631% of the then issued share capital of the Company, were allotted and issued to Hongmeng Investment, BullRock Capital and China Celestial, being the respective offshore investment holding companies of Mr. He, Ms. Huang Xiaohong (黃孝紅) and Mr. Wang Fan (王凡) in the same proportion as their interests in Chengdu Qilu through Qilu Haochen.

Settlement date of consideration	4 April 2018 (for investment under the First Qilu Haochen Investment Agreement)
	27 July 2018 (for investment under the Second Qilu Haochen Investment Agreement)



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Number of Shares Subscribed	<p>64,083 Shares in aggregate (representing approximately 6.3631% of the issued share capital of the Company) were issued as follows:</p> <ul style="list-style-type: none"><li>(i) Hongmeng Investment (investment vehicle of Mr. He) (33,916 Shares) (including 5,875 Shares held on trust for Juhe Hong'an)</li><li>(ii) BullRock Capital (investment vehicle of Ms. Huang Xiaohong) (16,667 Shares)</li><li>(iii) China Celestial (investment vehicle of Mr. Wang Fan) (13,500 Shares)</li></ul>
Amount of consideration	<p>RMB38,450,000 (comprising (i) RMB30,000,000 under the First Qilu Haochen Investment Agreement and (ii) RMB8,450,000 under the Second Qilu Haochen Investment Agreement) with an implied valuation of our Group of RMB600,000,000</p>
Number of Shares held by the pre-IPO investor upon the Capitalization Issue and completion of the Global Offering	<p>An aggregate of 12,726,118 Shares ((i) representing approximately 6.3631% of the issued share capital of the Company upon the Capitalization Issue but without taking into account the new Shares to be issued pursuant to the Global Offering; and (ii) representing approximately 4.8946% of the issued share capital of the Company upon the Capitalization Issue and completion of the Global Offering, respectively (assuming the Over-allotment Option is not exercised and taking into no account of the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme)) as follows:</p> <ul style="list-style-type: none"><li>(i) Hongmeng Investment (investment vehicle of Mr. He) (6,735,312 Shares) (including 1,166,716 Shares held on trust for Juhe Hong'an)</li><li>(ii) BullRock Capital (investment vehicle of Ms. Huang Xiaohong) (2,680,939 Shares)</li><li>(iii) China Celestial (investment vehicle of Mr. Wang Fan) (3,309,867 Shares)</li></ul>

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Cost per Share paid by the pre-IPO investor (taking into account the Capitalization Issue)	Approximately HK\$3.35 (representing a premium of approximately 26.4% to the mid-point of the indicative Offer Price range of HK\$2.30 to HK\$3.00)
Special rights	Neither Qilu Haochen nor any of Mr. He, Ms. Huang Xiaohong, Mr. Wang Fan and Juhe Hong'an (or Hongmeng Investment, BullRock Capital and China Celestial) was given any special rights with respect to its/his/her investment in Chengdu Qilu or our Company.
Lock-up and public float	The terms of the First Qilu Haochen Investment Agreement or the Second Qilu Haochen Investment Agreement did not impose any lock-up obligations over the Shares held by Hongmeng Investment, BullRock Capital and China Celestial upon Listing. Each of Hongmeng Investments and China Celestial has voluntarily given a 6-month lock-up undertaking to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) in respect of, any of those Shares in respect of which it is shown by this Prospectus to be the beneficial owner. Since Mr. He is an executive Director, the Shares held by Hongmeng Investment will not be counted towards public float after the Listing for the purpose of Rule 8.08 of the Listing Rules. The Shares held by BullRock Capital and China Celestial will be counted towards public float after the Listing for the purpose of Rule 8.08 of the Listing Rules.
Use of proceeds	Not applicable.  The consideration was paid by Qilu Haochen to Qihu Technology and Mr. Tian.

### *Investment by Templar*

The following table summarizes the details of the investment of Templar:

Name of the pre-IPO investor	Templar Holdings Limited, a limited liability company incorporated in the BVI
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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Information of the pre-IPO investor	Templar is 100% held by Ms. Wang Shanshan (王珊珊), an Independent Third Party and a personal friend of Mr. Tian. Ms. Wang Shanshan (王珊珊) is a qualified patent attorney in the PRC and has over eight years of experience in handling various areas of intellectual property matters from protection to enforcement of intellectual property rights. She realizes the strong growth potential and prospect of online advertising business and online game markets in the PRC and is also optimistic about the potential business growth of the Group, and therefore decided to invest in the Company through Templar. The Directors believe that the investment of Templar demonstrates the confidence of Ms. Wang Shanshan in the operations of the Group and serve as endorsements of our Company's performance, strength and prospects.
Details of investment	On 26 March 2018, a share transfer agreement (the " <b>Templar Investment Agreement</b> ") was entered into among Dashi Technology Holdings, Mr. Tian, Ms. Wang Shanshan (王珊珊), the Company and Chengdu Qilu, pursuant to which, Dashi Technology Holdings agreed to transfer 2,518 Shares to Templar at a consideration of RMB2,270,000.
Settlement date of consideration	3 August 2018
Number of Shares transferred	2,518 Shares (representing approximately 0.2500% of the issued share capital of the Company)
Amount of consideration	RMB2,270,000, which was determined based on arm's length negotiations with regard to the valuation of our Group of RMB908,000,000 by reference to the net profit attributable to the owners for the year ended 31 December 2017, and the consideration of the facts that the Group's overseas business and that of Xianlu Second-Hand only had a short operating history and the investment of Templar was by way of transfer of old Shares by Dashi Technology rather than by way of the issue of new Shares

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Number of Shares held by the pre-IPO investor upon the Capitalization Issue and completion of the Global Offering	500,045 Shares ((i) representing approximately 0.25000% of the issued share capital of our Company upon the Capitalization Issue but without taking into account the new Shares to be issued pursuant to the Global Offering; and (ii) representing approximately 0.1924% of the issued share capital of our Company upon the Capitalization Issue and completion of the Global Offering, respectively (assuming the Over-allotment Option is not exercised and taking into no account of the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme))
Cost per Share paid by the pre-IPO investor (taking into account the Capitalization Issue)	Approximately HK\$5.03 (representing a premium of approximately 89.8% to the mid-point of the indicative Offer Price range of HK\$2.30 to HK\$3.00)
Special rights	Neither Templar nor Ms. Wang Shanshan was given any special rights with respect to its/her investment pursuant to the Templar Investment Agreement.
Lock-up and public float	The terms of the Templar Investment Agreement did not impose any lock-up obligations over the Shares held by Templar upon Listing. The Shares held by Templar will be counted towards public float after the Listing for the purpose of Rule 8.08 of the Listing Rules.
Use of proceeds	Not applicable.  The consideration was paid by Ms. Wang Shanshan to Dashi Technology Holdings.

### *Investment by Lima High Tech*

The following table summarizes the details of the investment of Lima High Tech:

Name of the pre-IPO investor	Lima High Tech Limited, a limited liability company incorporated in the BVI
Information of the pre-IPO investor	Lima High Tech was held as to 77.5% and 22.5% by Provisioner Capital SPC – PC Master Fund SP and PIX Fund SPC – PIX Growth Fund II SP, respectively.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Provisioner Capital SPC – PC Master Fund SP is an exempted company with limited liability in the Cayman Islands, which focuses on private equity investments in the pre-IPO phase in various industries, such as telecommunications, media and technology (TMT), healthcare, new energy and cutting-edge technologies, and selects the most valuable investment targets after in-depth research.

PIX Fund SPC is an exempted company with limited liability in the Cayman Islands and registered as a segregated portfolio company under the Cayman Companies Law. PIX Fund SPC – PIX Growth Fund II SP (the “**Segregated Portfolio**”) is a segregated portfolio of PIX Fund SPC. The Segregated Portfolio mainly invests in private equity projects.

Our Directors believe that the investment of Lima High Tech will enhance our cash-flow position and broaden our Shareholders’ base, which in turn will benefit our Company and our Shareholders as a whole. Additionally, the investment of Lima High Tech demonstrates its confidence in the operations of our Group and serve as endorsements of our Company’s performance, strength and prospects. Given its background, through the investment and of Lima High Tech, our Group is expected to strengthen its investor relationship.

Details of investment	Pursuant to an investment agreement dated 24 July 2018 (as amended by a supplemental agreement dated 1 August 2018) (the “ <b>Lima High Tech Investment Agreement</b> ”) entered into by and among Lima High Tech, our Company and Mr. Tian, Lima High Tech agreed to subscribe for 7,110 Shares at a consideration of US\$2,836,983.
Settlement date of consideration	7 August 2018
Number of Shares subscribed	7,110 Shares (representing approximately 0.7060% of the enlarged issued share capital of our Company upon completion of the investment on a fully-diluted basis)

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Amount of consideration	US\$2,836,983, which was determined based on arm's length negotiations with regard to the valuation of our Group of RMB2,700,000,000 by reference to the net profit attributable to the owners for the year ended 31 December 2018, the performance and valuation of Xiaolu Second-Hand and the Group's overseas business of Dual Space, as well as the special rights granted pursuant under the Lima High Tech Investment Agreement
Number of Shares held by the pre-IPO investor upon the Capitalization Issue and completion of the Global Offering	1,411,961 Shares ((i) representing approximately 0.7060% of the issued share capital of our Company upon the Capitalization Issue but without taking into account the new Shares to be issued pursuant to the Global Offering; and (ii) representing approximately 0.5431% of the issued share capital of our Company upon the Capitalization Issue and completion of the Global Offering, respectively (assuming the Over-allotment Option is not exercised and taking into no account of the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme))
Cost per Share paid by the pre-IPO investor (taking into account the Capitalization Issue)	Approximately HK\$15.72 (representing a premium of approximately 493.2% to the mid-point of the indicative Offer Price range of HK\$2.30 to HK\$3.00)
Special rights	Certain special rights had been granted to Lima High Tech under the Lima High Tech Investment Agreement. The special rights granted to Lima High Tech were (i) information rights; (ii) the rights of participation in the issuance of new securities; (iii) co-sale rights; (iv) anti-dilution rights; and (v) priority in winding-up. Lima High Tech is also granted an option to demand our Company to repurchase its Shares if there is no successful IPO within 24 months after the completion of the investment. Pursuant to the Lima High Tech Investment Agreement, any special rights granted to Lima High Tech under the Lima High Tech Investment Agreement will be terminated upon Listing.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Lock-up and public float	The terms of the Lima High Tech Investment Agreement did not impose any lock-up obligations over the Shares held by Lima High Tech upon Listing. The Shares held by Lima High Tech will be counted towards public float after the Listing for the purpose of Rule 8.08 of the Listing Rules.
Use of proceeds	Our Company will utilize the investment proceeds of Lima High Tech for business development, working capital and other corporate purposes. As of the Latest Practicable Date, the net proceeds from the investment of Lima High Tech had not been utilized.

### *Sole Sponsor's Confirmation*

After reviewing the respective terms of Qilu Haochen Investment Agreements, Lima High Tech Investment Agreement and Templar Investment Agreement and given that (i) our Directors confirmed that the terms of the pre-IPO investments (including the consideration) of each of Qilu Haochen, Lima High Tech and Templar were determined on arm's length basis; and (ii) the pre-IPO investments were completed more than 28 clear days before the date of submission of the application for the Listing, the Sole Sponsor confirms that the pre-IPO investment is in compliance with the Guidance Letters HKEx-GL29-12 (January 2012) (updated in March 2017), HKEx-GL43-12 (October 2012) (updated in July 2013 and March 2017) and HKEx-GL44-12 (October 2012) (updated in March 2017) issued by the Stock Exchange.

## PRC LEGAL COMPLIANCE

### *M&A Provisions*

The M&A Provisions, a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors, which were jointly promulgated by six PRC regulatory agencies, came into effect on 8 August 2006 and was amended on 22 June 2009.

Under the M&A Provisions, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into a foreign invested enterprise, or subscribes for new equity via an increase in registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign invested enterprise. The M&A Provisions also provide that an offshore special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading securities of such offshore special purpose vehicle on an overseas stock exchange. For further details, please refer to the section headed "Regulatory overview – M&A Provisions and Overseas Listings" in this Prospectus.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *Spin-off Notice*

According to the Spin-off Notice promulgated by the CSRC on 21 July 2004, “listing of an enterprise affiliated to a listed company” refers to the act of publicly issuing shares and listing in the overseas securities market by the domestic listed company’s affiliated enterprise. When an enterprise affiliated to a domestic listed company applies for overseas listing, it shall prepare and submit the application documents and related materials in accordance with the requirements of the CSRC, and the CSRC will implement an administrative license for the listing of the domestic listed company’s affiliated enterprise to apply overseas. 360, the indirect shareholders of Qihu Technology, is a domestic listed company. As further detailed in “Relationship with Controlling Shareholders – Our Controlling Shareholders” in this Prospectus, 360 Group has disposed of its 25% equity interest in Chengdu Qilu to Shanghai Songheng on 10 January 2017 and entrusted its voting rights owned in Chengdu Qilu pursuant to the entrustment arrangement since December 2016, and Chengdu Qilu has since then not been controlled by 360 Group before 360 became a domestic listed company on 28 February 2018. Chengdu Qilu is not a subsidiary controlled by 360 Group and 360 Group is not the controlling shareholder and does not own the controlling power under PRC laws. Based on a consultative interview conducted by a representative of the Sponsor and a representative of the PRC Legal Advisers with official of the Department of Public Offering Supervision of the CSRC on 5 November 2018, if an entity in which a domestic listed company holds equity interest is not controlled by such domestic listed company, the Spin-off Notice is not applicable to the offshore listing of such entity. Our PRC Legal Advisers are of the view that the Spin-off Notice is not applicable for the Listing since Chengdu Qilu is not a subsidiary controlled by 360 Group, and the Listing does not require the approval of the CSRC or any other PRC government authorities under the Spin-off Notice. For details, please refer to “Relationship with Controlling Shareholders – Our Controlling Shareholders” in this Prospectus.

### *Circular 37*

According to the Circular 37 issued by SAFE on 4 July 2014 and the Circular 13 issued by SAFE on 13 February 2015, PRC residents are required to register with banks with regards to their direct establishment or indirect control of an offshore entity established for the purpose of overseas investment and financing and hold such PRC residents’ legally owned assets or equity investments in domestic enterprises or offshore assets or interests (referred to as a “special purpose vehicle” in Circular 37). In the case of any significant changes with respect to the special purpose vehicle, amendment to the registration is required under Circular 37.

All of our applicable shareholders, namely, Mr. Tian, Mr. He, Ms. Huang Xiaohong (黄孝红), and Mr. Wang Fan (王凡) have completed their respective registration as requested by Circular 37 and Circular 13.



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## CONTRACTUAL ARRANGEMENTS

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### BACKGROUND

Our Group is engaged in online monetization in the form of online advertising and online game business. The operation of the online game business are subject to foreign investment restrictions under the PRC laws and regulations as detailed below. As such, the Group operates the online game business through the PRC Operating Entities, namely Chengdu Qilu and its subsidiary, Liu Liuyou Technology, both of which were established under the laws of the PRC. The Group does not directly own any equity interest in Chengdu Qilu, which is held by the Relevant Shareholders, namely (i) Qihu Technology (41.6667%); (ii) Mr. Tian (28.1155%); (iii) Shanghai Songheng (23.8095%); and (iv) Qilu Haochen (6.4083%).

In order to comply with the PRC laws and regulations and to maintain effective control over the operations of the PRC Operating Entities, WFOE entered into the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders (being the registered shareholders of Chengdu Qilu) (where applicable). Under the Contractual Arrangements, WFOE has acquired effective control over the financial and operational policies of the PRC Operating Entities and has become entitled to all the economic benefits derived from their operations. Our Directors believe that the Contractual Arrangements are narrowly tailored as they are used to enable our Group to conduct the Online Businesses which are subject to foreign investment restrictions in the PRC. Our Directors also believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements are freely negotiated and entered into between WFOE, Chengdu Qilu and the Relevant Shareholders, (ii) by entering into the Exclusive Business Cooperation Agreement with WFOE (which is a wholly-owned PRC subsidiary of the Company), Chengdu Qilu will enjoy better economic and technical support from our Group, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

### PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

#### *Restrictions on Foreign Ownership*

Foreign investment activities in the PRC are mainly governed by the Catalog, which was promulgated and is amended from time to time jointly by MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely “encouraged,” “restricted” and “prohibited” and all industries not listed under any of these categories are deemed to be “permitted.”

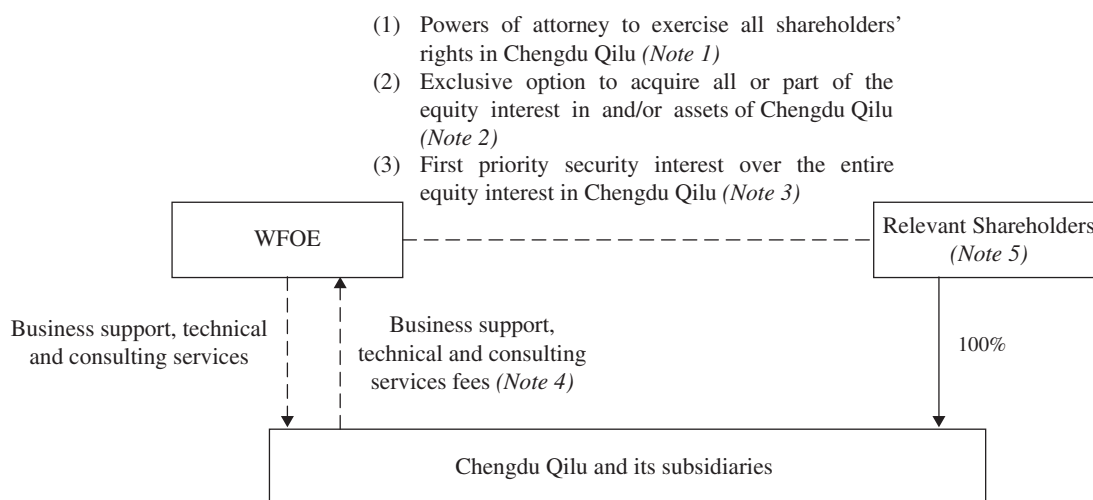
As confirmed by our PRC Legal Advisers, our business of operating online games that the PRC Operating Entities engage in is under the “prohibited” category and “restricted” category. Therefore, we are of the view that the Contractual Arrangements are narrowly tailored as they are used to enable us to conduct business that is subject to foreign investment restrictions in mainland China. We will unwind and terminate the Contractual Arrangements wholly or partially once our business is no longer prohibited or restricted to foreign investment.

## CONTRACTUAL ARRANGEMENTS

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, after consultation with our PRC Legal Advisers, we determined that it was not viable for the Company to hold Chengdu Qilu and its subsidiaries directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Chengdu Qilu and its subsidiaries through the Contractual Arrangements between WFOE, on the one hand, and Chengdu Qilu and the Relevant Shareholders, on the other hand. The Contractual Arrangements allow the results of operations and assets and liabilities of Chengdu Qilu and its subsidiaries to be consolidated into our results of operations and assets and liabilities under HKFRS as if they were wholly-owned subsidiaries of our Group.

### CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from Chengdu Qilu and its subsidiaries to our Group stipulated under the Contractual Arrangements:



*Notes:*

- (1) Please refer to “— Contractual Arrangements — Voting Rights Proxy Agreement and Powers of Attorney” in this section for details.
- (2) Please refer to “— Contractual Arrangements — Exclusive Option Agreement” in this section for details.
- (3) Please refer to “— Contractual Arrangements — Share Pledge Agreement” in this section for details.
- (4) Please refer to “— Contractual Arrangements — Exclusive Business Cooperation Agreement” in this section for details.
- (5) The Relevant Shareholders are Qihu Technology, Mr. Tian, Shanghai Songheng and Qilu Haochen, holding 41.6667%, 28.1155%, 23.8095% and 6.4083% in Chengdu Qilu, respectively.  
“—>” denotes direct legal and beneficial ownership in the equity interest and “- - ->” denotes contractual relationship.

#### ***Exclusive Option Agreement***

Chengdu Qilu and the Relevant Shareholders entered into an exclusive option agreement with WFOE on 31 August 2018 (the “**Exclusive Option Agreement**”), pursuant to which WFOE (or a party designated by it, the “**designee**”) was granted an irrevocable and exclusive right to purchase from the Relevant Shareholders and/or Chengdu Qilu all or any part of their equity interests in Chengdu Qilu for a nominal price, unless the relevant government

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## CONTRACTUAL ARRANGEMENTS

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authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders shall return any amount of purchase price they have received to WFOE.

At WFOE's request, the Relevant Shareholders will promptly and unconditionally transfer their respective equity interests in Chengdu Qilu to WFOE (or its designee) after WFOE exercises its purchase right. The Exclusive Option Agreement is for an initial term of ten years and is automatically renewable upon expiry until the purchased equity interests have been transferred to WFOE and/or its designees or a new renewed term confirmed by WFOE in writing is expired.

In order to prevent the flow of the assets and value of Chengdu Qilu and its subsidiaries to the Relevant Shareholders, during the term of the Exclusive Option Agreement, Chengdu Qilu is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (exceeding the value of RMB1 million) without the prior written consent of WFOE. In addition, Chengdu Qilu is not allowed to, and shall procure its subsidiaries not to, make any distributions to its shareholder(s) without the prior written consent of WFOE. In the event that the Relevant Shareholders receive any distribution from Chengdu Qilu and subject to the PRC laws, the Relevant Shareholders must immediately pay or transfer such distribution to WFOE (or its designee). If WFOE exercises its purchase right, all or any part of the equity interests in and/or assets of Chengdu Qilu acquired would be transferred to WFOE and the benefits of equity ownership and/or assets, as applicable, would flow to the Company and our Shareholders.

As provided in the Exclusive Option Agreement, without the prior written consent of WFOE, Chengdu Qilu shall not, and shall procure its subsidiaries not to, among other things

- (i) supplement, amend or revise its articles of associations, separate, dissolve or alter its form;
- (ii) sell, transfer, pledge or dispose of in any manner any of its assets for a value more than RMB1 million;
- (iii) execute any material contract for a value more than RMB1 million, except any contracts in the ordinary course of business;
- (iv) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party to create any pledge or other security interest on its assets or equity;
- (v) enter into any consolidation or merger with any third party, or acquire or invest in any third party; and
- (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way.

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## CONTRACTUAL ARRANGEMENTS

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The Exclusive Option Agreement provides that the Relevant Shareholders and Chengdu Qilu shall procure the subsidiaries of Chengdu Qilu to comply with the above undertaking as if they are parties to the Exclusive Option Agreement. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and the Company in the event of any loss suffered from Chengdu Qilu and/or its subsidiaries can be limited to a certain extent. In addition, in relation to the above restrictive provisions specified in the Exclusive Option Agreement, we will aggregate asset disposals or value of contracts if such asset disposals or value of contracts (i) are entered into by the Group with the same party or parties; or (ii) involve the disposal or contracts which relate to the whole or parts of the asset or securities or interests in a company or group of companies.

### *Exclusive Business Cooperation Agreement*

Chengdu Qilu entered into an exclusive business cooperation agreement with WFOE on 31 August 2018 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which Chengdu Qilu agreed to engage WFOE as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment, leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Without the prior written consent of WFOE, Chengdu Qilu and its subsidiaries shall not accept the consultation and/or service from any other third party, and shall not cooperate with any other third party. Under these arrangements, the service fees, subject to WFOE’s adjustment, are equal to all of the net profit of Chengdu Qilu and its subsidiaries. WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Chengdu Qilu and its subsidiaries from previous financial periods, which will be wired to the designated account of WFOE upon issuance of payment notification by WFOE. WFOE enjoys all the economic benefits derived from the businesses of Chengdu Qilu and its subsidiaries and bears Chengdu Qilu’s business risks. If Chengdu Qilu runs into financial deficit or suffers severe operation difficulties, WFOE will provide financial support to Chengdu Qilu.

The Exclusive Business Cooperation Agreement is for an initial term of ten years and is automatically renewable upon expiry or extended by WFOE for a term determined by WFOE unless it is terminated according to certain circumstances provided in the Exclusive Business Cooperation Agreement.

### *Share Pledge Agreement*

Chengdu Qilu, the Relevant Shareholders and WFOE entered into a share pledge agreement on 31 August 2018 (the “**Share Pledge Agreement**”). Under the Share Pledge Agreement, the Relevant Shareholders pledged as first charge all of their respective equity interests in Chengdu Qilu to WFOE as collateral security for any or all of their payments due to WFOE and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Powers of Attorney (as

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## CONTRACTUAL ARRANGEMENTS

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defined below). The Share Pledge Agreement will not terminate until (i) all secured debts and contractual obligations guaranteed by the Share Pledge Agreement are terminated or fulfilled and (ii) WFOE exercises its exclusive option to purchase the entire equity interests of the Relevant Shareholders in Chengdu Qilu pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Relevant Shareholders may transfer or permit the encumbrance of any of their equity interests in and assets of Chengdu Qilu (including any equity interests in and assets of the subsidiaries of Chengdu Qilu) without WFOE's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, WFOE is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of Chengdu Qilu, which further strengthens the protection of WFOE's interests over Chengdu Qilu under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to WFOE's satisfaction within 30 days upon being notified by WFOE, WFOE may demand that the Relevant Shareholders and/or Chengdu Qilu immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to WFOE. The pledges under the Share Pledge Agreement have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

### *Voting Rights Proxy Agreement and Powers of Attorney*

The Voting Right Proxy Agreement was entered into between the Relevant Shareholders, WFOE and Chengdu Qilu on 31 August 2018 (the "**Voting Rights Proxy Agreement**") pursuant to which, through the power of attorney (the "**Powers of Attorney**"), the Relevant Shareholders appointed WFOE or a director or any third party instructed by WFOE or its/his/her successor (including a liquidator replacing WFOE's director) as their exclusive agent and attorney to act on their behalf on all matters concerning Chengdu Qilu and to exercise all of its rights as a registered shareholder of Chengdu Qilu. These rights include:

- (i) the right to propose, convene and attend shareholders' meetings;
- (ii) the right to sell, transfer, pledge or dispose of shares;
- (iii) the right to exercise shareholders' voting rights; and
- (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of Chengdu Qilu. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Chengdu Qilu on behalf of the Relevant Shareholders. The Relevant Shareholders have each undertaken to transfer all assets obtained after the winding up of Chengdu Qilu to WFOE at nil consideration or the lowest price permissible by the then applicable PRC laws.

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## CONTRACTUAL ARRANGEMENTS

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As a result of the Powers of Attorney, the Company, through WFOE, is able to exercise management control over the activities that most significantly impact the economic performance of Chengdu Qilu. Shall an event of default (as provided in the Voting Rights Proxy Agreement) occur, unless it is successfully resolved to WFOE's satisfaction within a reasonable time or 10 days upon being notified by WFOE, WFOE may terminate the Powers of Attorney immediately and request the defaulting party to compensate the damages.

The Voting Rights Proxy Agreement shall automatically terminate once WFOE is permitted to directly hold the entire equity interests in Chengdu Qilu under the then PRC laws, following which WFOE is registered as the sole shareholder of Chengdu Qilu.

### *Spouse Undertakings*

The spouse of Mr. Tian, being an individual Relevant Shareholder, has signed an undertaking on 31 August 2018 (the "**Spouse Undertaking**"). Pursuant to the Spouse Undertaking, Mr. Tian's spouse irrevocably acknowledges and undertakes that: (i) any equity interests held by Mr. Tian in Chengdu Qilu do not fall within the scope of their communal properties; (ii) she will not have any claim on the interests of Chengdu Qilu obtained through the Contractual Arrangements; and (iii) she has never participated and will not participate in the operation or management of Chengdu Qilu.

### *Dispute Resolution*

Each of the Contractual Arrangements stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Shanghai International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the Contractual Arrangements also provides that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interest of Chengdu Qilu, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Chengdu Qilu; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and other jurisdiction (being the place of domicile of Chengdu Qilu and where the principal assets of Chengdu Qilu or WFOE are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of Chengdu Qilu.

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## CONTRACTUAL ARRANGEMENTS

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However, our PRC Legal Advisers have advised that (i) an arbitral tribunal normally would not grant such kind of injunctive relief or winding up order of Chengdu Qilu under PRC laws; and (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that Chengdu Qilu or the Relevant Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Chengdu Qilu and conduct our business could be materially and adversely affected. Please refer to “Risk Factors – Risks Relating to our Contractual Arrangements” for details.

### *Succession*

The provisions set out in the Contractual Arrangements are also binding on the successors of the Relevant Shareholders, as if the successors were signing parties to the Contractual Arrangements. In case of a breach, WFOE can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Relevant Shareholders shall inherit any and all rights and obligations of the registered shareholders under the Contractual Arrangements as a result of their death, loss of capacity, bankruptcy or under other circumstances which would affect their exercise of equity interest in Chengdu Qilu, as if the inheritor was a signing party to such Contractual Arrangements.

Based on the foregoing, our PRC Legal Advisers are of the view that (i) the Contractual Arrangements provide protection to the Group even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Relevant Shareholders; and (ii) loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Relevant Shareholders would not affect the validity of the Contractual Arrangements, and WFOE can enforce its rights under the Contractual Arrangements against the successors of such shareholders.

### *Arrangements to Address Potential Conflicts of Interests*

The Relevant Shareholders have undertaken that, during the period that the Contractual Arrangements remain effective, (a) they shall not execute any documents with or make any undertaking to any third parties that may have conflicts of interests with any agreements entered into by WFOE or Chengdu Qilu, (b) they shall not conduct any business or take any acts which may adversely influence the reputation of Chengdu Qilu, and (c) in the event of the occurrence of a conflict of interests they shall take appropriate measures upon the consent of WFOE and its designee to eliminate such conflicts, failing which WFOE has the right to exercise the option under the Exclusive Option Agreement.



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## CONTRACTUAL ARRANGEMENTS

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### *Loss Sharing*

None of the agreements constituting the Contractual Arrangements provides that WFOE is obligated to share the losses of Chengdu Qilu, but if Chengdu Qilu suffers any losses or material difficulties of business, WFOE may provide financial support as permitted under PRC laws at its discretion to Chengdu Qilu under the terms of the Exclusive Business Cooperation Agreement. Further, Chengdu Qilu is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, the Company or WFOE is not expressly required to share the losses of Chengdu Qilu or provide financial support to Chengdu Qilu. Despite the foregoing, given that the Group conducts the Relevant Businesses in the PRC through Chengdu Qilu and its subsidiaries which hold the requisite PRC licenses and approvals, and that Chengdu Qilu's results of operations and assets and liabilities are consolidated into the Group's results of operations and assets and liabilities under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if Chengdu Qilu and its subsidiaries suffered losses.

### *Liquidation*

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by PRC laws, Chengdu Qilu shall sell all of its assets to the extent permitted by PRC laws to WFOE or another qualifying entity designated by WFOE, at the lowest selling price permitted by applicable PRC laws. Any obligation for WFOE to pay Chengdu Qilu as a result of such transaction shall be waived by Chengdu Qilu and any profits arising from the above transaction shall be paid to WFOE or the qualifying entity designated by WFOE in partial satisfaction of the service fees under the Exclusive Option Agreement, as applicable under the then current PRC laws. Accordingly, in a winding up of Chengdu Qilu, a liquidator may seize the assets of Chengdu Qilu through WFOE based on the Contractual Arrangements for the benefit of the Company's creditors/shareholders.

### *Bankruptcy*

Our PRC Legal Advisers have advised that the concept of bankruptcy of a natural person does not exist under PRC laws. As such, there is currently no possibility of an event of bankruptcy of the Relevant Shareholders under PRC laws.

Furthermore, in case of occurrence of any event which may affect a Relevant Shareholder's performance of his/its obligations under the Contractual Arrangements, WFOE is entitled to exercise its option to purchase the equity interest held by such Relevant Shareholder in Chengdu Qilu by itself or through its appointees under the Exclusive Option Agreement. All equity interest of Chengdu Qilu held by Relevant Shareholders have also been pledged to WFOE under the Share Pledge Agreement to secure performance of obligations under the Contractual Arrangements and in case of any breach of such obligations, WFOE is entitled to enforce such pledge.



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## CONTRACTUAL ARRANGEMENTS

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### *Termination*

Each of the Contractual Arrangements provides that WFOE and Chengdu Qilu shall terminate the Contractual Arrangements once WFOE holds the entire equity interests and/or the entire assets of Chengdu Qilu under the then PRC laws and if WFOE or its subsidiaries are able to conduct the Relevant Businesses directly as a result of being permitted to do so under the then PRC laws and WFOE is registered as the sole shareholder of Chengdu Qilu. In addition, pursuant to the Exclusive Business Cooperation Agreement, WFOE has the unilateral right to terminate these agreements at any time by providing 30 days' advance written notice to Chengdu Qilu.

### *Insurance*

The Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

### *Qualification Requirements*

In addition to the foreign investment restrictions, according to the FITE Regulations, the main foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas. For details, please refer to “Risk Factors – Risks Relating to Our Contractual Arrangements – If we exercise the option to acquire equity ownership of Chengdu Qilu, the ownership transfer may subject us to certain limitations and substantial costs.” in this Prospectus. Since no written guidelines have been publicly issued by the MIIT to specify the criteria of the Qualification Requirements (such as what would constitute “a good track record”), the MIIT retains reasonable discretion in granting approvals for the foreign investor’s commencement of value-added telecommunication business in the PRC.

We have taken and plan to continue to take steps to enable ourselves to comply with the Qualifications Requirements if and when the PRC laws and competent authorities substantially allow foreign investors to invest in value-added telecommunications enterprises in the PRC. We have established overseas professional teams to manage and develop our Group’s overseas business to actively explore the overseas markets. Apart from our Ludashi Software, we also launched Dual Space and Easy Clean abroad in November 2017 and July 2018, respectively, the MAUs of which have experienced rapid growth since their launches, and reached 16.0 million and 1.8 million in December 2018, respectively. We will continue to develop, test and launch new products and services to diversity our product lines and further exploit the overseas markets. In 2018, we have registered our *Ludashi* brand with the relevant authority in Hong Kong, and had applied to register our *Ludashi* brand in Indonesia, Singapore, India and Malaysia. To further strengthen our worldwide brand recognition and build up our brand image in the overseas markets, we have taken reasonable and appropriate steps to protect our intellectual property rights.

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We expect that the aggregate expenditures incurred and to be incurred for taking the steps mentioned above will be minimal as our proposed steps mostly involve the application of ready-made resources of our Group. Our PRC Legal Advisers is of the view that the steps mentioned above are reasonable and appropriate to enhance our overseas experience for compliance with the Qualification Requirements. We will continue to seek specific guidance from relevant PRC regulatory authorities with respect to compliance with the Qualification Requirements and are committed to implement our expansion plan in targeted overseas markets with an aim to develop a proven track record of operating value-added telecommunications businesses. We will provide periodic updates of our efforts and actions taken to comply with the Qualification Requirements in our annual and interim reports after the Listing.

### *Company's Confirmation*

As of the Latest Practicable Date, the Company had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Chengdu Qilu and its subsidiaries under the Contractual Arrangements.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed "Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions" in this Prospectus.

### **Legality of the Contractual Arrangements**

WFOE's right to deal with the pledged equity interest in Chengdu Qilu under the Share Pledge Agreement and its option to acquire the equity interest in Chengdu Qilu under the Exclusive Option Agreement are confined to be carried out in a manner as permitted by the relevant PRC laws.

Further, the pledges created under the Share Pledge Agreement shall only become effective upon its due registration with the AMR. Based on the above, our PRC Legal Advisers are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

Our PRC Legal Advisers are also of the opinion that:

- (i) each of WFOE and Chengdu Qilu is an independent legal entity which is duly incorporated, and their respective establishment is valid, effective and complies with the relevant PRC laws; each of WFOE and Chengdu Qilu has also completed registration or filing procedures as required by the applicable PRC laws and regulations;
- (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto;

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- (iii) none of the agreements under the Contractual Arrangements violates any provisions of respective articles of association of WFOE, Chengdu Qilu and its subsidiaries;
- (iv) (a) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that the pledges under the Share Pledge Agreement is required to be registered with the relevant Administration of Industry and Commerce, which has been duly completed on 5 September 2018; (b) the exercise of the option by WFOE of its rights under the Exclusive Option Agreement to acquire all or part of the equity interests in Chengdu Qilu are subject to the approvals of and/or registrations with the PRC regulatory authorities; and (c) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement;
- (v) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Chengdu Qilu, injunctive relief and/or winding up of Chengdu Qilu, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the Chengdu Qilu in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and
- (vi) Each of the Contractual Arrangements is enforceable under the PRC laws and regulations, and entering and the performance of the Contractual Arrangements are not required to obtain any approvals or authorization from the PRC governmental authorities, except that (a) the pledge of any equity interests in Chengdu Qilu in favor of the WFOE is subject to registration requirements with relevant Administration of Industry and Commerce; (b) the transfer of equity interest in Chengdu Qilu contemplated under the Contractual Arrangements is subject to applicable approval and/or registration requirements under the then applicable PRC laws and (c) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Contractual Arrangements are subject to application to competent PRC courts for recognition and enforcement.

There are uncertainties regarding the PRC laws and regulations and the PRC legislature, executive, judiciary or arbitration authorities have a wide discretionary power for legal interpretation. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisers. The PRC governmental authorities may also implement laws or regulations in the future which may render the Contractual Arrangements void.

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On 28 September 2009, the GAPP, the National Copyright Administration of the PRC (中華人民共和國國家版權局) and the National Office of Combating Pornography and Illegal Publications (國家掃黃打非辦公室) jointly published the Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Re-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games (關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋, 進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知), or the GAPP Notice. The GAPP Notice prohibits foreign investors from participating in online game operating businesses through foreign-invested enterprises in the PRC, and from controlling and participating in such businesses of domestic companies indirectly through other forms of joint ventures or contractual or technical support arrangements. According to the Regulations on the Main Functions, Internal Organization and Staffing of the GAPP (國家新聞出版總署(國家版權局)主要職責內設機構和人員編製規定) issued by the General Office of the State Council on 11 July 2008 and its interpretation circulars, the GAPP is authorized to approve online games before their release on the Internet, while the MOC is authorized to administer and regulate the overall online game industry.

Our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers, interviewed Sichuan Department of Culture (四川省文化廳), Tianjin Culture, Broadcasting, Film and Television Bureau (天津市文化廣播影視局), Tianjin Press and Publishing Bureau (天津新聞出版社), and the Communications Administration of Sichuan and Tianjin (四川及天津通信管理局), in April and July 2018, which confirmed that our Contractual Arrangements are a manner of enterprises' independent operation and do not violate any applicable PRC laws and regulations. The aforesaid authorities are the local competent counterparts of the MOC, GAPP and MIIT, respectively, which are empowered with powers of interpreting and implementing relevant national laws and regulations issued by the MOC, GAPP and MIIT, respectively. Based on the result of consultation with the foresaid authorities, our PRC Legal Advisers are of the opinion that except for dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration, the Contractual Arrangements, taken individually and collectively, are valid and legally binding on the relevant parties to them, and will not be invalidated because of the GAPP Notice. We therefore do not believe that the GAPP would take actions against our Contractual Arrangements with Chengdu Qilu to the effect of invalidating our Contractual Arrangements based solely on the GAPP Notice.

Based on the above analysis, the Directors are of the view that the Contractual Arrangements are not likely to be challenged by the relevant authorities in the PRC.

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We are aware of a Supreme People's Court ruling (the “**Supreme People's Court Ruling**”) made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” set out in Article 52 of the PRC Contract Law and the General Provisions of the PRC Civil Law (中華人民共和國民法總則). It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (ii) the incentive for shareholders of Chengdu Qilu under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisers are of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisers are of the view that the Contractual Arrangements would not be deemed as “concealing illegal intentions with a lawful form” such that they also do not fall within circumstance (iv) above under Section 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable Chengdu Qilu to transfer its economic benefits to WFOE as service fees for engaging WFOE as its exclusive service provider and (b) to ensure that the Relevant Shareholders do not take any actions that are contrary to the interests of WFOE. In accordance with Article 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of Chengdu Qilu, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law. Please refer to “Business – Legal Proceedings and Compliance” for details of the compliance history of our Group.

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### *Accounting Aspects of the Contractual Arrangements*

According to HKFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own Chengdu Qilu and its subsidiaries, the Contractual Arrangements as mentioned above enable our Company to exercise control over Chengdu Qilu and its subsidiaries.

Under the Exclusive Business Cooperation Agreement entered into by and between WFOE and Chengdu Qilu, it was agreed that, in consideration of the services provided by WFOE, Chengdu Qilu will pay service fees to WFOE. The service fees, subject to WFOE's adjustment, are equal to all of the net profit of Chengdu Qilu and its subsidiaries and may also include retained earnings of Chengdu Qilu from previous financial periods. WFOE may adjust the service fees at its sole discretion and allow Chengdu Qilu to retain sufficient working capital to carry out any growth plans. Chengdu Qilu shall deliver to WFOE their management accounts and operating statistics periodically. Accordingly, WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefit of Chengdu Qilu and its subsidiaries through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Option Agreement among the parties, WFOE has absolute control over the distribution of dividends or any other amounts to the shareholders of Chengdu Qilu and its subsidiaries as WFOE's prior written consent is required and WFOE can request for immediate distribution of profits to be made.

Further, under the Powers of Attorney, WFOE assumes all rights as shareholder and exercises control over Chengdu Qilu and its subsidiaries, including the right to propose, convene and attend shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the legal representative (chairperson), the director, supervisor, the chief executive officer (general manager) and other senior management members of Chengdu Qilu. As a result of these agreements, the Company has obtained control of Chengdu Qilu and its subsidiaries through WFOE and, under the Company's sole discretion, can receive substantially all of the economic interest returns generated by Chengdu Qilu and its subsidiaries. Accordingly, Chengdu Qilu's results of operations, assets and liabilities, and cash flows are consolidated into the Company's financial statements.

In this regard, our Reporting Accountants, Deloitte Touche Tohmatsu, has issued an unqualified opinion on our Group's consolidated financial information for the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, as included in the Accountant's Report in Appendix I to this Prospectus which include the financial results of Chengdu Qilu being consolidated into our Group's financial information as if it was our Group's subsidiary.



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### DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

#### *The 2015 Draft Foreign Investment Law*

##### **Background**

MOFCOM published a discussion draft of a proposed foreign investment law (《中華人民共和國外國投資法》) (the “**2015 Draft Foreign Investment Law**”) in January 2015 for consultation purposes. MOFCOM has solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The 2015 Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investment in China.

##### **Negative Catalog**

The 2015 Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The “negative catalog” set out in the 2015 Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalog of Prohibitions (禁止實施目錄) and the Catalog of Restrictions (限制實施目錄), respectively. Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council. Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions provided that they fulfill certain conditions and apply for permission before making such investment. However, the 2015 Draft Foreign Investment Law does not specify the businesses to be included in the Catalog of Prohibitions and the Catalog of Restrictions.

##### **Principle of “actual control”**

Among other things, the 2015 Draft Foreign Investment Law purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or foreign invested entity (“**FIE**”).

The 2015 Draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative catalog” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the 2015 Draft Foreign Investment Law to cover any of the following categories:

- (i) directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;



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- (ii) directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:
  - having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies,
  - having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or
  - having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or
- (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of “actual control,” the 2015 Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the FIE. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the 2015 Draft Foreign Investment Law defines “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a “negative catalog” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

### *Impact of the 2015 Draft Foreign Investment Law on VIE*

The “variable interest entity” structure (the “**VIE structure**”), has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control over Chengdu Qilu by WFOE, through which we operate the online game business in the PRC.

According to the 2015 Draft Foreign Investment Law, where the FIE under the actual control of PRC investors (either by way of PRC state-owned enterprises or agencies or PRC citizens) invests in a sector set out in the Catalog of Restriction, when applying for access permission (准入許可) they may submit documentary evidence to apply for identification as an investment by PRC entities and/or citizens. However, our PRC Legal Advisers are of the view that the Contractual Arrangements will be deemed legitimate and effective if the ultimate controlling person(s) is/are of PRC nationality or they take other measures as required by applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted. Despite the content and the classification of the categories in the “negative catalog” being unclear and unpredictable at this stage, we will take

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any reasonable measures and actions under applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted to minimize the adverse effect of such laws on the Contractual Arrangements.

The 2015 Draft Foreign Investment Law has not been enacted and our Contractual Arrangements were established before the enactment of the 2015 Draft Foreign Investment Law. Notwithstanding that the accompanying explanatory notes to the 2015 Draft Foreign Investment Law (the “**Explanatory Notes**”) do not provide a clear direction in dealing with VIE structures existing before the 2015 Draft Foreign Investment Law becomes effective, which (together with the 2015 Draft Foreign Investment Law) were still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling in the “negative catalog”:

- (i) requiring them to make a filing (申報) to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;
- (ii) requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification (認定) by the competent authority, the VIE structures may be retained; and
- (iii) requiring them to apply to the competent authority for access permission (准入許可) to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, “making a filing” is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, while for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the 2015 Draft Foreign Investment Law and the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation. The 2015 Draft Foreign Investment Law also stipulates that investors from Hong Kong, Macau and Taiwan who control a domestic enterprise may attract special treatment and recommends the State Council to separately issue regulations to this effect.

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Where foreign investors and FIEs circumvent the provisions of the 2015 Draft Foreign Investment Law by entrusted holdings, trusts, multi-level re-investments, leasing, contracting, financing arrangements, protocol control, overseas transactions or otherwise, make investments in sectors specified in the Catalog of Prohibitions, make investments in sectors specified in the Catalog of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the 2015 Draft Foreign Investment Law, as the case may be.

If foreign investors make investments in the sectors specified in the Catalog of Prohibitions, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the 2015 Draft Foreign Investment Law, including by way of failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the 2015 Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

### *Status of promulgation of the 2015 Draft Foreign Investment Law*

As of the Latest Practicable Date, there is no definite timeline when the 2015 Draft Foreign Investment Law will come into effect, and more importantly, whether it is to be promulgated in the current draft form, and MOFCOM has neither issued any definite rules or regulations to govern existing contractual arrangements.

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### *Control over our PRC Operating Entities by PRC entities/citizens*

If the 2015 Draft Foreign Investment Law is promulgated in the current draft form, our PRC Legal Advisers are of the view that we are likely to be viewed as being controlled by PRC citizens on the following basis:

- (i) Based on the Contractual Arrangements, the PRC Operating Entities are controlled by WFOE (which is PRC established) pursuant to the third limb of the definition of “control” under the 2015 Draft Foreign Investment Law (i.e. exerting decisive impact on the enterprise’s management, finance, human resources or technologies by contracts, trust or other ways).
- (ii) at the time of Listing, a majority of the Directors will consist of PRC nationals. Through a series of arrangements as summarized below, we will ensure that the majority of the Board (which is the governing body of Company and makes all material decisions with respect to the Group) consists of PRC citizens, and our Company (and therefore the WFOE as its wholly-owned subsidiary) is likely to be considered as ultimately controlled by PRC nationals pursuant to the second and third limbs of the definition of “control” under the 2015 Draft Foreign Investment Law as described above.

#### **(a) The Company’s corporate governance measures**

- The Company’s Articles of Association will be revised to the effect that the majority of the Board shall consist of PRC nationals (the “**PRC Nationals Control Clause**”), which will come into effect upon listing.
- The Company’s Articles of Association provide that a Director may only be elected or appointed either (i) by Shareholders of the Company voting upon the resolutions that have been proposed by a majority of the Directors; or (ii) by a majority of the Directors (the “**Director Election/Appointment Clause**”). The Company’s Articles of Association will be revised to the effect that the Board is in turn restricted to appoint or propose to the Company’s Shareholders to elect Directors from candidates nominated by the Nomination Committee in accordance with the terms of the reference of the Nomination Committee.
- The Company’s Articles of Association provide that the Board has the power, from time to time and at any time, to appoint any person as an additional Director to the Board, subject to the requirement that any Director so appointed shall hold office only until the next annual general meeting and shall then be eligible for re-election. If the Shareholders of the Company do not vote to re-elect any Director nominated or appointed by the Board, it is in any event within the power of the Board to appoint one or more additional Directors, subject to the Directors being subject to re-election at the next annual general meeting of the Company (the “**Additional Directors Appointment Clause**”).

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- The Nomination Committee of the Board is responsible for recommending nominees to the Board for appointment as Directors. The terms of reference of the Nomination Committee will be revised to provide that when nominating Directors, the Nomination Committee shall be bound by the PRC Nationals Control Clause, which will come into effect upon listing. The Shareholders of the Company have no right to propose any amendment to the terms of reference of the Nomination Committee which has not been proposed by the Board.

The Company's legal advisers on Cayman Islands laws, Conyers Dill & Pearman, have confirmed that the PRC National Control Clause, the Director Election/Appointment Clause and the Additional Directors Appointment Clause are not in contravention of the Cayman Islands' laws applicable to the Company which are currently in force.

**(b) Other relevant measures**

Furthermore, the Company will implement the following measures (the "**Relevant Measures**"):

- (i) it will use its best endeavors to ensure that a majority of the Directors on the Board are PRC nationals, to the extent permitted by applicable laws, regulations and rules; and
- (ii) if the Company receives any proposal to amend any of the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause, it will make full disclosure of the potential risks associated with such proposal and the scenario which may arise from such amendment, including but not limited to delisting of the Company's Shares from the Stock Exchange, in the circular to be dispatched to the Shareholders of the Company.

The Relevant Measures will be subject to approval of the independent Shareholders in general meeting and remain effective until the earliest to occur of the following events:

- (i) compliance with the relevant requirements under the 2015 Draft Foreign Investment Law or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required by the Stock Exchange has consented to this;
- (ii) the Stock Exchange and any applicable PRC regulatory departments have consented to such termination;
- (iii) the Company unwinds and terminates the Contractual Arrangement; or
- (iv) the Company is delisted from the Stock Exchange.

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To the extent that only part of the Relevant Measures is no longer required as a result of the above, only such part of the Relevant Measures that is no longer required shall cease to be effective. To the extent that the Relevant Measures (or any part thereof) is no longer effective, the Company will issue an announcement as soon as possible.

**(c) Mr. Tian's and Dashi Technology Holdings' undertakings**

Furthermore, Mr. Tian and Dashi Technology Holdings, who are the Controlling Shareholders of the Company, will undertake to the Company (the “**Mr. Tian's and Dashi Technology Holdings' Undertakings**”), to the extent of all their shareholdings in the Company from time to time that:

- (i) they will not, severally or jointly, propose any resolution to amend the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause in the Company's constitutional documents at the general meeting of the Company; and
- (ii) they will vote against any proposal to amend the PRC Nationals Control Clause, the Director Election/Appointment Clause and/or the Additional Directors Appointment Clause in the Company's constitutional documents at the general meeting of the Company.

The Mr. Tian's and Dashi Technology Holdings' Undertakings will be subject to approval of the independent Shareholders in general meeting and remain effective until the earliest to occur of the following events:

- (i) compliance with the relevant requirements under the 2015 Draft Foreign Investment Law or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required by the Stock Exchange has consented to this;
- (ii) compliance with Mr. Tian's and Dashi Technology Holdings' Undertakings is no longer required, as advised by the Stock Exchange;
- (iii) the Stock Exchange and any applicable PRC regulatory departments have consented to such termination;
- (iv) the Company unwinds and terminates the Contractual Arrangement; or
- (v) the Company is delisted from the Stock Exchange.

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To the extent that only part of Mr. Tian's and Dashi Technology Holdings' Undertakings is no longer required as a result of the above, only such part of Mr. Tian's and Dashi Technology Holdings' Undertakings that is no longer required shall cease to be effective. To the extent that Mr. Tian's and Dashi Technology Holdings' Undertakings (or any part thereof) is no longer effective, the Company will issue an announcement as soon as possible.

***Potential impact and consequences of the 2015 Draft Foreign Investment Law on our Company if the Contractual Arrangements are not treated as domestic investment***

If the operation of the Relevant Businesses is no longer on the "negative catalog" and we can legally operate the online game business under PRC laws, WFOE will exercise the call option under the Exclusive Option Agreement to acquire the equity interest of Chengdu Qilu and unwind the Contractual Arrangements subject to any then applicable approvals from relevant authorities, and subject to any application or approval procedures by the relevant governmental authorities. Pursuant to the Exclusive Option Agreement, the Relevant Shareholders have undertaken that, subject to the relevant PRC laws and regulations, they shall return to WFOE any consideration they receive in the event that WFOE acquires the interests in Chengdu Qilu when terminating the Contractual Arrangements.

If the operation of the online game business is on the "negative catalog" and the 2015 Draft Foreign Investment Law as finally enacted is refined or deviates from the current draft, depending on the treatment of existing VIE structures, the Contractual Arrangements may be regarded as invalid and illegal. As a result, we would not be able to operate the Relevant Businesses through the Contractual Arrangements and would lose our rights to receive the economic benefits of Chengdu Qilu and its subsidiaries. As a result, the financial results of Chengdu Qilu and its subsidiaries would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. If the Group does not receive any compensation, an investment loss would be recognized as a result of such de-recognition. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. Please see "Risk Factors – Risks Relating to our Contractual Arrangements – Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the 2015 draft PRC foreign investment law and how it may impact the viability of our current corporate structure, corporate governance and business operations." in this Prospectus for further details.

Nevertheless, considering that a number of existing entities engaged in the Apps and game industries, some of which have obtained listing status abroad, are operating under contractual arrangements, our Directors are of the view that it is unlikely, if the 2015 Draft Foreign Investment Law is promulgated, that the relevant authorities will apply it retrospectively to require relevant enterprises to remove or otherwise unwind their contractual arrangements.



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However, there are uncertainties as to the definition of control that may be adopted in the 2015 Draft Foreign Investment Law as finally enacted, and the relevant government authorities will have a broad discretion in interpreting the law.

Please refer to “Risk Factors – Risks Relating to our Contractual Arrangements” for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the 2015 Draft Foreign Investment Law, if and when it comes into force.

### *Foreign Investment Law*

#### **Background**

On 23 December 2018, the 7th meeting of the 13th SCNPC reviewed the 2018 draft foreign investment law first submitted by the State Council, which was promulgated by the NPC on its official website on 26 December 2018 for public consultation until 24 February 2019, and further submitted the second draft of the 2018 draft foreign investment law to the NPC for deliberation on 29 January 2019. On 15 March 2019, the NPC adopted the PRC foreign investment law\* (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the Law on Chinese-Foreign Equity Joint Ventures\* (《中外合資經營企業法》), the Law on Chinese-Foreign Contractual Joint Ventures\* (《中外合作經營企業法》) and the Law on Wholly Foreign-Owned Enterprises\* (《外資企業法》) to become the legal foundation for foreign investment in the PRC. However, there remain significant uncertainties about the relationship between the Foreign Investment Law and the 2015 Draft Foreign Investment Law because there are no relevant implementing rules or official explanation.

#### **Impact and Potential Consequences of the Foreign Investment Law on our Contractual Arrangements**

The Foreign Investment Law stipulates three forms of foreign investment, but does not mention concepts including “actual control” and “control over our PRC Operating Entities by PRC entities/citizens,” nor does it explicitly stipulate the contractual arrangements as a form of foreign investment. If the Foreign Investment Law becomes effective in the current form, and the then laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, our PRC Legal Advisers are of the view that our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties.

Furthermore, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council.” There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain

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whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. If the operation of the Relevant Businesses is no longer falling in the scope that foreign investment is prohibited or certain conditions and permission of foreign investment access required under the Special Administrative Measures and we can legally operate our online game business under PRC laws, WFOE will exercise the call option under the Exclusive Option Agreement to acquire the equity interest of Chengdu Qilu and unwind the Contractual Arrangements subject to any then applicable approvals from the relevant authorities, and subject to any application or approval procedures by the relevant governmental authorities. If the operation of the online game business is falling in the scope that foreign investment is prohibited or certain conditions and permission of foreign investment access required under the Special Administrative Measures and the Foreign Investment Law is refined or deviates from the current form, depending on the treatment of the existing contractual arrangements, the Contractual Arrangements may be regarded as invalid and illegal. As a result, we would not be able to operate the Relevant Business through the Contractual Arrangements and would lose our rights to receive the economic benefits of our PRC Operating Entities. As a result, the financial results of our PRC Operating Entities would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. If the Group does not receive any compensation, an investment loss would be recognized as a result of such de-recognition. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. Therefore, there is no guarantee that the Contractual Arrangements and the business of PRC Operating Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations.

Nevertheless, considering that a number of existing entities engaged in the Apps and games industries, some of which have obtained listing status abroad, are operating under contractual arrangements, our Directors are of the view that there is little possibility, if the Foreign Investment Law become effective, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove, or otherwise unwind their contractual arrangements.

However, there are uncertainties regarding the Foreign Investment Law including, among others, the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisers' understanding, and there is still uncertainty whether any new PRC laws, rules or regulations relating to contractual arrangements will be adopted in the future.

Please refer to "Risk Factors – Risks Relating to our Contractual Arrangements" for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek to comply with the Foreign Investment Law as and when appropriate and necessary.

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## CONTRACTUAL ARRANGEMENTS

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### COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in its annual reports; and
- (d) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board with reviewing the implementation of the Contractual Arrangements, and review the legal compliance of our WFOE and the Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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*You should read this Prospectus in its entirety before you decide to invest in the Offer Shares, and not rely solely on key or summarized information. All market statistics quoted in this Prospectus, unless otherwise specified, are derived from an industry report issued by Frost & Sullivan. For the qualifications of Frost & Sullivan as well as details of the industry report, see “Industry Overview” in this Prospectus.*

### OUR VISION

Our vision is to offer the users joy and convenience from their use of smart devices.

### OVERVIEW

We develop a series of PC and mobile devices utility software and offer them to users free-of-charge in exchange for online traffic that we monetize by online advertising and online game business and further expand by electronic devices sales. Our utility software, *Ludashi* (魯大師), which means *Master Lu*, is a well-known brand and software in China and elsewhere in the world with a specialty in PC/smartphone hardware and system benchmarking and monitoring. We have accumulated a large user base pool through providing free download and installation of Ludashi Software. According to Frost & Sullivan, for the year ended 31 December 2018, we were the largest PC and smartphone hardware and system benchmarking and monitoring solution provider in China in terms of user base, occupying 98.8% and 58.9% of the market share based on the MAUs for PCs and mobile devices, respectively. We launched our PC hardware and system benchmarking and monitoring software in 2007 and our mobile devices hardware and system benchmarking and monitoring App in 2013. The MAUs for our products, comprising that of our utility software of 120.4 million and that of game library of 4.9 million, amounted to approximately 125.3 million in April 2019. Among the MAUs of our products, there were 103.8 million MAUs in the PRC. Another 21.5 million MAUs were generated from products geared towards overseas markets. We also launched other utility software other than Ludashi Software for our users, such as Dual Space in November 2017, AImark in April 2018, and 360 Battery Doctor in February 2012. We commenced selling smart accessories from January 2015, certified pre-owned and factory smartphones from August 2017 and other electronic devices from November 2018.

We offer utility software free-of-charge to a growing user base during the Track Record Period. A substantial proportion of our gross profit was generated through online traffic monetization. Our large user base, accumulated through our value-added and functional utility software, lays a solid foundation for our monetization. Riding on the widely-recognizable brand *Ludashi*, we established the business lines of sales of electronic devices and online games in 2015 and 2016, respectively. Our remarkable hardware and system benchmarking and monitoring software is built upon our big-data analytics capabilities to gather a large amount of hardware information. Such big-data analytics capabilities enable our products to benchmark and monitor users' PCs and mobile devices more accurately than ever and build up a set of mature and well-functioning benchmarking system, and thus guarantees our further

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expansion in different fields. Leveraging on such expertise in hardware and system benchmarking and monitoring, we have built up a hardware and system benchmarking and monitoring ecosystem of the largest user base and established strong brand recognition for *Ludashi* among general public and particularly the information technology savvy users with greater demands on hardware properties and performance, which helps us expand our user base and steady online user traffic in return. During the Track Record Period, we derived a substantial percentage of the revenue from two business lines under online traffic monetization – online advertising service and online game business.

Under our online advertising service, we offer three types of services, which are: (i) homepage directing service, (ii) mini-page service, and (iii) banner advertising service. Our customers acquire exposure to a vast number of users of our *Ludashi* Software with our different types of advertising services, which contributes online user traffic and viewer to their products. We charge them on a cost-per-action basis at large and generate revenue forming a vital part of our total revenue. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from online advertising service was RMB66.8 million, RMB97.7 million, RMB174.6 million, RMB42.2 million and RMB65.2 million, respectively, accounting for 95.7%, 79.7%, 54.5%, 43.2% and 57.4%, respectively, of our total revenue.

Prior to 2017, we operated online game directing business. Before September 2017, we directed users from our *Ludashi* Software to a game platform operated by an Independent Third Party. We launched our own online game platform on PC in September 2017 by which we cooperated with game developers and distributors by sharing with them the revenue we received from game players. As of the Latest Practicable Date, 53 games were available in our game library on our website [wan.ludashi.com/game](http://wan.ludashi.com/game). The MAUs for our game library were 4.9 million in April 2019. We plan to launch a game designed especially for our platform and its users in 2019. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from online game business, including online game platform operation and online game directing, was RMB2.6 million, RMB22.6 million, RMB42.9 million, RMB12.6 million and RMB19.0 million, respectively, accounting for 3.7%, 18.4%, 13.4%, 12.9% and 16.7% , respectively, of our total revenue.

In order to further monetize our hardware and system benchmarking and monitoring technology, we commenced our business of electronic devices sales, which mainly consist of smart accessories sales from January 2015, certified pre-owned and factory smartphones sales from August 2017 and other electronic devices sales from November 2018. We adopt methods of online e-commerce platforms and offline wholesale for electronic devices sales. Our widely-recognized brands, *Xiao Lu You Xuan* (小魯優選), *Xiao Lu Hao Huo* (小魯好貨) and *Looda* (魯蛋), represent certified pre-owned and factory smartphone sales and smart accessory sales, respectively. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from this business line, was RMB0.4 million, RMB2.3 million, RMB102.8 million, RMB42.8 million and RMB29.4 million, respectively, accounting for 0.6%, 1.9%, 32.1%, 43.9% and 25.9%, respectively, of our total revenue. We anticipate that sales of electronic devices will become one of our key revenue sources for the years to come.

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We grew rapidly during the Track Record Period. Our revenue increased from RMB69.8 million for the year ended 31 December 2016 to RMB122.6 million for the year ended 31 December 2017, and to RMB320.3 million for the year ended 31 December 2018. Our revenue also increased from RMB97.7 million for the four months ended 30 April 2018 to RMB113.7 million for the four months ended 30 April 2019. Our net profit attributable to shareholders increased from RMB31.7 million for the year ended 31 December 2016 to RMB53.2 million for year ended 31 December 2017, and to RMB71.9 million for the year ended 31 December 2018. Our net profit attributable to shareholders also increased from RMB18.9 million for the four months ended 30 April 2018 to RMB27.4 million for the four months ended 30 April 2019. As of the Latest Practicable Date, we had 359 outstanding contracts on hand, including 97 online advertising contracts, 192 online games contracts, and 72 certified pre-owned and factory smartphone sales contracts.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are key factors contributing to our success:

*We are the largest hardware and system benchmarking and monitoring solutions provider for PCs and mobile devices in the PRC market with increasing active users.*

We launched the PC version of Ludashi Software in 2007. In the past decade, the market for hardware and system assessment software increased rapidly. Leveraging on having taken a favorable position in the market at the outset, we have accumulated an increasingly large user base and now become the largest PC and mobile devices hardware and system benchmarking and monitoring solutions provider in China in terms of user base, according to Frost & Sullivan.

Our benchmarking results of PCs have been frequently used in the market in comparing the performance of hardware and system of PCs. This approach to users expands our user base with the rising trend of this industry, which Frost & Sullivan believes will continue to grow over time. The average MAUs of hardware and system benchmarking and monitoring software for PC increased from 11.7 million in 2014 to 60.1 million in 2018, with a CAGR of 50.7%. The average MAUs of the PC version of Ludashi Software for the year ended 31 December 2018 represents a market share of 98.8% in China. Similarly, the average MAUs of hardware and system benchmarking and monitoring software for mobile electronic products increased from 5.3 million in 2014 to 6.6 million in 2018, with a CAGR of 5.8%. The average MAUs on the mobile devices version of Ludashi Software for the year ended 31 December 2018 represented a market share of 58.9% in China.

Our PC and mobile devices benchmarking and monitoring solutions are well trusted by the general public, particularly the information technology savvy users of PCs. The large user pool as a result of our PC and mobile devices benchmarking and monitoring solutions generates a large volume of online traffic and ensures its monetization.

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*We have established a well-recognized brand image as a hardware expert and have strengthened our capabilities by developing additional functions of Ludashi Software and extended utility software with more meticulous functions.*

We retain our users and cultivate their stickiness to Ludashi Software by developing additional functions, such as temperature monitoring and management, and cleaning-up. These functions often come in handy for users and continuously meet their needs in different aspects from time to time. Even though our competitors may update their software with additional functions as we do, we have been able to maintain competitive advantage over our competitors. Utility software attracts users mainly through one or two core functions. The core function of Ludashi Software is hardware and system benchmarking. The benchmarking technology was formed based on the vast amount of data we have collected through more than ten years' development. Such a valuable data base firmly establishes our competitive advantage over our competitors, helps us attract a large number of users and cannot be counterfeited easily.

In July 2013 and August 2013, we further launched mobile devices version of Ludashi Software for mobile devices that operate under iOS and Android operating systems, respectively. Our product is frequently used on mobile devices to examine hardware performance and to identify counterfeit smartphones. The MAUs for our mobile devices version of Ludashi Software under Android system amounted to 3.2 million in April 2019.

In 2017, we launched Dual Space under Android operating system, the function of which is to run a virtual Android system to operate a duplicate of an original App, in order to operate different social media accounts on the same device. Dual Space is a more advanced and meticulous extension and individualization of a function contained in the mobile devices version of Ludashi Software. This App achieved a remarkable recognition in the overseas markets. The MAUs for Dual Space were 18.5 million in April 2019. In 2018, we launched AImark under both iOS and Android operating systems, a smartphone AI chip performance evaluation App. It is also a function contained in the mobile devices version of Ludashi Software. In 2012, we launched 360 Battery Doctor, an App to test and make recommendations on optimizing smartphone battery performance. The MAUs for 360 Battery Doctor amounted to 0.3 million under Android system in April 2019.

To develop and operate the utility software, we master the advanced and strong hardware and system benchmarking and monitoring technologies. The quality of our utility software in turn further enhances the value of our *Ludashi* brand.

*We provide online advertising services and online game business to monetize our large and growing user base and generate steadily increasing revenue.*

We develop the foregoing services and products to meet a full spectrum of our users' and customers' needs, such as varieties of advertising and online games. Our large and growing user base serves as the basis for the continued growth of our paying customer base, including customers using our online advertising services and game players on our platform for a fee.



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Our Ludashi Software is a powerful medium through which advertisers can gain exposure to potential users. Every homepage directed, every mini-page window popping-up and every banner we provide makes it easier and more effective for our customers to draw attention of Internet users than traditional approaches do. Our mutual and complementary relationship with Qihu Technology contributed approximately 10% of the total visits of <https://hao.360.cn/>. As such, we believe that we are a key contributor of the online user traffic being directed to the homepage of Qihu Technology. Shanghai Songheng, which operates [mini.eastday.com/](http://mini.eastday.com/), has been one of our customers since May 2016 by placing mini-pages with us so as to get exposure to the vast user base of Ludashi Software. We charge our customers on a cost-per-action basis at large and generate revenue, thus the revenue of online advertising services tightly links to our user base. Although it is possible that the development of PC online advertising market in the PRC may not continue the fast pace as what it was in the past years and, in particular, the user traffic of web directories in China may continue to decrease, our substantial and increasing user base of Ludashi Software is expected to benefit from the increasing penetration rate of our products. Based on the substantial existing and new users of the PC version of Ludashi Software, our homepage directing services benefit from a strong domain of users. Riding on our large and growing user base, we are in a good position to increase our revenue from online advertising services accordingly. Besides, we have an existing advantage in online advertising service. It is because based on their trust on our hardware and system benchmarking and monitoring expertise, users tended to agree to set the homepages we recommended to them as their default setting in the use process of our Ludashi Software, boosting the stable increase in our revenue from online advertising service. During the Track Record Period, we provided stable homepage directing services for our users, which enable us to build up a good reputation in the online advertising market. Leveraging on the further development of our other services of online advertising services and online game business, our online traffic monetization channels expect to be more diversified. As such, our revenue structure of online traffic monetization tends to be more broadly-based.

We started our online game business in April 2016. Our own online game platform, a platform for finely selected online games, also contributes significantly to the success of our business. As of the Latest Practicable Date, 53 games were available in our game library on our website [wan.ludashi.com/game](http://wan.ludashi.com/game). The MAUs for our game library were 4.9 million in April 2019. With our big-data analytics capabilities, we catch insight into players' common and special needs, and further fulfill their expectations by our finely selected games. We devote to building an online game platform where players may have wonderful and high-quality service experience. We provide tailored player services for ordinary players and VIP players. On the one hand, we provide QQ consulting groups hotline and WeChat groups for our players. Besides, we prepare special gifts, such as snacks, special local products and coupons, for our players on their birthdays and important festivals. By offering players satisfying experience and tied virtual items on our platform, we have strong player stickiness. As such, we are able to maintain a growing number of users and generate revenue in a steady flow.

***We have leading big-data analytics capabilities and strong research and development capabilities that guarantee our further expansion in different fields.***

Our key products are built upon our capabilities in analyzing big-data to gather hardware information and test and compare the performance of PCs and mobile devices. The accuracy of hardware and system benchmarking largely depends on the completeness of the database of hardware information, which requires commitments and investments in continuous information gathering, analyzing and updating. In 2007 when it was launched, our hardware and system benchmarking and monitoring software was considered a pioneer product in China. We believe that our database, which has been built over a long period of time, has collected ample amount of information that is key to successful hardware and system benchmarking and monitoring.

In addition, we have a creative, strong and dedicated research and development team committed to continuously adding new features to our current products and services as well as developing new products and services. Members of our research and development team has more than six years on average working experience in domestic leading information technology companies. Especially our chief technological officer, Mr. He Shiwei (何世偉), has more than 18 years of experience in the information technology industry and more than 15 years of experience as a head of research and development team. His rich experience in team management and information technology App provides sufficient technical support for us and enable us to solve technical difficulties we may encounter in the future. Since 2014, our research and development team has obtained three product patents, certificates for 61 software copyrights and one Sichuan Province software product. Seizing the opportunities from the online game industry, our research and development team decided to devote our expertise to developing our own game platform in September 2017 to offer a platform aggregating some of the most popular and preferred games developed by third parties. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, the revenue from our online game business was RMB2.6 million, RMB22.6 million, RMB42.9 million, RMB12.6 million and RMB19.0 million, accounting for 3.7%, 18.4%, 13.4%, 12.9% and 16.7% of our total revenue of the same period, respectively.

***Our visionary and experienced management team with in-depth industry knowledge together with our strong shareholder base ensures the successful development of our business.***

We are led by a visionary and experienced senior management team with solid industry experience, which has enabled us to achieve continued growth and success. Mr. Tian Ye (田野), our founder and executive Director, has more than 15 years of experience in the information technology industry. Mr. Tian was a key developer in Qihu Technology and was involved in the development of several famous products, such as 360 Desktop and 360 Mobile Wifi, since 2008. Mr. Tian has served as the legal representative of Chengdu Qilu since its establishment. Before establishment of Chengdu Qilu, Mr. Tian was the department head of the PC version of Ludashi Software business division of Qihu Technology. Mr. Tian was awarded as one of the Second Top Ten New Economic Entrepreneurs of Sichuan Province in the year of 2017 by Human Resources Newspaper of Sichuan Daily Press Group and Sichuan New Economic

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Activities Committee. Mr. He Shiwei (何世偉), our chief technological officer, has more than 18 years of experience in the information technology industry. The insights and in-depth industry experience of our senior management team enable us to successfully develop business strategies, manage operational risks and pursue business opportunities.

Our business cooperation with Qihu Technology, one of our Controlling Shareholders, has contributed significantly to our success. Our shareholders' objective of gaining value through long-term and sustainable investments rather than short-term returns has contributed to our rapid growth. 360 is a well-known brand in China associated with Internet security. We have maintained a contractual relationship with Qihu Technology since our inception. Transactions with Qihu Technology under our homepage directing service and banner advertising service make significant contribution to our revenue. Besides, as technical support, we lease servers from Qihu Technology and Qihu Technology also provide information security service and detect security bugs of Ludashi Software for us, which guarantees our daily operation and the development of our big-data analytics capabilities. For more information, please refer to "Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (A) Provision of Services to 360 Group" and "Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (B) Procurement of Services from 360 Group."

### OUR BUSINESS STRATEGIES

Our business objective is to become a trustable hardware expert and leading Internet company. We aim to further enlarge our user base, utilize our PC and mobile devices hardware and system benchmarking and monitoring expertise to develop innovative products, strengthen our monetization ability and promote our electronic devices sales by pursuing the following key strategies:

***Further improve our product quality by strengthening our research and development capacities, maintain and expand our user base, exploit the overseas markets, and build up our brand image as a trustable hardware expert.***

We believe our long-term success will depend on the increasing brand recognition, user loyalty, user active degree, and the expanding user base, which requires us to further update our existing products with more user-friendly functions, continuously offer new products, maintain our existing user base and expand it to the possible extent.

We will continue to offer value-added and functional utility software and some other products used on PCs and mobile devices. We will continuously improve our system performance optimization and PC temperature monitoring and management technologies and big-data analytics capabilities to maintain our core competitive strengths as well as to improve and develop new products and services. With such a creative, strong and passionate team, we committed to continuously updating new features of our current products and services as well

as developing new products and services to optimize our users' experience, strengthen their loyalty to our products and brand and further exploit the overseas markets. For example, in 2017, we launched Dual Space, which achieved remarkable recognition among users in the overseas markets.

Besides, we advertise and promote Ludashi Software and related software and products on the third parties' electronic platforms, and continue to carry out our existing marketing plans. We will spend more on public relations to help shape our user-friendly image and gain more exposure to potential users. We will employ different approaches to increase brand recognition, such as increasing original brand-related content, activities planning and promoting business cooperation.

In the future, we will go beyond our existing user base by developing hardware and system benchmarking and monitoring software of different ends, ranging from VR equipments to vehicle system, to wearable devices, and further to any hardware operating under Android system to meet the differentiated needs of information technology savvy users and other users. We plan to add into the PC version of Ludashi Software a function, which is to make recommendations for users on choosing or optimizing their PCs and certain hardware according to users' specific demands in each individual case, in order to guarantee and improve their experience. In addition, we retain our users and cultivate their stickiness to Ludashi Software by developing additional functions, such as temperature monitoring and management, and cleaning-up. These functions often come in handy for users and continuously meet their needs in different aspects from time to time. We also attract users by disseminating live updates on hot Internet and industry news on our mini-pages. Users interested in the news we provide would tend to keep our products. Moreover, we achieve this goal by providing tailored testing and monitoring plans in the future. The tailored testing and monitoring plans are designed for some users' specific needs in certain areas. For example, the Group plans to provide game players with a testing, accelerating and monitoring plan for the game operating performance of a PC. Game players may very much need such a testing, accelerating and monitoring plan to gain better game playing experiences. In this way, they will be attracted by this function and retained in our products. With all these strategies, we will be able to retain users and increase their stickiness by meeting their diversified needs.

***Enhance our online advertising services and game products so as to monetize our online traffic effectively.***

Leveraging on the various products we launched, we have shaped a good brand image as a trustable hardware expert and enjoyed well-recognized reputation in the market. We further adopt actions of online traffic monetization by providing better and more attractive online advertising services and game products.

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We will enhance our online advertising services by tailoring the advertisements to the behavior and interests of our users. Most of our users are information technology savvy users, who follow the latest trends in high-tech products and services, such as tablets, smartphones and audio devices. Leveraging upon our big-data analytics capabilities, we will be able to identify those users' special tastes and then cater to their appetite by offering targeted advertising solutions based on users' behavior, demographics and interests. We believe our user base is highly responsive to advertisements from such sectors. With these well-tailored advertisements, we believe we are able to bring effective online user traffic to our advertisement customers and create values for them. In turn, there will be more customers willing to enter into contractual relationships with us, thus enabling us to generate steadily increasing revenue.

We expect that the online advertising market in the PRC shall continue to transform. The market share of different players may undergo substantial changes in the upcoming years, depending on their respective strategies to grow, to innovate and to capture new opportunities arising from the dynamic Internet sector in the PRC. While we derived substantial revenue from homepage directing services during the Track Record Period, we shall be putting due focus on growing other forms of online monetization including banner services, mini-page services as well as potential new forms of revenue under online advertising. Our business development strategies of online game and electronic device sales are expected to enhance our market position in the industry and further promote our brand image. The overall market size for navigation related online advertising is expected to remain stable. In view of the brand image and market leadership of our products, particularly the PC version of the Ludashi Software, our foundation in online advertising is solid and strong. With the effective execution of our strategies, we are in a good position to achieve enhanced penetration rate of our products and acquire new users who shall be attracted by the solid functionality and synergistic advantages of our products. As such, we are confident in gaining market share in the online advertising market in the PRC in the coming years.

We expect players' growing interest in online games will create new growth opportunities for us. To capture these opportunities, we plan to further expand our online game platform by the following measures:

- *Optimize functions of online game platform:* to improve quality of our game platform and make it more player-friendly, we will add more meticulous functions onto our existing platform. For example, we will set up some practical shortcut keys and reminders on operating the platform's interface and enhance its scripts.
- *Offer exclusively authorized games:* to attract more game players to our game platform, we plan to deepen our cooperation with game developers and distributors to offer exclusively authorized games on our platform. For example, in December 2017, we entered into a game development agreement with a game developer. Under such an agreement, the game developer will develop a customized game especially for our game platform and we will have exclusive authorization to operate this game on our platform. We developed prototype in August 2018.

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- *Enhance player services:* to provide more comprehensive services to our users and attract more game players, we will continue enhancing our player services for game players by expanding the player services team and technical support team. With maintaining differentiated player service teams for VIP game players and ordinary game players, we are able to provide game players with tailored player service with speedier reaction.
- *Offer smartphone games:* to march into the smartphone game market, we are cooperating with some game developers to develop some customized games to be operated by ourselves. We will advertise and procure online user traffic from third parties for our smartphone games.

We believe that by providing better and more attractive online advertising services and game products, we will effectively enhance our online traffic monetization.

***Enhance our electronic devices sales business by taking advantage of our brand awareness.***

Electronic devices sales, comprising certified pre-owned and factory smartphone sales, smart accessory sales and other electronic devices sales, will be another key part of our future focus. We use the mobile devices version of Ludashi Software to examine and test each pre-owned and factory smartphone we procure from the pre-owned smartphone recyclers, or wholesalers with inventories after mass distribution. Accompanied with a certificate evidencing the evaluation results of the hardware performances of particular smartphone we sell, certified pre-owned and factory smartphones sold by us are endorsed by our widely recognized Ludashi Software. Our *Xiao Lu You Xuan* (小魯優選) and *Xiao Lu Hao Huo* (小魯好貨) brands are widely recognized in the pre-owned and factory smartphone trading market for identifying bona fide, authentic smartphones and weeding out counterfeit devices. We entered the pre-owned and factory smartphone trading market in August 2017, and for the year ended 31 December 2018, and the four months ended 30 April 2018 and 2019, we generated revenues from sales of certified pre-owned and factory smartphones with a profit margin of 2.7%, 3.7% and 2.4%.

Taking off from sales of certified pre-owned and factory smartphones, we will adopt additional ways to generate more revenue from this business. To capitalize the opportunities from the fast-growing e-commerce market, we plan to further expand our e-commerce platform by leveraging on our established reputation in hardware and system benchmarking and monitoring. Since August 2017, we commenced selling pre-owned and factory iPhones that were tested and certified by us in <https://www.xiaoluyouxuan.com/>. We offer several types of certified pre-owned and factory smartphones, such as iPhones, Mi smartphones, and Huawei smartphones. We plan to cooperate with some App developers, provide them with approaches to consumers by pre-installing their applications on our certified pre-owned and factory smartphones and then we charge them for those applications we pre-install in those smartphones at a certain negotiated charging rate. We may consider to pre-install our applications or those of other App developers after obtaining the legal titles of the pre-owned and factory smartphones, which does not modify the system of the smartphones. The consumers are able to delete the pre-installed applications after they purchase the certified pre-owned and factory smartphones from us. Smartphones manufacturers do not require us to



acquire authorization to pre-install applications after we obtain the legal titles of the pre-owned and factory smartphones. As confirmed by our PRC Legal Advisers, there are no PRC laws and regulations stipulating the requirement for authorization to pre-install applications in the pre-owned and factory smartphones from smartphones manufacturers.

Moreover, starting from 2017, we have formulated a strategy to set up a new business line of sales of pre-owned PCs and other electronic devices and series of physical experiencing centers in Chengdu, Sichuan Province and other major cities in the PRC. We will provide professional and tailored smart hardware repairing and fixing service, Ludashi-related products experiencing opportunities, certified pre-owned and factory smartphone and smart accessory sales, optimization plans tailored for customers' particular devices, and live programs from time to time. The physical experiencing centers will work as windows and extensions of our online business, expand our brand's influence and in turn complement our online business, by demonstrating our technologies and ideas on site.

Leveraging on the well-recognized brand image and reputation as a trustable hardware expert, our electronic devices sales has been expanded to certified pre-owned and factory smartphones sales, smart accessories sales and other electronic devices sales. Other electronic devices sales mainly comprise sales of pre-owned laptops and desktops, computer monitors, projectors, as well as earphones, speakers, mobile phone data cables and e-book readers. We started other electronic devices sales in November 2018. We have attempted to put strong focus on other electronic devices sales, particularly during the four months ended 30 April 2019. As part of our ongoing review on of our product mix and procurement channel, we have put more focus back on certified pre-owned and factory smartphones since May 2019. To further improve the revenues from this business line in the future, we plan to: (i) acquire mature technologies in the market, such as optical technologies and 3D technologies, to improve our benchmarking and monitoring abilities; (ii) expand our range of benchmarking service to additional electronic devices other than PCs and smartphones; (iii) cooperate with offline retail stores and sell those electronic devices in those stores; and (iv) establish online sales channels and promote offline sales channels for these electronic devices to enhance our *Xiao Lu You Xuan* (小魯優選) and *Xiao Lu Hao Huo* (小魯好貨) brands, improving the reputation of our *Ludashi* brand.

***Continue to retain a talented and professional workforce, and build strategic alliances and pursue investments and acquisitions.***

We believe that a significant part of our success is attributable to our ability to select, develop, motivate and retain our talented and professional workforce. We plan to continue making significant investments in our research and development to improve our in-house technology development capabilities and meet our strategic goals. We will also continue to focus on recruiting and cultivating the industrial knowledge of our workforce, provide training and development programs to enhance their professional knowledge and capability, and create a supportive culture promoting personal and professional development.



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We intend to build strategic relationships with our customers and business partners by joint marketing and joint development initiatives. Leveraging our brand awareness in the Internet industry, we plan to further enhance our existing revenue streams and develop new revenue sources. In addition, we plan to evaluate and selectively invest in or acquire businesses to complement our existing product and service offering when these opportunities arise. We plan to continue to seek such strategic opportunities in businesses that: (i) possess cutting-edge technologies such as machine learning, VR and other technologies related to our business; (ii) operate Apps or other products with meaningful user; and (iii) have proven monetization models in Internet services, including online advertising, Internet value-added services and e-commerce, which enjoy synergies with our plans to continue monetizing our user base. As of the Latest Practicable Date, we had not identified any potential acquisition targets.

### OUR BUSINESS

Our hardware and system benchmarking and monitoring products, including both PC and mobile devices versions of Ludashi Software, that we offer to our users free-of-charge, provide users with an efficient and easy way to test and optimize the performance of PCs and mobile devices. Although we generate no revenue from hardware and system benchmarking and monitoring products, we accumulate a sizeable base of loyal users and big-data of hardware and user information through providing free download and installation of Ludashi Software. According to Frost & Sullivan, by the end of December 2018, we were the largest PC and smartphone hardware and system benchmarking and monitoring solution provider in China in terms of user base, occupying 98.8% and 58.9% of the market share based on the MAUs for PCs and mobile devices, respectively. We are also a smartphone AI assessment software developer and provider in China. The MAUs for our products, comprising that of our utility software of 120.4 million and that of game library of 4.9 million, amounted to approximately 125.3 million in April 2019. Among the MAUs of our products, there were 103.8 million MAUs in the PRC. Another 21.5 million MAUs were generated from products geared towards overseas markets.

Based on our hardware and system benchmarking and monitoring technology, we currently have seven core products of PC and mobile devices versions of utility software so as to meet our users' various needs on PCs and mobile devices, which can be downloaded free-of-charge by users. The products we provide include the PC version of Ludashi Software, the mobile devices version of Ludashi Software, Simulator Master, Dual Space, AImark, Easy Clean and 360 Battery Doctor. During the past decade, we retain various kinds of practical, advanced and valuable technologies, including parallel space exploitation, smartphone AI chip performance evaluation and battery performance diagnosis. Although we generate no revenue from the seven products of PC and mobile devices versions of utility software we provide, due to our well-recognized brand, we have accumulated a large user base, which lays a firm foundation for the future online traffic monetization and complements our sales of electronic devices. The diversified products we provide for PCs and mobile devices are set forth as follows:

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Software Name	Launch Date <sup>(1)</sup>	Features
 Ludashi Software (魯大師) (PC Version) .....	2007	Hardware and system benchmarking and monitoring services to PC users
 Ludashi Software (魯大師) (Mobile Devices Version) ..	July 2013	Hardware and system benchmarking and monitoring services to mobile devices users
 Simulator Master (手機模擬大師) .....	May 2017	Simulating Android environment on PC ends to allow Apps to operate on PC ends
 Dual Space <sup>(2)</sup> .....	November 2017	Running a virtual Android system to operate a duplicate of an original App
 AImark .....	April 2018	Smartphone AI chip performance evaluation
 360 Battery Doctor (360省電王) .....	February 2012	Battery performance testing and battery saving solution offering
 Easy Clean <sup>(2)</sup> .....	July 2018	Cleaning the internal storage of the smartphones

*Notes:*

- (1) The launch date means the date on which the App was uploaded to one or more App distribution channels for publicly available download.
- (2) Dual Space and Easy Clean are geared towards overseas markets.

The following table sets forth the number of active PCs and mobile devices with new installation of our software products for the periods indicated. Such operational data are compiled on the basis that the installation number shall only be counted if the subject software has never been installed on the PCs/mobile devices previously. We calculated the data of Simulator Master, Dual Space, Game Library and Easy Clean since their respective launch dates as shown above.

## BUSINESS

Software Name	Software Nature	Number of active PCs and mobile devices with new installation			
		For the year ended 31 December			For the four months ended
		2016	2017	2018	30 April
		million	million	million	million
Ludashi Software (PC Version) . . . . .	PC software	96.0	100.8	89.6	30.6
Ludashi Software (Mobile Devices Version) . . . . .	Mobile software	28.3	19.8	14.5	4.1
Simulator Master . . . . .	PC software	–	2.4	59.8	35.0
Dual Space . . . . .	Mobile software	–	0.4	74.8	34.8
360 Battery Doctor . . . . .	Mobile software	3.6	0.1	– <sup>(1)</sup>	– <sup>(1)</sup>
Easy Clean . . . . .	Mobile software	–	–	3.9	4.7
Game Library . . . . .	PC software	–	24.7	55.9	4.3

*Note:*

- (1) The number of active PCs and mobile devices with new installation of 360 Battery Doctor was 24,139 and 3,631 for the year ended 31 December 2018 and for the four months ended 30 April 2019, respectively.

The following table sets forth the average DAUs of our products for the periods indicated:

Software Name	For the year ended 31 December			For the four months ended	In April
	2016	2017	2018	30 April	
	2016	2017	2018	2019	
	million	million	million	million	
Ludashi Software (PC Version) . . . . .	12.4	16.6	19.0	20.9	22.9
Ludashi Software (Mobile Devices Version) . . . . .	2.2	2.0	1.0	0.7	0.7
Simulator Master . . . . .	–	0.1	1.4	4.4	5.5
Dual Space . . . . .	–	0.0	3.3	6.7	7.1
Game Library . . . . .	–	1.3	1.7	1.3	1.1
360 Battery Doctor . . . . .	0.3	0.5	0.2	0.1	0.1
Easy Clean . . . . .	–	–	0.4	1.0	1.1

*Note:*

The figure shown above has been rounded to the nearest hundred thousand. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019, the average DAUs of the PC version of Ludashi Software before rounding adjustment was 12.371 million, 16.565 million, 18.964 million and 20.857 million, respectively.

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The following table sets forth the average MAUs of our products for the periods indicated:

Software Name	For the year ended 31 December			For the four months ended	In April
	2016	2017	2018	30 April	2019
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Ludashi Software					
(PC Version) . . . . .	40.1	55.4	59.3	65.6	68.8
Ludashi Software (Mobile					
Devices Version) . . . . .	7.2	5.9	3.9	3.4	3.2
Simulator Master . . . . .	–	1.0	9.2	23.3	26.6
Dual Space . . . . .	–	0.2	10.7	17.8	18.5
Game Library . . . . .	–	9.3	11.3	6.1	4.9
360 Battery Doctor . . . . .	1.3	1.5	0.6	0.4	0.3
Easy Clean . . . . .	–	–	1.1	2.6	3.0

Main drivers of the increase in MAUs of our products include:

- *A great volume of existing users with strong user stickiness:* In China, it is very common for consumers to assemble the selected computer components into a computer by themselves. A large number of hardware manufacturers and sellers refer to ranking and comments of computer components assessed by Ludashi Software to demonstrate performance and quality of their products. A large number of consumers also regard Ludashi Software as an important reference on overall performance and conditions of selected computer components when making purchase decisions. Consumers purchase computer components from offline wholesale and online e-commerce platform. As consumers cannot determine the parameter from the surface of the purchased computer components and there are lots of shoddy products in the market, consumers use benchmarking and monitoring software, such as Ludashi Software, to identify the parameter and test the performance of the purchased computer components. Under such circumstance, Ludashi Software accumulates a great volume of existing users by cultivating the user habits.
  
- *Growing new users of Ludashi Software:* The high-speed development of PC software and computer games stimulates the upgrade of computer hardware, which provides a new growth opportunity for benchmarking and monitoring software. In particular, the popularization of massive multiplayer games and high-definition video leads the consumers to upgrade their electronic devices more frequently. As a result, the benchmarking and monitoring software, such as Ludashi Software, has been widely and more frequently applied in electronic devices. In addition, the rise of pre-owned electronic device market expands the target users of benchmarking and monitoring software. Under such circumstance, the number of new users of Ludashi Software increased with the increasing market demands for benchmarking and monitoring software.

- *Market-oriented services:* Based on user habits and recent development of our industry, we continuously enrich and adjust our products through providing more value-added services. The development of our products keeps pace with the market development. In addition, it is our strategy to launch products at different points of time with the objective of promoting the use of Ludashi Software and enhance user traffic of our products.

### ***Our Products***

#### **The product for PCs**

##### *The PC version of Ludashi Software*

The PC version of Ludashi Software is a well-known product with specialty in PC hardware and system benchmarking and monitoring, as well as other functions. It is our key product that (i) assesses the overall performance of the PCs, including CPU, RAM, graphics and storage; (ii) compares the performance to the same or similar PCs and generates scores based on the compared results; (iii) provides solutions for system optimization, including temperature monitoring and management, memory release and hard disk cleanups; and (iv) makes recommendations for users on practical utility software. Ludashi Software was awarded as one of the Top Ten Internet Brands in 2017 and 2018 by Chengdu Internet Cultural Committee. The MAUs for our PC version of Ludashi Software were 68.8 million in April 2019. The PC version of Ludashi Software is recommended by 360 Group in its 360 Software Housekeeper. We have similar advertising arrangements with two software housekeeper companies. Frost & Sullivan confirms that it is a common practice that housekeeping software like 360 Software Housekeeper provides its users with download recommendation services for various popular PC software like Ludashi Software.

Interface and functions of our PC version of Ludashi Software are demonstrated as follows:



- *Hardware examination:* to examine the overall PC performance, including the hardware performance, hardware malfunction, hardware protection status and accumulation of deleted files;

Interface of the hardware testing function is demonstrated as follows:



- *Hardware information testing:* to present the overall configuration of PC hardware;

Interface of the hardware information presenting function is demonstrated as follows:



- *Temperature monitoring and management:* to monitor and manage the performance of CPU/Graphic/Disk/Fans through stress testing and offer an option to turn up the hardware temperature protection system;

Interface of the temperature monitoring and management function is demonstrated as follows:



- *Performance testing:* to assess the overall performance of PCs, including the processor, graphics, hard disk, internal memories, and compare the performance with PCs of the same or similar types;

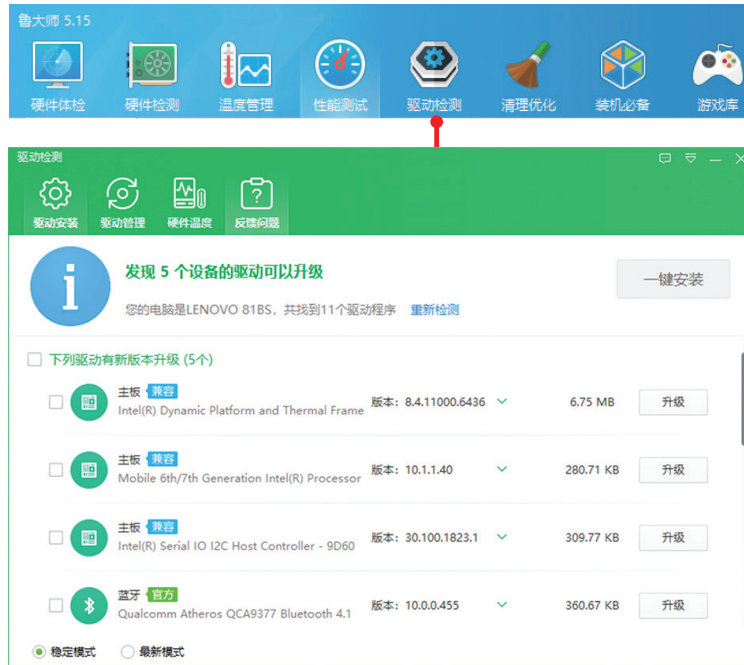
Interface of the performance testing function is demonstrated as follows:





- *Drives testing*: to test, update and commend better choices for PCs;

Interface of the drive testing function is demonstrated as follows:



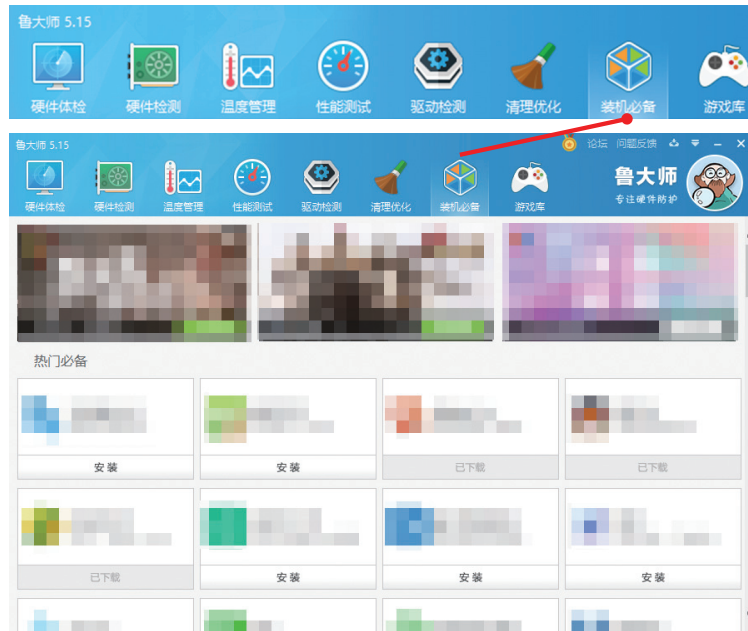
- *Cleaning-up*: to delete the fragmented documents which generated from the operation of PCs and optimize the operating system of PCs;

Interface of the cleaning-up function is demonstrated as follows:



- *Utility software recommending*: to recommend and download utility software; and

Interface of the utility software recommending function is demonstrated as follows:



- *Temperature monitoring module*: to monitor temperature of PCs as an additional module attached to the PC version of Ludashi Software.

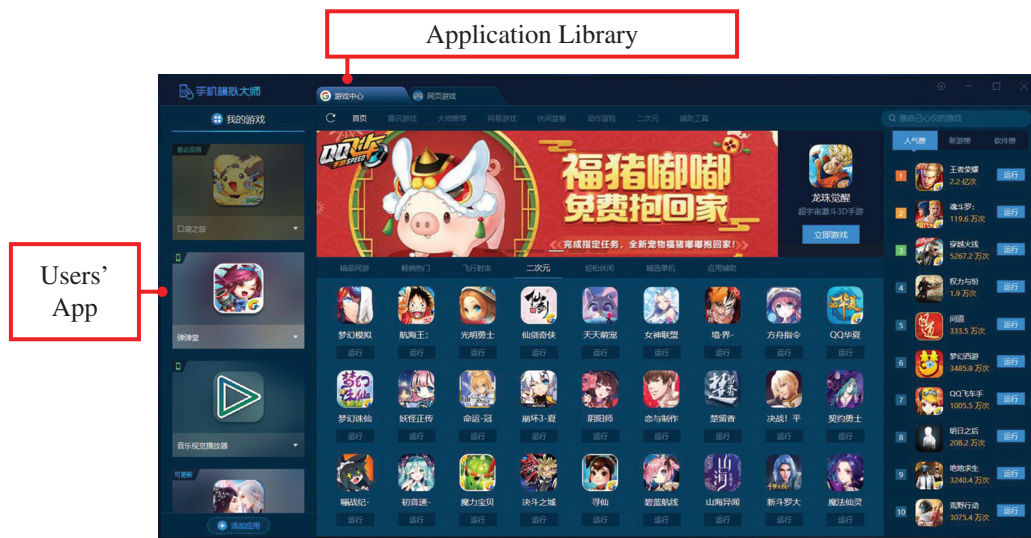
Interface of temperature monitoring module is demonstrated as follows:



Simulator Master

We launched our self-developed App simulator software, Simulator Master in May 2017. Simulator Master allows users to have better operational experience by using mobile devices applications on PCs. This product is especially suitable for game players. It complements our online game platform on PC end, as many game players believe that their experience in game playing on PCs is much better than that with playing on smartphones due to bigger screen, more convenient operating and more attractive effects. Players can access most of the popular mobile games in the PRC market via Simulator Master. The MAUs for Simulator Master were 26.6 million in April 2019.

Interface of Simulator Master is demonstrated as follows:



Products for smartphones

*The mobile devices version of Ludashi Software*

We launched our hardware and system benchmarking and monitoring App on mobile devices, the mobile devices version of Ludashi Software, in 2013. The mobile devices version of Ludashi Software is a benchmarking and monitoring App for devices which are operated under iOS and Android operating systems. It provides hardware and system benchmarking and monitoring services to our mobile devices users. Similar to our PC benchmarking and monitoring software, the mobile devices version of Ludashi Software is able to: (i) assess the overall performance of the mobile devices, including system, graphics, memories and web performances; (ii) compare the performance to others; and (iii) provide solutions for system optimization. In addition, the mobile devices version of Ludashi Software also offers mobile devices ranking and evaluation reports to the users, which help users to make informed choices when they are selecting among different smartphones. The MAUs for mobile devices version of Ludashi Software under Android system amounted to 3.2 million in April 2019. According to the cumulative downloading volume on an independent third-party App store, which is the largest Android App store in China, by the end of June 2019, the mobile devices version of Ludashi Software ranked around 40th to 50th among thousands of major utility Apps in the market.

Interface of the mobile devices version of Ludashi Software for Android:



Interface of the mobile devices version of Ludashi Software for iOS:



Testing process for the mobile devices version of Ludashi Software is demonstrated as follows:



*Optimization:*  
to detect the  
temperature of  
smartphones,  
memory  
steed-ups  
and hard disk  
cleanups



*News:* to  
recommend  
news

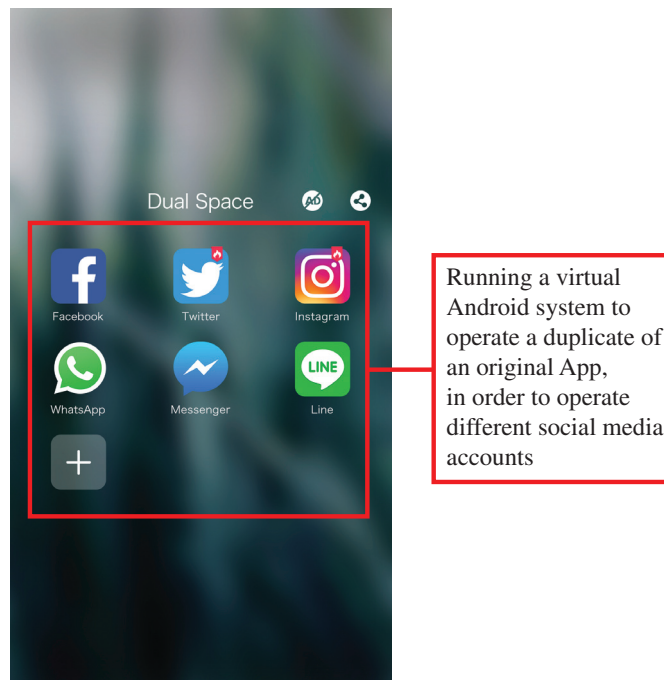


*Toolbox:* to  
provide  
a variety of  
smartphone  
related  
tools

### *Dual Space*

We decided to explore the overseas markets in 2017. The first product we launched abroad via Google Play is Dual Space, which is an App operated under Android system. Dual Space enables users to run a virtual Android system to operate a duplicate of an original application, in order to operate different social media accounts, such as Facebook, Instagram, WhatsApp, and Twitter. It has been a popular product since its launch and achieved a great success in overseas markets. In the Google Tool Ranking List, Dual Space is one of the top ten utility software in 59 countries/regions. The MAUs for Dual Space, which we gear towards overseas markets, were 18.5 million in April 2019.

Interface of Dual Space is demonstrated as follows:



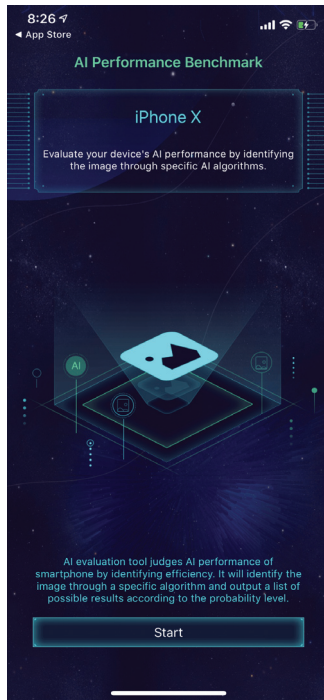
### *AImark*

We officially launched AImark in April 2018. AImark is an App we develop for smartphone AI chip performance evaluation for both iOS and Android operating systems. Its target users are mainly smartphone manufacturers rather than smartphone users. AImark uses specific algorithms of four commonly used neural networks, including Inception V3, ResNet34, MobilenetSSD and DEEPLABV3+, to judge AI performance of smartphone by identifying efficiency and accuracy. It identifies certain pictures pre-set in the App through a specific algorithm and outputs a list of possible results according to the level of probability. Finally, a test score is given for each mobile AI chip performance that has been tested. AImark is a smartphone AI chip performance evaluator. It is a smartphone AI performance testing product, focusing on the performance of smartphones in many important cutting-edge aspects, such as face identification technology, voice identification technology, and social-media

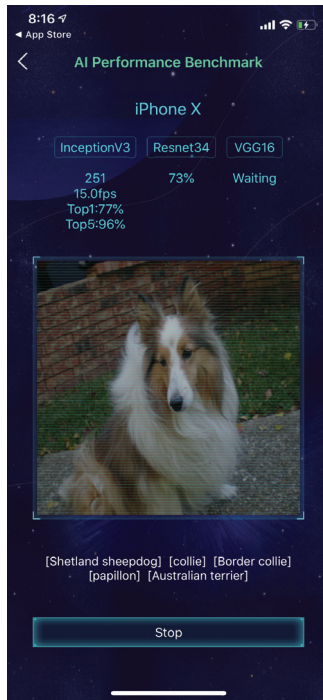


software. As the increasing popularity of face lock technology and graphic beautification software, AImark has attracted more and more attention from the market and become a benchmarking software for mobile devices research and development laboratory.

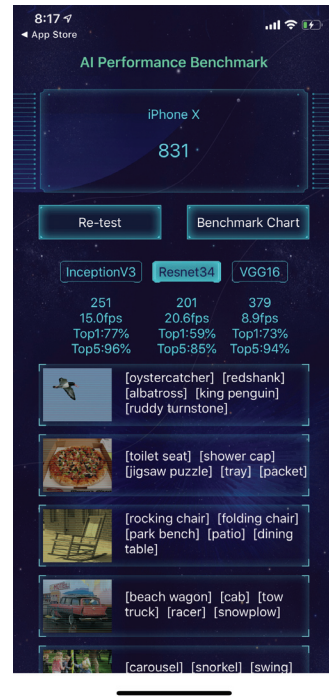
Testing process for AImark is demonstrated as follows:



Interface



Testing Process

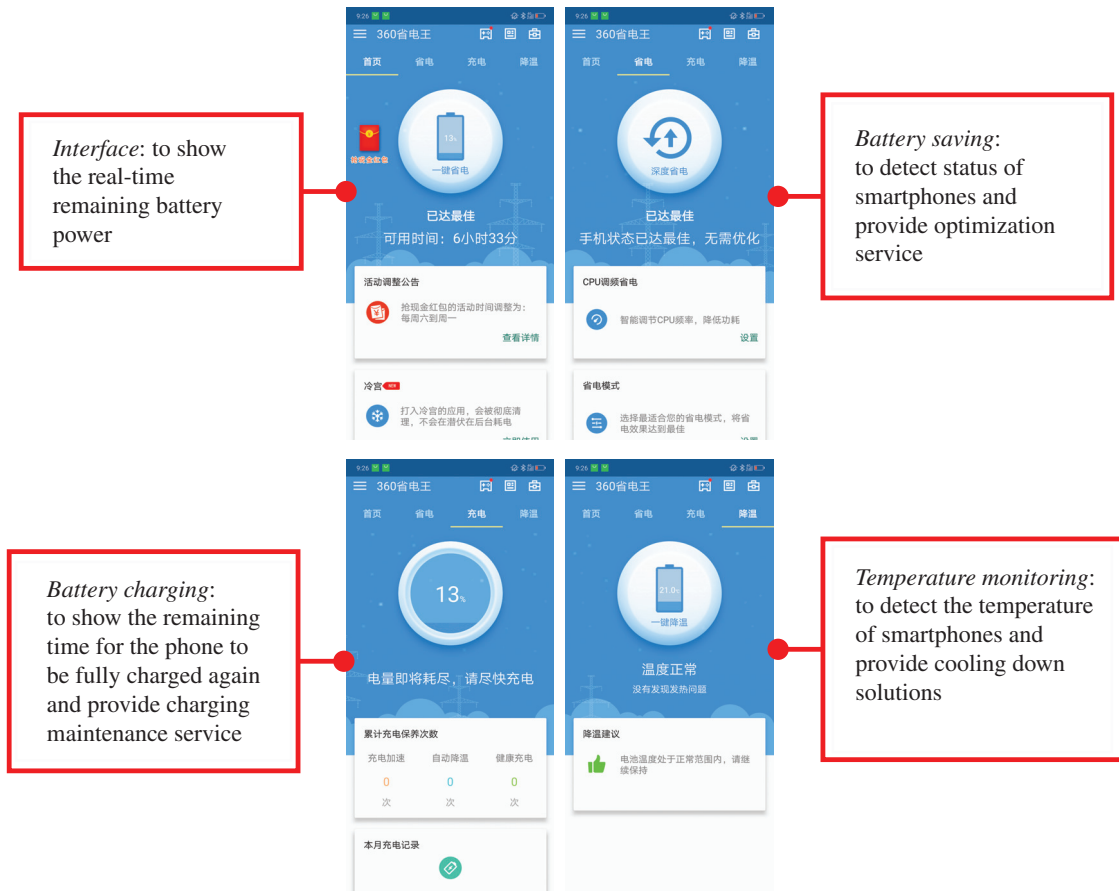


Testing Result

### *360 Battery Doctor*

We launched our mobile hardware battery doctor in February 2012. 360 Battery Doctor is a battery saving App for smartphones which is operated under Android operating system. It avails smartphones of avoiding low battery, power consumption of background applications and other scenarios to ensure the smartphone device stays in optimal condition. The MAUs for 360 Battery Doctor amounted to 0.3 million under Android system in April 2019. 360 Battery Doctor was named by 360 Group, who is the former owner of this software. Concerning the existing user base of 360 Battery Doctor, and the adverse impacts that renaming 360 Battery Doctor may cause, such as the possibility of confusion to its potential users and the likelihood of losing its existing users, we have not renamed the software of 360 Battery Doctor for its operation after it has been transferred into our Group. According to the cumulative downloading volume on an independent third-party App store, which is the largest Android App store in China, by the end of June 2019, 360 Battery Doctor ranked around 100th to 150th among thousands of major utility Apps in the market.

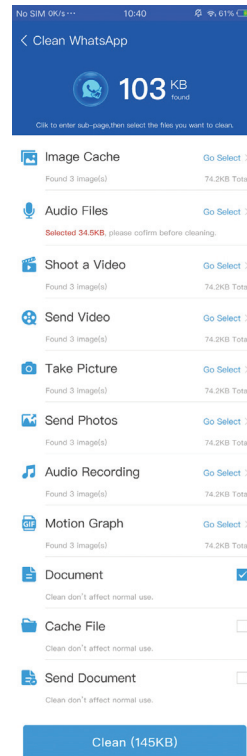
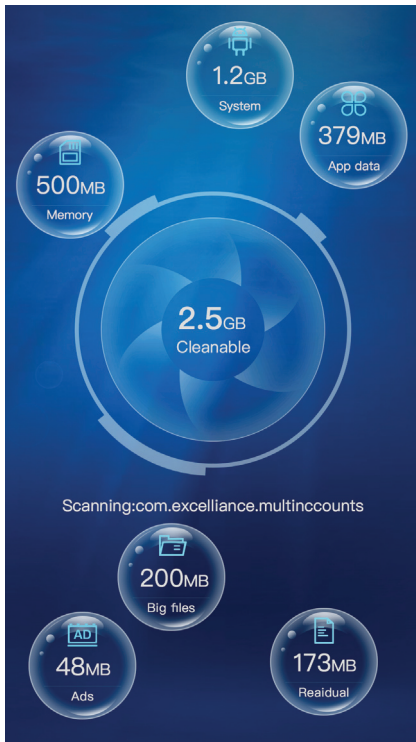
Interfaces of 360 Battery Doctor are demonstrated as follows:



### Easy Clean

We officially launched Easy Clean abroad via Google Play in July 2018. It has three main functions: (i) automatic cleaning the internal storage of smartphones upon opening the App; (ii) cleaning service tailored for WhatsApp to clean its junk documents; and (iii) managing the notification bar and blocking chosen notifications for users. In the Google Tool Ranking List, Easy Clean is one of top ten utility software in 13 countries/regions. The MAUs of Easy Clean, which we gear towards overseas markets, have experienced rapid growth since its launch to 3.0 million in April 2019.

Interfaces of Easy Clean are demonstrated as follows:



### ***Online Traffic Monetization***

Riding on the vast accumulated user base, we explore various means of online traffic monetization. During the Track Record Period, we derived revenue by online traffic monetization from:

- online advertising services, which can be further classified into three categories:
  - (i) directing the homepage of its users' Internet browsers to a designated website (the **"Homepage Directing Service"**);
  - (ii) offering pop-up mini-page windows directing users to an online content provider (the **"Mini-Page Service"**); and
  - (iii) providing banners and other miscellaneous advertising on PCs or mobile devices installed with Ludashi Software (the **"Banner Advertising Service"**);
- online game business, which can be further classified into two different business models:
  - (i) directing online user traffic to a third-party online game platform (the **"Online Game Directing"**); and
  - (ii) acting as a game distributor and platform operator to operate games developed by third parties on the Group's game platform (the **"Online Game Platform"**).

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The following table sets forth the revenue breakdown by our paid services and products for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Revenue from Online Traffic</b>										
<b>Monetization</b> .....	<b>69,404</b>	<b>99.4</b>	<b>120,244</b>	<b>98.1</b>	<b>217,484</b>	<b>67.9</b>	<b>54,844</b>	<b>56.1</b>	<b>84,246</b>	<b>74.1</b>
Online advertising services .....	66,840	95.7	97,668	79.7	174,595	54.5	42,244	43.2	65,233	57.4
Online game business .....	2,564	3.7	22,576	18.4	42,889	13.4	12,600	12.9	19,013	16.7
<b>Electronic Devices Sales</b> .....	<b>408</b>	<b>0.6</b>	<b>2,317</b>	<b>1.9</b>	<b>102,782</b>	<b>32.1</b>	<b>42,842</b>	<b>43.9</b>	<b>29,418</b>	<b>25.9</b>
Certified pre-owned and factory smartphone sales .....	-	-	1,361	1.1	85,689	26.8	42,549	43.6	6,822	6.0
Smart accessory sales .....	408	0.6	956	0.8	2,317	0.7	293	0.3	2,133	1.9
Other electronic devices sales .....	-	-	-	-	14,776	4.6	-	-	20,463	18.0
<b>Total Revenue</b> .....	<b>69,812</b>	<b>100.0</b>	<b>122,561</b>	<b>100.0</b>	<b>320,266</b>	<b>100.0</b>	<b>97,686</b>	<b>100.0</b>	<b>113,664</b>	<b>100.0</b>

### Online advertising services

We monetize our large user base by developing online advertising services. During the Track Record Period, we primarily generated our online advertising revenue through our PC and mobile devices products by providing various advertising services in our products. We offered online advertising service by: (i) directing the homepage of our users' browser to a designated website, (ii) offering pop-up mini-page service, and (iii) providing banners advertising to our customer in advertising space on our products.

- Homepage Directing Service:* We joined 360 homepage directing alliance as a traffic supplier in 2015. We provide sources of online traffic from Ludashi Software to Qihu Technology to monetize our online traffic. When users install the PC version of Ludashi Software, the software will recommend the users to set the default homepage of their internet browser to <https://hao.360.cn/> and to the lesser extent, other websites, which are web directories operated by Qihu Technology and other customers, respectively. The users are asked whether they agree to such default settings or whether they would like to input other website as the default homepage of their internet browser (see the picture below for illustration). If the user agrees to such default settings, the user will be directed to <https://hao.360.cn/> or other websites as the first page every time the users open their internet browser. We provide our users with different download channels of the PC version of Ludashi Software, which is particularly designed for homepage default setting recommendation on <http://hao.360.cn> and the homepage of our another customer.

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## BUSINESS

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We directed 17.9 million of users to <http://hao.360.cn> on an average monthly basis in 2018 through our homepage directing services, accounting for 12.4% of the number of users who ever visited <http://hao.360.cn> at least once on the same basis in the same period of 144.6 million, based on the information from an independent third-party research agent. We charge Qihu Technology and another customer on a cost-per-thousand IP times basis. Such charging basis, which is recorded according to the frequency of IP being directed, is in line with the general market practice. Based on the online traffic directed by traffic suppliers, web directories operated by Qihu Technology provide advertising spaces to the online advertisers and agents of online advertisers and charge them for advertising. As such, we work with Qihu Technology, online advertisers and agents of online advertisers in the monetization of online traffic and sharing the revenue from online advertising and promotion.

During the Track Record Period, Qihu Technology adopted a fee schedule which was applied consistently to all its business partners, including us, on homepage directing service. Such fee schedule is published online on the website of 360 Group and is based on the sliding scale of fees depending on the volume of IPs directed. Since the volume of the IPs directed by us to Qihu Technology fell within a certain scale, the service rates charged by us fell within the high end of the service rates as stated in the industry report of Frost & Sullivan as disclosed in the “Industry Overview” section of this Prospectus. Apart from Qihu Technology, our another only customer in relation to homepage directing service is an agent of online traffic and an Independent Third Party. During the Track Record Period, the service rate charged by us to this Independent Third Party is close to the rate charged by us to Qihu Technology.

During the Track Record Period, the user traffic of web directories in China experienced a moderate decrease, with the number of average daily unique visitors reducing from about 85.7 million in 2016 to about 75.6 million in 2018. This has not resulted in any material impact on our business. The yearly volume of online traffic directed by our homepage directing services experienced a stable increase during the Track Record Period. In addition, our Directors consider that there will not be any material impact of such phenomenon on our business in the coming few years even if the user traffic of web directories in China continues some moderate decrease in the next few years. Firstly, our homepage directing services are essentially based on the well-established and increasing user base of the PC version of Ludashi Software, and not necessarily be directly related to user traffic of web directories in China. Users of the PC version of Ludashi Software are provided with a choice on whether to set their default internet page. Once these users agree to set the default internet page, homepage directing services can be provided and revenue shall be generated from 360 Group. As such, if the number of users of our products increases, we can still enjoy growth in our revenue from homepage directing services, regardless of the decrease in user traffic of web directories in China. The market share of Ludashi Software in web directories is expected to increase in line with the increase in the user base of Ludashi Software. Secondly, due to our investment in our

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brand publicity and online traffic purchases, the users of the PC version of Ludashi Software experienced a stable increase during the Track Record Period. With the strong brand image and product capabilities of our PC version of Ludashi Software, our user base has not decreased in tandem with the decrease in the user traffic of web directories in China. Thirdly, according to Frost & Sullivan, the online traffic purchases of the homepage directing alliances in China is expected to further increase in the next few years based on their strategies. This demonstrates the fact that online traffic purchases for online advertising services may not be directly affected by the user traffic of web directories in China. The strategies and competitive landscape of the respective homepage directing alliances impact a lot on the need of homepage directory services in the market. This provides growth opportunities for the development of homepage directing services for the market partners of homepage directing services, including us. Lastly, we have instituted business strategies of expanding our user base, by leveraging on our solid market position. The decrease in user traffic of web directories in China during the Track Record Period was not substantial. We have strategically strengthened our business lines other than homepage directing services during the Track Record Period and would continue to do so in the coming years. The revenue contribution by our homepage directing service has gradually decreased from 37.0% in 2017 to 31.2% in 2018 and expects to further decrease to 17.2% in 2019. As such, our Directors are of the view that a moderate decrease in the user traffic of web directories in China did not and will not have any material impact on our business.

The number of MAUs that actually use the homepages we recommended during the Track Record Period is demonstrated as follows:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
The Yearly Average MAUs That Actually Use the Homepage We Recommended (1) . . . . .	13.5	13.7	17.9	15.0	20.9
The Yearly Average MAUs of the PC version of Ludashi Software (2) . . . . .	40.1	55.4	59.3	57.8	65.6
Proportion ((1)/(2)) (%) . . . . .	33.5	24.7	30.2	26.0	31.8



PC interface for Homepage Directing Services are demonstrated as follows:



- *Mini-Page Service:* we provide mini-pages for our customers who are responsible for providing content to such mini-pages. The mini-page will pop-up on the screen of the users' PCs installed with Ludashi Software. Such a channel is efficient in gaining exposure. We charge our customers on cost-per-mille basis. During the Track Record Period, we offered mini-page service to Shanghai Songheng, one of our Relevant Shareholders. We usually price our mini-page services by reference to the market price. For details, see “– Our Business Strategies.”

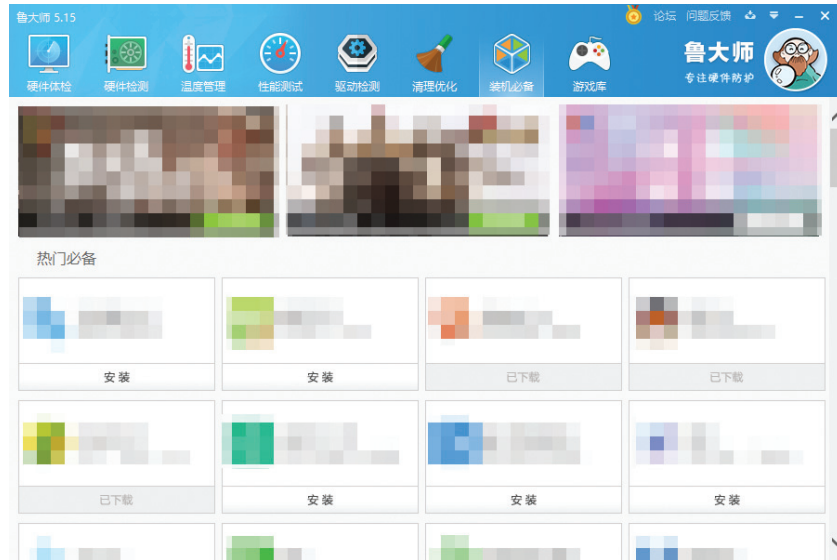


Interface and functions of Mini-Page Service are demonstrated as follows:



- *Banner Advertising Service:* We offer this type of service on two different platforms, our PC and mobile devices versions of Ludashi Software, by setting hyperlinks of their websites on our utility software. Our advertising spaces are mainly in the form of banner advertisements and icon advertisements. We charge our customers on a cost-per-mille, cost-per-time, cost-per-click, cost-per-download and cost-per-active bases and the specific ways of charging vary from case to case, according to changes in the amount of online user traffic they may need. These various charging bases are actually competitive fee sharing rates adopted by comprehensive e-commerce platforms cooperating with us. Some of them, such as 360 Group, make available an online service agreement for its banner advertising business for which all partners for this business shall adopt. Online advertising service providers like us have limited control over pricing. For the associated risks, please see “Risk Factors – Risks Relating to Our Business and Industry – Adverse changes on online advertising service may subject us to decrease in revenues.”

Interface and functions of Banner Advertising Service on PC are demonstrated as follows:



Interfaces of Banner Advertising Service on the mobile end are demonstrated as follows:



For the online advertising service, we generally charge our customers on a cost-per-action basis. The click through rate of our online advertising service significantly fluctuated from 1% to 6% over the periods due to differences of products and advertising spaces. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019,

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our online advertising revenue was RMB66.8 million, RMB97.7 million, RMB174.6 million, RMB42.2 million and RMB65.2 million, respectively, accounting for 95.7%, 79.7%, 54.5%, 43.2% and 57.4% of our total revenue, respectively.

Based on the pricing mechanism of online advertising, we charge our customer by the daily volume of online traffic directed by our online advertising service. We calculate our daily volume of online traffic by adding up every distinctive IP directed by our online advertising service on a daily basis. The distinctive IP includes the existing and new IP numbers directed by our online advertising service per day. As we generally calculate our yearly volume of online traffic directed by our online advertising service by adding up daily number of distinctive IP, a significant volume of such online traffic from same IP number could be counted more than once on a yearly basis. The following table sets forth the yearly volume of online traffic directed by our homepage directing service for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Homepage directing service . . . . .	520.2	545.0	789.7	196.6	250.8

The following table sets forth the yearly volume of online traffic directed by our mini-page service for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Mini-page service . . . . .	2,823.7	6,519.0	8,574.5	2,486	3,561

In order to provide more meaningful information, we calculate the total number of Internet users directed by our online advertising service by removing the duplicates of our yearly volume of online traffic directed by our online advertising service from same IP number based on our back-end source data. We have decided to adopt a long-term policy to retain our back-end source data since June 2018. As a result, the earliest complete back-end source data of our homepage directing service and mini-page service we collected dated back to March 2018 and April 2018, respectively. By removing the duplicates, the total number of Internet users directed by our homepage directing service for the periods from 1 March 2018 to 31 December 2018 and from 1 January 2019 to 30 April 2019 was 117.8 million and 39.5 million, respectively. The total number of Internet users directed by our mini-page service, after removing the duplicates, for the periods from 1 April 2018 to 31 December 2018 and from 1 January 2019 to 30 April 2019 was 141.5 million and 100.2 million, respectively. During the





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Track Record Period, our Internet users directed by our homepage directing service and mini-page services significantly increased due to the continuing development of our online advertising services and the increase in downloads of Ludashi Software, as a result of our high brand awareness and recognition. The click through rate of our banner advertising service was 10.1% and 11.2% for the year ended 31 December 2018 and the four months ended 30 April 2019, respectively.



The following table sets forth the number of customers using our online advertising services during the Track Record Period:

Online Advertising Services	Number of Customers			
	For the year ended 31 December			For the four months ended 30 April
	2016	2017	2018	2019
Homepage Directing Services . . . . .	1	1	2	1
Mini-page Service . . . . .	6	2	9	11
Banner Advertising Service . . . . .	26	49	45	34

The following table sets forth the number of advertisers for each of our products, except for AImark, during the Track Record Period, as we have no advertisers on AImark.

App Name	Number of Advertisers Attracted to Each Software via Each Business Line			
	For the year ended 31 December			For the four months ended 30 April
	2016	2017	2018	2019
 Ludashi Software (魯大師) (PC Version) Online Advertising Services	20	24	29	28
 Ludashi Software (魯大師) (Mobile Devices Version) Online Advertising Services	11	28	28	18
 Simulator Master Online Advertising Services	-	1	-	-
 Dual Space Online Advertising Services	-	-	5	5

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App Name	Number of Advertisers Attracted to Each Software via Each Business Line					
						For the four months ended
						30 April
	For the year ended 31 December					2019
			2016	2017	2018	2019
	360 Battery Doctor	Online Advertising Services	2	10	17	7
	Easy Clean	Online advertising service	-	-	2	2

### *Summary of key terms of advertising service agreements*

We generally enter into agreements with advertisers. Key terms are summarized below:

Charging basis	Charging Rate	
<b>Homepage Directing Service</b>		
Cost-per-thousand IP times* . . . . .	RMB60/Thousand IP to RMB105/Thousand IP, varying in accordance with the number of IPs that have been successfully directed to the customers' homepages	
<b>Mini-page Service</b>		
Cost-per-mille* . . . . .	RMB6 to RMB13	
<b>Banners Advertising Service</b>		
	<b>Mobile devices ends</b>	<b>PC ends</b>
Cost-per-time . . . . .	RMB1,000/per day to RMB20,000/per day	RMB30,000/per month
Cost-per-click . . . . .	RMB0.3/per click to RMB0.5/per click	RMB0.3/per click
Cost-per-download . . . . .	RMB1/per download to RMB2.5/per download	-
Cost-per-active . . . . .	RMB0.5/per active to RMB20/per active	RMB0.3/per active to RMB2/per active
Cost-per-mille* . . . . .	RMB1/per mille to RMB545/per mille	-

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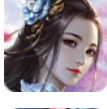

\* key charging rate

*Note:* The above table generally applied to part of the Track Record Period.

- *Terms:* generally one year. There is usually no automatic renewal attached with Qihu Technology being an exception.

### Online game business

Online game is another method we adopt to monetize our online traffic. During the Track Record Period, we primarily generated revenues under our online game business from web games. We offered a channel to operate mobile game on PCs through Simulator Master and recorded revenue generated from mobile games starting from the year ended 31 December 2018. As of 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, we had a total of three, 22, 42, 32 and 47 web games in operation, respectively. As of the Latest Practicable Date, we had 53 web games in operation, of which 40 were role-playing games, five were 3D games, five were leisure sports games and three were strategy games. The following table sets forth certain information relating our major web games that are currently in operation as of the Latest Practicable Date:

Game	Icon	Genre	Total Revenue Contribution <sup>(1)</sup>	Official Launch Date
			<i>(RMB'000)</i>	
Mie Shen (滅神).....		Role-playing game	13,012	July 2018
Blade Soul (劍靈) .....		3D game	3,076	November 2017
Perpetual Magic (魔域永恆).....		Role-playing game	3,171	September 2017
The Rise of Tai Chi (太極崛起).....		Role-playing game	2,568	March 2018
The Immortal King (絕世仙王).....		Role-playing game	2,226	January 2018

*Note:*

(1) for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019.

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The following table sets forth the revenue by game genre during the Track Record Period:

Games Genre	For the year ended 31 December						For the four months ended 30 April	
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Role-playing games .....	2,453	96	20,669	92	33,033	77	15,656	91
3D games .....	-	-	791	3	3,420	8	263	2
Strategy games .....	-	-	-	-	4,937	12	1,201	7
Others .....	110	4	1,116	5	1,498	3	45	0

The following table sets forth the top five revenue-generating web games and their respective revenue contribution for the period indicated:

Game	For the year ended 31 December 2016	
	RMB'000	%
Legendary Age (傳奇盛世) .....	1,906	74
The Secrets of Nine Yin (九陰絕學) .....	418	16
Legend of Blue Moon (藍月傳奇) .....	129	5
Others .....	111	5
<b>Total revenue .....</b>	<b>2,564</b>	

Game	For the year ended 31 December 2017	
	RMB'000	%
The World of Legend (傳奇世界) .....	4,967	22
Legendary Age (傳奇盛世) .....	4,874	22
Legend of Blue Moon (藍月傳奇) .....	4,062	18
Dragon War (屠龍戰記) .....	1,222	5
Perpetual Magic(魔域永恆) .....	1,200	5
Others .....	6,251	28
<b>Total revenue .....</b>	<b>22,576</b>	



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Games	For the year ended 31 December 2018	
	RMB'000	%
The World of Legend (傳奇世界) .....	9,286	21
Mie Shen (滅神) .....	5,473	13
Thirty-six Stratagems (三十六計) .....	4,750	11
Blade Soul (劍靈) .....	2,538	6
Legend of Blue Moon (藍月傳奇) .....	2,440	6
Others .....	18,402	43
<b>Total revenue</b> .....	<b>42,889</b>	
Games	For the four months ended 30 April 2019	
	RMB'000	%
Mie Shen (滅神) .....	7,538	39
The World of Legend (傳奇世界) .....	2,788	15
Thirty-six Stratagems (三十六計) .....	1,119	6
Mengjiang Tianxia (猛將天下) .....	920	5
Wudong Cangqiong (武動蒼穹) .....	716	4
Others .....	5,932	31
<b>Total revenue</b> .....	<b>19,013</b>	

As of the Latest Practicable Date, we had three pipeline games which is expected to be officially launched in October 2019, the information of which is set out below:

Game <sup>(1)</sup>	Icon	Genre	Expected Official Launched Date	Expected Lifecycle <sup>(2)</sup>
笑傲仙俠 The Smiling Proud Immortal Heroes .....		Role-playing games	October 2019	24-36 months
紅月戰神 Akatsuki God of War .....		Role-playing games	October 2019	24-36 months
盛世遮天 Prosperous Shrouding the Heavens .....		Role-playing games	October 2019	24-36 months

Notes:

- (1) We started to cooperate with 360 Group on online game business in 2018. In cooperation with 360 Group, we intend to launch three to four new games in 2019 and three to five new games per year in 2020 and 2021 on our online game platform.
- (2) The expected lifecycles of our game pipeline are estimated based on the industry average lifecycle by genre of games and our experience. However, the actual lifecycles of these may differ from those presented.

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During the Track Record Period, we generated revenue from online game related business in two channels. Before September 2017, we directed users from our Ludashi Software to www.xy.com, a game platform operated by KingNet, which owned ICP License and was qualified to operate game platform. After September 2017 when we were granted the ICP License to operate online game platform, through our website, wan.ludashi.com/game, and individualized PC utility software (game library), we operate and distribute games developed by third parties.

*Online game platform (wan.ludashi.com/game and game library)*

We mainly generated revenue from web games during the Track Record Period. On our platform, we deliberately and finely select games which are popular and at the same time cater to the appetite of users of our Ludashi Software, who are mainly more advanced PC users and are keen on hardware performance (as Ludashi Software mainly provides PC hardware and system benchmarking and monitoring services). Games operated on our platform include role-playing and strategy games. Most of the games currently operated on our online gameplatform are role-playing games. We have a special team responsible for scrutinizing games by referring to specific standards. Users could play these games directly on our online game platform without downloading operational software. The MAUs for our game library were 4.9 million in April 2019, representing our users who ever accessed our game platform at least once in April 2019, among which approximately 0.3 million users played games in our game library. We have 8.0 million registered users with our game library as of 30 April 2019. Registered users are registered on our online game platform after completing the registration application. Non-registered users are also able to access our online game platform. The average MPUs of our online game platform were approximately 9,075, 10,460, 13,327 and 14,592 for the years ended 31 December 2017 and 2018, and the four months ended 30 April 2019 and in April 2019, respectively. The following table sets forth the average revenue per paying user of our online game business for the periods indicated:

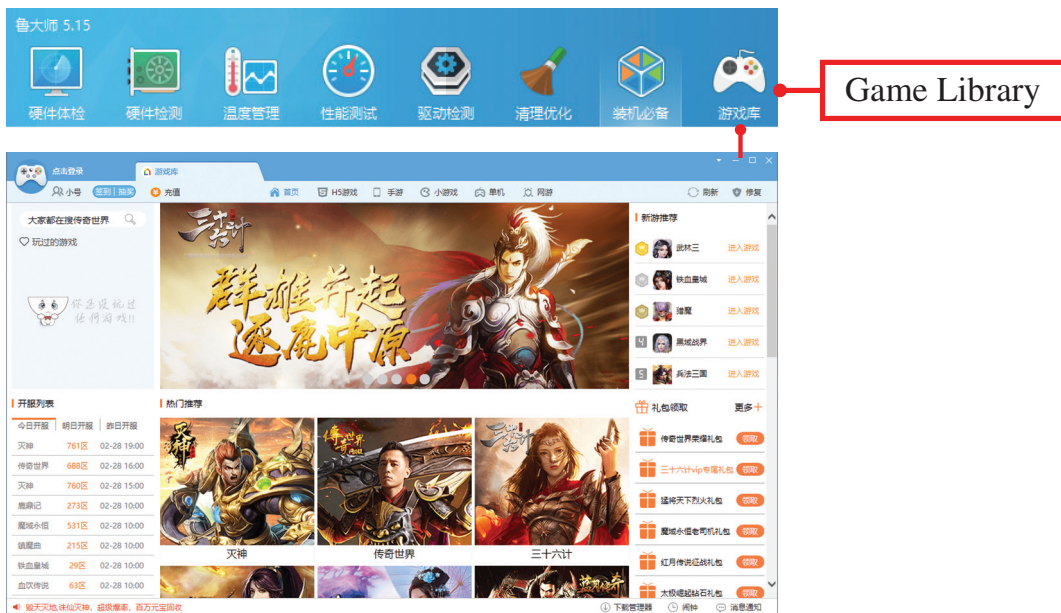
	<b>For the year ended 31 December</b>		<b>For the four months ended 30 April</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Average revenue per paying user of online game business .	340	345	334

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The following table demonstrates the number of users with the range of the users' annual payments on our Game Library for the indicated periods (as rounded to the nearest hundred).

	For the year ended 31 December		For the four months ended 30 April
	2017	2018	2019
RMB1-100 .....	17,900	55,000	27,200
RMB101-200 .....	2,600	6,700	3,100
RMB201-300 .....	1,400	3,600	1,900
RMB301-400 .....	700	2,100	1,000
RMB401-500 .....	400	1,200	600
RMB500-1000 .....	1,500	4,100	2,100
RMB1000+ .....	2,500	7,900	3,900

Interfaces of our own online game platform operated by the Group are demonstrated as follows:



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Our online game team selects popular games to be provided on our platform out of a large number of game bases. We regularly evaluate those games, taking into accounts factors such as their entertaining degree, uniqueness, comprehensive/key parameters, and previous products derived from the same research and development team and their market evaluation. Besides, according to our internal policies and standards, we evaluate and score games under a scheme with the full score being 100, taking into account examiners' first impression, interface quality, system settings, players' experience and charging system. We only choose games that scored 60 or above.

We enter into cooperation agreements with game developers and distributors, under which game developers and distributors authorize us to operate the games on our platform for a certain period of time ranging from one year to two years and ten months, and we share revenue from game players with game developers and distributors. We therefore regard the game developers and distributors as our customers in our operation of online game platform. As of the Latest Practicable Date, we offered 53 games on our online game platform [wan.ludashi.com/game](http://wan.ludashi.com/game), and the number of registered game players on our platform was 9.1 million. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from online game business was RMB2.6 million, RMB22.6 million, RMB42.9 million, RMB12.6 million and RMB19.0 million, respectively, accounting for 3.7%, 18.4%, 13.4%, 12.9% and 16.7% of our total revenue, respectively.

During the Track Record Period, we also entered into a game development agreement for a term of five years with a game developer to develop customized games to be operated on our online game platform and smartphones. We regard the game developers and distributors as our customers in this operation. We select games for smartphones by referring to the standards similar to our online game platform and procure online user traffic through our own products and/or purchasing it from third parties.

### Source of game

We source new licensed games from third-party game developers and distributors. Our game management team, which has rich experience in online game industry, has maintained stable and close relationships with a number of reputable game developers and distributors. With the promotion of *Ludashi's* brand recognition and the stable operation of our game platform, many game developers and distributors initiatively seek to cooperate with us to expand their source of revenue. We have formulated a strict internal control system for licensed games. Our business department shall submit the license of proposed games, together with its ISBN number, the record by MOC and the approval by SAPPRFT, to legal department for internal approval before we launch the game. We would not launch new games until we receive all required documents. Our legal department also monitors the legal status of launched games from time to time.

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### Payment channels

Our online game players purchase game credits of and recharge value to games operated on our platform and the platform operated by KingNet through their accounts with us. Online game players use the game credits to exchange for virtual items offered in all of the games operated on our platform and purchase game credits through online banking transfer, credit cards or third-party online payment channels. We cooperate with major online payment channels in the PRC, such as Alipay and Tenpay and Yee Pay.

### Player services

We also offer player services and remote technical support to online game players using our online game platform. When online game players encounter issues, they contact our online player services or call our player services hotline to seek real-time technical assistance and remote troubleshooting. Our player service team is responsive to the needs of online game players. When players make service inquiries, our player service representatives will act as the initial point of contact and, if the inquiry involves game-related technical issues, will liaise with the game developer. Typical requests handled by us include addressing issues in purchasing credits to player accounts, retrieving forgotten passwords and other game-related questions. We provide online player service, such as hotline, web-based customer service and QQ consulting groups and WeChat groups service for our players. Besides, we prepare special gifts, such as snacks, special local products and coupons, for our players on their birthdays and important festivals.

### The flow of funds

Under this business model, we cooperated with game developers and distributors by sharing with them the revenue we received from game players. Game players accessed games on the game platform operated by us, purchased game credits of and recharged value to their accounts through the platforms operated by us. We recognized revenue once game players purchased game credits or recharged value, and in turn shared revenue with game distributors at the contracted ratio. The amount of revenue recognized was net of deduction for the funds paid to game operator and developers.

### Recent development

The regulatory environment became increasingly intense in the year of 2018. The SAPPRFT suspended the issuance of licenses for publishing new games since 30 March 2018. The SAPPRFT has resumed the issuance of license for publishing new games since 19 December 2018. According to the official statistics published on the website of SAPPRFT, SAPPRFT has issued licenses to 164 new games in December 2018. The suspension of the issuance of licenses for publishing new games did not have direct impact on our online game business because we operate our online game business by cooperating with third-party game developers without developing games by ourselves. For the year ended 31 December 2018 and the four months ended 30 April 2019, our online game business was not affected by this policy because all the games we have operated by the end of April 2019 have already been licensed for publishing. The period of suspension of issuance of licenses for publishing new games was only about nine months, which had limited impact on the overall game market. For the large

game developers we cooperated with, the impact of such suspension on their game business was limited because they had abundant game license reserve so that they were able to provide sufficient licensed games to launch on our game platform during the period of suspension. As such, the suspension of issuance of licenses for publishing new games did not materially impact our online game business. Although such suspension did not materially impact our ability to launch new games, possible suspension from time to time may affect our online game operation in the future as there will be a limited number of new games to be published in the future as a result of such a tight policy and we may not be able to introduce proper new games at regular updating rate. As such, our financial condition may be adversely affected if such suspension occurs again.

We will adopt certain counter-measures to address this possible challenge. We plan to explore the business line of mini-games on platforms of Baidu, WeChat and Alipay on the domestic market and on platforms of Facebook and Instagram on the overseas markets. As the regulatory environment of the online game industry is evolving rapidly, our legal department will closely monitor the changes of the regulatory environment in online game industry and timely update these changes to our business department. In the meanwhile, our business department will attend industry conferences, such as global mobile internet conference and China digital entertainment expo and conference, to obtain more information about the trend and development of online game industry. Further, on the overseas markets, we plan to seek opportunities to develop business of game operation and distribution and cooperate with local advertisers to make use of the advertising space on our software products.

### *Online game directing (www.xy.com)*

Pursuant to the business collaboration agreement we entered into with Shanghai Kaiying for the period from 11 April 2016 to 6 April 2018, we directed our users to [www.xy.com](http://www.xy.com) for four games. The users who were interested in these games purchased game credits from us and we in turn shared revenue with Shanghai Kaiying on a 67/33 ratio. We are not required to obtain an ICP License for the business of directing game players to a qualified game platform.

We did not enter into game development agreements with game developers and distributors for these four games as we did for the games operated on our own platform because we did not operate the game platform. Instead, game developers and distributors separately entered into agreements with KingNet.

### The flow of funds

Under online game directing business, game distributors purchased online traffic from us. Users of Ludashi Software, who were also game players, accessed the games on the game platform ([www.xy.com](http://www.xy.com)) operated by game distributors through links on the [www.ludashi.com](http://www.ludashi.com), purchased game credits of and recharged value to their accounts through us. We recognized revenue once game players purchased game credits or recharged value, and in turn shared revenue with game distributors at the contracted ratio. The amount of revenue recognized was net of deduction for the funds paid to game operator and developers.

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*Summary of key terms of cooperation agreement and game development agreement with the game developers and distributors*

We generally enter into cooperation agreements with game developers and distributors. Key terms of the cooperation agreements with game developers and distributions are summarized below:

- *Authorized rights:* we are generally licensed to operate games non-exclusively and such authorization is retrievable, non-transferrable and cannot be sublicensed;
- *Game operation:* games developers are obligated to provide the necessary hardware and bandwidth, games updating, maintenance and support. We are obligated to provide the billing system, logging system, official website establishment and customer services;
- *Revenue sharing:* for our own online game platform, a ratio of 70/30 between us and game developers; for our online game directing, a ratio of 67/33 between us and Shanghai Kaiying;
- *Rights and obligations of two parties:* the game developers enjoy the intellectual property rights of the games and are obligated to maintain their daily operation and supervise our operation of the platform; We enjoy the rights of the user data and related information generated or collected from our online game platform and are obligated to strictly comply with the agreement to protect the licenses of those games and shall not conduct any wrongdoings that adversely affect the games' licenses, codes and target codes;
- *Server controlling:* developers and distributors enjoy the right to control the servers, and thus are authorized to control the content of and technical support to the games;
- *Termination term:* the game developers and operators have the right to terminate the contracts when we: (i) operate false and deceiving advertisements; (ii) bid with the name of the game; (iii) transfer game credits to game players who are not with the payment channels of the platform; (iv) postpone payment to a certain period of time; and (v) modify or damage the game without authorization from the developers and operators. Generally, the game developers and operators or both parties shall have the right to terminate the contract when certain amount of monthly income and/or monthly active users cannot be maintained;
- *Terms:* generally one to two years. Generally, terms can be renewed by mutual agreements; and
- *Operating area:* China.



### *Simulator Master*

We offer a channel to get into smartphone games market through Simulator Master. Simulator Master allows users to use mobile devices applications on PCs. This product is especially suitable for game players. It complements our online game platform on PC end. Players could search and log into those games on and through the software. Players can access most of the popular mobile games in the PRC market via Simulator Master. As of the Latest Practicable Date, we cooperate with developers and operators of 299 mobile games. We enter into co-operating agreements with those developers and operators and share with them revenues when players log into those games through Simulator Master and consume there at a ratio of 50/50. The MAUs for Simulator Master were 26.6 million in April 2019.

### *Electronic Devices Sales*

Since we have built a well-recognized brand image as a trustable hardware expert with our large user and data base, besides the traditional online traffic methods Internet companies usually adopt – online advertising service and online game business, we formulated an additional strategy to monetize our hardware and system benchmarking and monitoring technology, which is the sales of electronic devices, comprising certified pre-owned and factory smartphone sales, smart accessory sales and other electronic devices sales.

We monitor our business of electronic devices sales on an overall basis, and constantly review our procurement and product mix based on the prevailing market conditions, profit margin, scale and synergy and other factors. Accordingly, our sales of selected categories of electronic devices sales may experience some fluctuations.

As the competition in the first-hand PC and smartphone markets are getting increasingly fierce, our experienced management team turned their eyesight to an emerging market, the pre-owned and factory smartphone market. According to the Ministry of Industry and Information Technology, as of 31 December 2018, the number of mobile phone users in the PRC has reached approximately 1.5 billion, and the accumulated number of pre-owned mobile phone users from 2014 to 2017 has reached approximately 1.8 billion with the potential value for reusing these pre-owned mobile phones being around RMB600 billion and the potential market value for the resales of pre-owned mobile phones of high quality being around RMB275 billion. Our management team further found that our hardware and system benchmarking and monitoring technology may release the sticking point of the pre-owned and factory smartphone market – the difficulty for the consumers to distinguish the bona fide and authentic devices from counterfeit ones. We believe the market calls for certified products with quality control. According to Frost & Sullivan, the average gross margin for pre-owned mobile phone recycling business is around 15% in 2018 in the PRC. Considering the gross margin of the industry and with the ambition to further monetize our hardware and system benchmarking and monitoring technology, we determine to enter into the sales of certified pre-owned and factory smartphones.

**Certified pre-owned and factory smartphone sales**

Leveraging upon our hardware and system benchmarking and monitoring knowledge and our widely recognized brand as a hardware expert, we launched our certified pre-owned and factory smartphone sales business in 2017. The target customers of our certified pre-owned and factory smartphone sales are willing to embrace new concept and lifestyle. We mainly provide pre-owned smartphones of high-end brands, such as Apple and Huawei, which are popular among our target customers who would like to experience new models with latest technologies and at affordable prices. Our strategy may be adjusted based on market changes or modification of our strategy as necessary. We purchase batches of pre-owned smartphones from authorized pre-owned smartphones recyclers and factory smartphones from wholesalers with inventories after mass distribution, going through and leveraging on our signature benchmarking and testing procedures to evaluate our pre-owned and factory smartphones purchased from the market according to our clear quality control policy, and then sell them online and offline with a certificate evidencing the evaluation results of each smartphone, benchmarked and monitored by our mobile devices version of Ludashi Software. Up to the Latest Practicable Date, we have not installed any of our applications in the pre-owned and factory smartphones before selling. As a future strategy, we will consider to pre-install our applications in the pre-owned and factory smartphones. During the Track Record Period, we mainly offered three series of certified pre-owned and factory smartphones, including iPhone, Mi smartphone and Huawei smartphone. We have offered certified pre-owned and factory iPhones by August 2017. Afterwards, we enriched our products pool with Mi smartphones and Huawei smartphones. We sell those certified pre-owned and factory smartphones to some business entities for their resale and to individual consumers through online channels. On the one hand, we establish our own e-commerce platform for certified pre-owned and factory smartphone sales, the website of which is <https://www.xiaoluyouxuan.com/>. On the other hand, from March 2018, relating to orders entered into in December 2017, we started selling our smartphones to business entities for their resale mainly in Shenzhen, Nanjing and Fuzhou. We had recorded a revenue of approximately RMB1.4 million and RMB85.7 million for the years ended 31 December 2017 and 2018, respectively, and approximately RMB42.5 million and RMB6.8 million, respectively, for the four months ended 30 April 2018 and 2019 from this business line. We have put less effort on certified pre-owned and factory smartphones in an attempt to develop sales of other electronic devices for the four months ended 30 April 2019 primarily because: (i) iPhone XS and iPhone XS MAX were launched in September 2018, and these two popular models have not entered into the pre-owned smartphones sales market in large quantity before the end of March 2019, which resulted in the decreased number of pre-owned smartphones available for procurement and sale for the four months ended 30 April 2019; and (ii) the gross profit margin of other electronic devices sales was relatively higher as compared with that of certified pre-owned and factory smartphone sales in January 2019. With our ongoing review of our product mix and procurement channel, we have put more focus back on certified pre-owned and factory smartphones and less on other electronic devices since May 2019 due to considerations on, inter alia, profit margin and synergy. On the one hand, we started to sell iPhone XS and iPhone XS MAX in April 2019, which led to the increase in the profit margin of our certified pre-owned and factory smartphone sales which was higher than that of the other electronic devices sale. Meanwhile, due to the pricing adjustment of suppliers, the procurement cost of other electronic devices has increased since February 2019 which resulted in the decreased profit margin of our other electronic devices sales. On the other hand, our focus on certified pre-owned and factory smartphones sales will enhance synergy of our business lines because our expertise and research and development experience on hardware and system benchmarking and monitoring enables us to further expand our certified pre-owned and factory smartphone sales.

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## BUSINESS

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### *Pre-owned and factory smartphone procurement*

We contract recyclers in Shenzhen, Wuhan, Chengdu and Shanghai, and maintain cooperative relationship with them in procuring pre-owned and factory smartphones. Our team is located in Fuzhou. The team leader, Mr. Zhang Xiaozhen (張曉真) has ten years' experience in pre-owned and factory smartphones market. By leveraging on our hardware and system benchmarking and monitoring technologies, they attempt to scrutinize and select pre-owned and factory smartphones of good quality out of a vast number of products.

Besides, we also purchase inventory smartphones from wholesalers after their normal mass distribution. The sources of inventory smartphones comprise largely unmarketable smartphones of old models and new smartphones with some exterior defects. New smartphones with some exterior defects we sell include iPhones. Our suppliers sourced these iPhones from wholesalers authorized by Apple Inc..

The following table sets forth details of the electronic devices of different types.

<b>Electronic Devices</b>	<b>Launch Time in the Market</b>	<b>Launch Time on Our Platform</b>
iPhone 6	September 2014	November 2017
iPhone 6Plus	September 2014	November 2017
iPhone 6S	September 2015	November 2017
iPhone 6SPlus	September 2015	November 2017
iPhone 7	September 2016	November 2017
iPhone 7Plus	September 2016	November 2017
iPhone 8	September 2017	January 2018
iPhone 8Plus	September 2017	January 2018
iPhone X	September 2017	January 2018
Huawei Nova 2S	December 2017	May 2018
Xiaomi 5	February 2016	May 2018
Xiaomi 5C	February 2017	May 2018
Xiaomi 5X	July 2017	May 2018
iPadmini2WiFi	November 2013	June 2018
Huawei P9	April 2016	June 2018
Huawei P10	March 2017	July 2018
Xiaomi 6	April 2017	July 2018
iPhone SE	March 2016	August 2018
Samsung S8	May 2017	August 2018
Huawei Mate 9	November 2016	September 2018
iPhone XS	September 2018	April 2019
iPhone XS MAX	September 2018	April 2019

## BUSINESS

To better implement our business strategy of our electronic devices sales, we adjust our procurement channel of the sales of certified pre-owned and factory smartphones based on the prevailing market conditions. We normally consider the condition, the purchase and selling price, the market demand, the gross profit, the sales cycle and the risk of price drop of proposed procurement of pre-owned and factory smartphones. In the meanwhile, the growth prospect, the synergies between different business lines and profit margin are the factors which we may also consider during the decision-making process. As part of an ongoing review of our business strategies, we have fine-tuned our procurement channel of certified pre-owned and factory smartphones sales and focused less on factory smartphones sales in our business line of certified pre-owned and factory smartphone sales since August 2018. We still adopt a flexible policy on procurement of certified pre-owned and factory smartphones.

### *Pre-owned and factory smartphones recyclers and wholesalers*

The following table sets forth the backgrounds of the pre-owned and factory smartphone recyclers and wholesalers. Our Directors confirm that our purchases of pre-owned and factory smartphones and sales to wholesalers were not conducted on back-to-back basis.

Entities	Nature of Entities	Registered Capital	Scale of Operations	Purchase by the Group							
				For the year ended 31 December				For the four months ended 30 April			
				2017		2018		2018		2019	
				RMB'000	% <sup>(1)</sup>	RMB'000	% <sup>(1)</sup>	RMB'000	% <sup>(1)</sup>	RMB'000	% <sup>(1)</sup>
Shenzhen Yipin Communication Company Limited* (深圳壹品通訊有限公司) (“Shenzhen Yipin”)	Private Enterprise	15,000	Estimated annual income ranges from RMB200 million to RMB300 million	-	-	33,466	39.3	28,787	54.9	-	-
Company E	Subsidiary of a Listed Company in Shanghai Stock Exchange	20,000	Annual income of RMB700 million	-	-	24,764	29.1	7,504	14.3	-	-
Company F	State-Owned-Enterprise	50,000	Estimated annual income ranges from RMB300 million to RMB400 million	-	-	10,789	12.7	-	-	-	-
Company J	Private Enterprise	50,000	Estimated annual income of RMB1 billion	-	-	1,961	2.3	-	-	-	-

## BUSINESS

Entities	Nature of Entities	Registered Capital	Scale of Operations	Purchase by the Group							
				For the year ended 31 December				For the four months ended 30 April			
				2017		2018		2018		2019	
				RMB'000	% <sup>(1)</sup>	RMB'000	% <sup>(1)</sup>	RMB'000	% <sup>(1)</sup>	RMB'000	% <sup>(1)</sup>
Company K	Private Enterprise	25,000	Estimated annual income of RMB600 million	-	-	1,512	1.8	1,228	2.5	-	-
Company L	Private Enterprise	1,000	Estimated annual income of RMB90 million	-	-	2,522	3.0	2,951	6.0	-	-
Company M	Private Enterprise	1,000	Estimated annual income of RMB20 million	1,151	73.3	-	-	-	-	-	-
Company N	Private Enterprise	1,000	Estimated annual income of RMB50 million	119	7.6	-	-	-	-	-	-
Company O	Private Enterprise	500	Estimated annual income of RMB40 million	176	11.2	-	-	-	-	-	-
Company P	Private Enterprise	1,000	Estimated annual income of RMB20 million	69	4.4	785	0.8	663	1.4	-	-
Company X	Private Enterprise	11,000	Estimated annual income ranges from RMB700 million to RMB800 million	-	-	-	-	-	-	11,268	94.3
Company Y	Private Enterprise	10,000	Estimated annual income is approximately RMB5 million	-	-	-	-	-	-	277.1	2.3
Company Z	Private Enterprise	5,000	Estimated annual income ranges from RMB20 million to RMB30 million	-	-	-	-	-	-	206.0	1.7

*Note:*

- (1) The percentage represents the proportion of purchase amount by the Group from each entity in total purchase of pre-owned and factory smartphones and the inventories in the respective periods.

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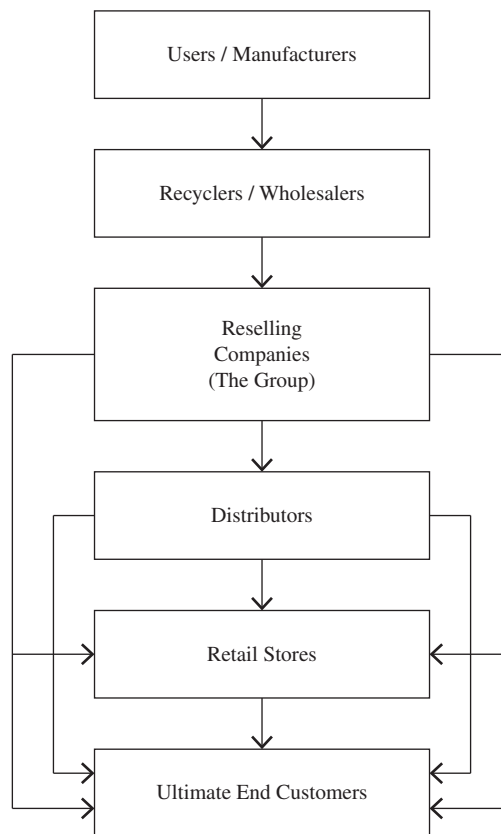
## BUSINESS

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### *The processes taken by the value chain of pre-owned and factory smartphones*

The respective value chain of pre-owned and factory smartphones differs from each other only in respect of sources of those smartphones and shares the same processes in all the other aspects. The original individual owners of smartphones sell their used smartphones to recycling platforms, including Shenzhen Yipin. Wholesalers such as Company E and Company F procured factory smartphones from distributors of iPhones and smartphones of other brands. The smartphones we procured on a large scale from the aforesaid recyclers and wholesalers are almost new smartphones. After examining, grading, categorizing, certifying and repacking, we sell those certified pre-owned and factory smartphones to individual customers on its e-commerce platforms and to business entities offline in the method of bulk selling. The business entities then sell to individual customers those certified pre-owned smartphones priced by themselves and with warranty service for one year provided by us.

The process of the value chain of pre-owned and factory smartphones is demonstrated as follows:



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## BUSINESS

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### *Logistics and warehouse*

We have engaged third-party logistic service and warehouse providers for delivering and storing our smartphone products. The smartphone products are delivered by the service providers to their warehouse, packaged in accordance to our specifications and quality standards. Subsequently, upon our separate instructions, delivered to locations specified by our customers, including individual customers and business entities. Our third-party logistics service providers maintain insurance to insure our products transmitted by them.

### *Inventory and fulfillment management*

Our inventories are certified pre-owned and factory smartphones. We have a stringent inventory control policy to monitor our inventory levels and minimize obsolete inventory. We generally keep sufficient inventories for our smartphones, which we consider to be appropriate for our business and industry.

### *Target customers and sales channels for certified pre-owned and factory smartphones*

We strategically sell our certified pre-owned and factory smartphones to some business entities for their resale and to individual consumers through online channels. During the Track Record Period, we sold our products on the one hand through our online sales platform <https://www.xiaoluyouxuan.com/> and on the other hand through offline wholesale. We plan to sell those pre-owned and factory smartphones to individual consumers in upcoming physical experiencing centers.

#### (i) Online e-commerce sales

Our online channel was built up in 2017. We advertise and promote our online channel through our own products and third party websites, QQ groups and WeChat groups. This online platform is mainly a retail channel to individual customers. For the years ended 31 December 2017 and 2018, and the four months ended 30 April 2018 and 2019, we generated revenue of RMB1.4 million, RMB2.0 million, RMB0.9 million and RMB0.4 million from our online sales platform, respectively, accounting for 100%, 2.4%, 2.1% and 6.4% of our certified pre-owned and factory smartphone sales, respectively.

#### (ii) Offline wholesale

We sell our smartphones to business entities offline in order to expand the market and geographical coverage of our products. We have sold our certified pre-owned and factory smartphones to seven business entities in China in the method of bulk selling. We usually send them our goods through logistics service providers. We had one repeated customer during the Track Record Period, and we usually send them our goods by express delivery. We start this business line in March 2018 relating to orders entered into in December 2017. For the years ended 31 December 2016 and 2017, we did not generate revenues from offline wholesale. For the year ended 31 December 2018, and the four months ended 30 April 2018 and 2019, our business entities customers contributed revenue of RMB83.7 million, RMB41.7 million and RMB6.4 million, accounting for 97.6%, 98.1% and 93.6% of our certified pre-owned and factory smartphone sales.



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The following table sets forth the revenue breakdown by different distribution channels for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Certified pre-owned and factory smartphones</b>										
Online e-commerce sales .....	-	-	1,361	100.0	2,025	2.4	880	2.1	435	6.4
Offline wholesales .....	-	-	-	-	83,664	97.6	41,669	97.9	6,387	93.6
<b>Total .....</b>	<b>-</b>	<b>-</b>	<b>1,361</b>	<b>100.0</b>	<b>85,689</b>	<b>100.0</b>	<b>42,549</b>	<b>100.0</b>	<b>6,822</b>	<b>100.0</b>

### *Pricing of certified pre-owned and factory smartphones*

We price our certified pre-owned and factory smartphones based on the cost of our procurement, the market price of the smartphones we procured, anticipated demand for the particular model, income levels of target users, mix of sales channels, the price of pre-owned and factory smartphones launched by our competitors, and historical sales volume of previous models we have launched. During the Track Record Period, there were no significant fluctuations in the average selling prices of our certified pre-owned and factory smartphones.

The following table sets forth financial details of the electronic devices of different types during the Track Record Period:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
		%		%		%		%		%
<b>Sales volume</b>										
iPhone .....	-	-	453	100.0	26,327	94.1	18,811	100.0	1,896	95.0
Android .....	-	-	-	-	1,652	5.9	-	-	99	5.0
<b>Total .....</b>	<b>-</b>	<b>-</b>	<b>453</b>	<b>100.0</b>	<b>27,979</b>	<b>100.0</b>	<b>18,811</b>	<b>100.0</b>	<b>1,995</b>	<b>100.0</b>

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	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	%	%	%	%	%	%	%	%	%	
<b>Average selling price (RMB)</b>										
iPhone .....	-	-	3,004	N/A	3,173	N/A	2,262	N/A	3,526	N/A
Android .....	-	-	-	-	1,309	N/A	-	N/A	1,388	N/A
<b>Revenue (RMB'000)</b>										
iPhone .....	-	-	1,361	100.0	83,527	97.5	42,549	100.0	6,685	98.0
Android .....	-	-	-	-	2,162	2.5	-	-	137	2.0
<b>Total .....</b>	<b>-</b>	<b>-</b>	<b>1,361</b>	<b>100.0</b>	<b>85,689</b>	<b>100.0</b>	<b>42,549</b>	<b>100.0</b>	<b>6,822</b>	<b>100.0</b>

*Returns, warranties and after-sale services for certified pre-owned and factory smartphones*

We provide after-sale services to the online individual consumers of our certified pre-owned and factory smartphones. Our online individual consumers can return the smartphones they purchase from us with or without cause within seven days of purchase. Between one to seven days of purchase, consumers may have their smartphones replaced or repaired for specific types of defects or quality issues as required under the relevant laws and regulations. We established our maintenance team in September 2018 with two repairing professionals on board. Our maintenance team is responsible for handling maintenance for all the ultimate end customers who purchased our certified pre-owned and factory smartphones through various channels. We have established procedures for handling complaints. All complaints, disputes and refunds have to be reported to our customer service center. Our complaint officer shall liaise immediately with the sales staff involved to verify whether there is any misconduct, and then apply for refund on behalf of the customer if necessary. To apply the refund, the customer shall submit payment application form to our market director, financial director and general manager for approval. In addition, the replacement application shall be approved by our general manager.

### *Quality control*

We have implemented products quality control policy for certified pre-owned and factory smartphones we procure from recyclers and wholesalers. We usually go through tests for those smartphones' appearances, power performances and functionalities according to our clear and executable standards.

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## BUSINESS

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*Summary of key terms of purchase agreements between the pre-owned and factory smartphone recyclers and wholesalers:*

We generally enter into purchase agreements with pre-owned and factory smartphones recyclers and wholesalers. Key terms of the purchase agreements with pre-owned and factory smartphones recyclers and wholesalers are summarized below:

- *Subject matter:* smartphones of certain models, numbers, unit price and total price listed in the purchase orders;
- *Payment methods:* delivery upon full payment, full payment upon delivery, installment-payment or any other method stipulated by two parties;
- *Delivery:* door-to-door delivery or self-delivery; and
- *Liquidated damages:* if the purchaser delayed in payment or we delayed in delivery, the breaching party shall pay the other party the amount of 0.5% of the contract price each day.

### **Smart accessory sales**

We launched our self-developed smart hardware devices brand *Looda* in July 2017 to provide customers with high quality smart hardware such as wireless phone chargers and iPhone Li-Polymer batteries. We integrate online and offline sales channels to promote our products online by our website [www.ludan.cn](http://www.ludan.cn) and offline by cooperating with numerous retailers. We also maintain a special team for researching and developing new AI accessories with cutting-edge technologies we master. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from the smart accessory sales was RMB0.4 million, RMB1.0 million, RMB2.3 million, RMB0.3 million and RMB2.1 million, respectively, accounting for 0.6%, 0.8%, 0.7%, 0.3% and 1.9% of our total revenue, respectively.

### **Other electronic devices sales**

We started other electronic devices sales in November 2018. Other electronic devices sales mainly comprise sales of pre-owned laptops and desktops, computer monitors, projectors, as well as earphones, speakers, mobile phone data cables and e-book readers. For the year ended 31 December 2018 and the four months ended 30 April 2019, our revenue from other electronic devices sales was RMB14.8 million and RMB20.5 million, accounting for 4.6% and 18.0% of our total revenue. We did not generate revenue from other electronic devices sales for the four months ended 30 April 2018. We have attempted to put strong focus on other electronic devices sales, particularly during the four months ended 30 April 2019. As part of our ongoing review on of our product mix and procurement channel, we have put more focus back on certified pre-owned and factory smartphones since May 2019.

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### The physical experiencing center, Xiaolu Zhidian

We set up our physical experiencing center – Xiaolu Zhidian in Chengdu in October 2018 to offer professional and tailored smart hardware repairing and fixing services, Ludashi-related products experiencing opportunities, certified pre-owned and factory smartphone and smart accessory sales, optimization plans tailored for customers’ particular devices, and live smartphone games programs from time to time.

### VENTURE INVESTMENTS

We from time to time invest in businesses that, we believe, have potential synergy or sound business plans. In order to encourage creativity and entrepreneur spirit, we consider business ideas from our employees and may inject registered capital for the benefit of our employees for selected venture investments. In view of the start-up nature and relatively small scale of such venture investments, none of the investee companies had significantly positively or negatively impact our result of operations and financial conditions during the Track Record Period and as of the Latest Practicable Date. We have nine investee companies. Financials of six investee companies have been consolidated into our Group’s financials because the equity interests of Chengdu Qilu and its employees were over 50% and other shareholders did not contribute any paid-in capital of these companies. Since all the capital and working capital of these investees were solely contributed by us, based on the relevant shareholders’ agreements, we enjoy rights to all the net assets of those investees. Therefore, we believe that we have controlling interests over these investees, and enjoy the rights to their variable returns as a result of our involvement with the investees. For the purpose of establishing and streamlining the corporate structure of our Group for the Listing, we had disposed our equity interests in six certain investee companies, namely Kuleng Technology, Aidai Technology, Sudu Technology, Xiaofeiniiao Technology, Ju’a Network and Zhonghe Lianchuang by the end of August 2018. For details of these disposals, see “History, Reorganization and Corporate Structure – Reorganization – Disposals of minority interests in certain investee companies.” Under such circumstance, we ceased to combine these investee companies’ financials into our Group’s financials after 31 August 2018. Aiyu Technology and Jiubake Technology were not consolidated into our Group’s financials since their de-registration in November 2018 and June 2019, respectively. The following table sets forth the information of the investee companies, whose financials has been consolidated into our Group as of the Latest Practicable Date:

Name of Investee company	Principal Business	Investment Amount	Percentage of Equity Interest of the Company	Percentage of Equity Interest of our Employees	Total Percentage of Equity Interest of the Company and its Employees
<i>RMB’000</i>					
Zhonghe Yilian . . . . .	Production and sales of intelligent hardware	3,000	19%	51%	70%

For the information of accounting treatment of these investee companies, see “Financial Information – Management’s discussion and analysis of financial condition and results of operations – Factors affecting our results of operations and financial condition.”

## BUSINESS

### CUSTOMERS

We mainly maintain relationships with customers under online traffic monetization, and sales of electronic devices.

Revenue from the top five customers accounted for 94.5%, 89.0%, 55.3%, 73.0% and 49.9% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. Revenue from the largest customer accounted for 67.2%, 41.3%, 22.4%, 33.9% and 25.2% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

The table below sets forth the details of the top five customers for the year ended 31 December 2016:

Customers	Years of business relationship with us	Place of incorporation	Services we provided	Revenue contribution		Principal business
				RMB'000	%	
360 Group .....	4	Beijing	Homepage directing; online advertising; online game	46,940	67.2	Software technology research and development
Songheng Group .....	3	Shanghai	Mini-page service	9,001	12.9	Network and computer technology research and development
Chengdu Enerou Technology Company Limited* (成都恩貳歐技術有限公司) .....	2	Chengdu	Mini-page service	5,439	7.8	Software development, online advertising and website operation
Shanghai Yueteng Network Technology Company Limited* (上海悅騰網絡科技有限公司) (“Shanghai Yueteng”) .....	4	Shanghai	Online game	2,428	3.5	Web and mobile game development and operation
Shanghai Kaiying Network Technology Company Limited* (上海愷英網絡科技有限公司) .....	4	Shanghai	Online game	2,169	3.1	Web and mobile game development and operation

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Among our top five customers for the year ended 31 December 2016, except Enerou, Songheng Group (starting being a shareholder of Chengdu Qilu from 10 January 2017), Shanghai Yueteng and Shanghai Kaiying being Independent Third Parties, the relationships between the following customer and us are as follows:

Customers	Relationship	Share Percentage <sup>(1)</sup>
360 Group .....	Qihu Technology, the Shareholder of Chengdu Qilu	74%

*Note:*

(1) As of 31 December 2016.

The table below sets forth the details of the top five customers for the year ended 31 December 2017:

Customers	Years of business relationship with us	Place of incorporation	Services we provided	Revenue contribution		Principal business
				<i>RMB'000</i>	%	
360 Group .....	4	Beijing	Homepage directing; online advertising; online game	50,589	41.3	Software technology research and development
Songheng Group .....	3	Shanghai	Mini-page service	41,538	33.9	Network and computer technology research and development
Shanghai Yueteng Network Technology Company Limited* (上海悅騰網絡科技有限公司) .....	4	Shanghai	Online game	10,515	8.6	Web and mobile game development and operation
Jiangxi Tanwan Information Technology Company Limited* (江西貪玩信息技術有限公司) (“Jiangxi Tanwan”) .....	2	Jiangxi	Online game	5,012	4.1	Web and mobile game development and operation
Company B .....	2	Xinjiang	Online Game	1,530	1.2	Technical development, consulting and service

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Among our top five customers for the year ended 31 December 2017, except Shanghai Yueteng, Jiangxi Tanwan and Company B being Independent Third Parties, the relationships between the following customers and us are as follows:

<u>Customers</u>	<u>Relationship</u>	<u>Share Percentage<sup>(1)</sup></u>
360 Group . . . . .	Qihu Technology, the shareholder of Chengdu Qilu	49%
Songheng Group . . . . .	Shanghai Songheng, the shareholder of Chengdu Qilu	25%

*Note:*

(1) As of 31 December 2017.

The table below sets forth the details of the top five customers for the year ended 31 December 2018:

<u>Customers</u>	<u>Years of business relationship with us</u>	<u>Place of incorporation</u>	<u>Services we provided</u>	<u>Revenue contribution</u>		<u>Principal business</u>
				<i>RMB'000</i>	%	
360 Group . . . . .	4	Beijing	Homepage directing; online advertising; online game	71,753	22.4	Software technology research and development
Shenzhen Zhongheng Yintong Technology Company Limited* (深圳市中恒銀通科技有 限公司) (“Zhongheng Yintong”) <sup>(1)</sup> . . . . .	1	Shenzhen	Pre-owned and factory smartphone sales	40,201	12.6	Second-hand mobile devices sales
Songheng Group . . . . .	3	Shanghai	Mini-page service	23,971	7.5	Network and computer technology research and development
Company C . . . . .	1	Singapore	Online advertising Service	23,688	7.4	Internet Search Engine, Cloud service and Advertising technology



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Customers	Years of business relationship with us	Place of incorporation	Services we provided	Revenue contribution	Principal business	
				<i>RMB'000</i>	%	
Company D <sup>(2)</sup> . . . . .	1	Shenzhen	Pre-owned and factory smartphone sales	17,433	5.4	Smartphone research, development and production

*Notes:*

- (1) From July 2018, we ceased to cooperate with Zhongheng Yintong due to our strategic adjustment to replace the former distributorship marketing strategy with the retail stores direct sales in order to further explore diversified sales channels and increase our profits in the future. As of 31 December 2018, we have generated revenue of RMB40.2 million from Zhongheng Yintong since such business transformation.
- (2) From June 2018, we ceased to cooperate with Company D due to our strategic adjustment to replace the former distributorship marketing strategy with the retail stores direct sales in order to further explore diversified sales channels and increase our profits in the future. As of 31 December 2018, we have generated revenue of RMB17.4 million from Company D since such business transformation.

Among our top five customers for the year ended 31 December 2018, except Zhongheng Yintong, Company C and Company D, being Independent Third Parties, the relationships between the following customers and us are as follows:

Customers	Relationship	Share Percentage <sup>(1)</sup>
360 Group . . . . .	Qihu Technology, the shareholder of Chengdu Qilu	41.37%
Songheng Group . . . . .	Shanghai Songheng, the shareholder of Chengdu Qilu	23.64%

*Note:*

- (1) As of 31 December 2018.

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The table below sets forth the details of the top five customers for the four months ended 30 April 2019:

Customers	Years of business relationship with us	Place of incorporation	Services we provided	Revenue contribution	Principal business	
				<i>RMB'000</i>	%	
360 Group . . . . .	4	Beijing	Homepage directing; online advertising; online game	28,624	25.2	Software technology research and development
Songheng Group . . . . .	3	Shanghai	Mini-page service	10,987	9.7	Network and computer technology research and development
Company C . . . . .	1	Singapore	Online advertising service	6,113	5.4	Internet search engine, cloud service and advertising technology
Company S . . . . .	1	Beijing	Mini-page service	6,004	5.3	Technology and software development
Company T . . . . .	1	Singapore	Online advertising service	4,954	4.4	Internet search engine, cloud service and advertising technology

Among our top five customers for the four months ended 30 April 2019, except Company C, Company S and Company T being Independent Third Parties, the relationships between the following customers and us are as follows:

Customers	Relationship	Share Percentage <sup>(1)</sup>
360 Group . . . . .	Qihu Technology, the shareholder of Chengdu Qilu	41.37%
Songheng Group . . . . .	Shanghai Songheng, the shareholder of Chengdu Qilu	23.64%

*Note:*

(1) As of 30 April 2019.

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The following table sets forth the number of customers in different business lines for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April
	2016	2017	2018	2019
	Online advertising services . . . . .	33	52	57
Online game business . . . . .	2	21	110	75
Certified pre-owned and factory smartphones . . . . .	–	391	2,569	808
Smart accessories . . . . .	2	2	24	24
Other electronic devices . . . . .	–	–	20	19

We entered into a two-year service agreement with Qihu Technology for server leasing from 1 January 2017 to 31 December 2018. Pursuant to the renewal clause of the contract, it will be automatically renewed for one year. As advised by our PRC Legal Advisers, this agreement is legally binding under PRC law. Our Directors confirm that there were no breaches of such agreement during the Track Record Period and up to the Latest Practicable Date.

We entered into a one-year service agreement with Qihu Technology for information security service from 1 January 2018 to 31 December 2018. We have renewed the service agreement with Qihu Technology for information security service for one year from 1 January 2019 to 31 December 2019. As advised by our PRC Legal Advisers, this agreement is legally binding under PRC law. Our Directors confirm that there were no breaches of such agreement during the Track Record Period and up to the Latest Practicable Date.

### ***360 Group***

During the Track Record Period, 360 Technology, one of our Controlling Shareholders, and its subsidiary, Qihu Technology, were our major customers of our advertising service. We have been in business relationship with Qihu Technology for approximately four years. Qihu Technology is an Internet company focusing on anti-virus utility software development. We offer a five-day credit term to Qihu Technology. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from 360 Technology amounted to RMB46.8 million, RMB5.2 million, RMB5.2 million, RMB2.7 million and RMB0.5 million, respectively, accounting for 67.1%, 4.2%, 1.6%, 2.8% and 0.4% of our total revenue, respectively. For the years ended 31 December 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from Qihu Technology amounted to RMB45.4 million, RMB61.0 million, RMB16.5 million and RMB20.6 million, respectively, accounting for 37.0%, 19.0%, 16.9% and 18.1% of our total revenue, respectively. We did not have revenue from Qihu Technology for the year ended 31 December 2016. For details, see “Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (A) Provision of Services to 360 Group.” The aggregate revenue from 360 Group, including 360 Technology and Qihu Technology and Star World and Quyou Time, for

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the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, amounted to RMB46.9 million, RMB50.6 million, RMB71.8 million, RMB19.2 million and RMB28.6 million, respectively, representing 67.2%, 41.3%, 22.4%, 19.6% and 25.2% of our total revenue, respectively. Transactions with 360 Group may subject us to risks of customer concentration. For details of the risks and related aggregate amount and percentage, please see “Risk Factors – Risks relating to our business and industry – We generate a substantial portion of our revenue from 360 Group and Shanghai Songheng which may cause significant fluctuations in our revenue.” However, it is expected that the concentration level of our revenue from Qihu Technology is likely to decrease in the future. See “Risk Factors – Risks Relating to Our Business and Industry – We generate a substantial portion of our revenue from Qihu Technology and Shanghai Songheng which may cause significant fluctuations in our revenue.”

### *Songheng Group*

In the year of 2016, we replaced our former mini-page service customer, Enerou, with Shanghai Songheng due to its higher offer of price and product content of better quality. Since then, Shanghai Songheng found that such advertising channel via us has been efficient in gaining exposure and therefore looked for investment opportunity in us in order to strengthen its relationship with us and keep our service as its constant online traffic source.

During the Track Record Period, Shanghai Songheng, our another substantial shareholder, was another major customer of our advertising service. We have been in business relationship with Shanghai Songheng for three years respectively in mini-page service and banner advertising service. Shanghai Songheng is an Internet technology company engaged in research and development of Internet technologies and Internet product operation. We offer a ten-day credit term to Shanghai Songheng. Shanghai Songheng had been engaged in contracts with us from 2016 on. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from Shanghai Songheng amounted to RMB9.0 million, RMB41.5 million, RMB24.0 million, RMB6.9 million and RMB11.0 million, respectively, accounting for 12.9%, 33.9%, 7.5%, 7.1% and 9.7% of our total revenue, respectively. For details, see “Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (C) Provision of Services to Shanghai Songheng.” Transactions with Shanghai Songheng may subject us to risks of customer concentration. However, it is expected that the concentration level of our revenue from Shanghai Songheng is likely to decrease in the future. See “Risk Factors – Risks Relating to Our Business and Industry – We generate a substantial portion of our revenue from Qihu Technology and Shanghai Songheng which may cause significant fluctuations in our revenue.”

According to Frost & Sullivan, for internet companies that generate revenue mainly from online advertising through third-party advertising platforms, it is common to have a limited number of customers (less than 100) with top customers accounting for a large portion of total revenue, because of the concentrated landscape of supply-side advertising platforms and advertising network. Frost & Sullivan further points out the market for web game development is also concentrated with top players occupying a large share of gross billings despite that there

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are a number of smaller developers. Our situation is in line with the industry norms. Nevertheless, we have been diversifying its business lines and the customer concentration level has been decreasing over the years, and is going to keep this trend in the coming future.

### *Relationships with 360 Group and Songheng Group*

It is of low likelihood for our relationships with 360 Group and Songheng Group to terminate. We have stable cooperative relationships with 360 Group and Songheng Group on a long-term basis which ensures cooperation in the future. There has been no dispute since the beginning of our cooperation. The demand from 360 Group and Songheng Group to purchase online traffic is increasing in tandem with their growing market competition. As our Shareholders, 360 Group and Songheng Group intend to continue to purchase online traffic from us since stable online traffic is crucial to their business.

We are able to attract and acquire new customers if our cooperation with 360 Group and Songheng Group is terminated. Our businesses with 360 Group and Songheng Group are principally homepage directing services and mini-page services. Leveraging on the stable expansion of our user base, the increasing market demand of homepage directing and mini-page services enables us to attract potential customers. On the one hand, we can seek cooperation with other homepage directing alliances in the future if the termination of cooperation with 360 Group occurs. On the other hand, we continually provide mini-page services to other customers besides Songheng Group during the Track Record Period. We plan to explore opportunities in the overseas markets and cooperate with potential customers in order to diversify our monetization channels.

## USERS

We believe that we have a loyal user base, which mainly comprises information technology savvy users and online game players. The core of our business model is to transform our large base of users of our complimentary benchmarking and monitoring services to a base for paying customers. Our users are a group of individuals who are keen to technology development and enthusiastic towards online games and e-commerce. These people are generally well educated with great purchase power, especially on information technology-related products. They are also generally more loyal to the services and products we offer than general customers in other sectors. Our users are mainly aged between 20 and 25, who have strong spending power and are interested in high-tech products, including tablets, smartphones and audio devices. We believe our user base is highly attractive to advertisers from the Internet industry, smartphone industry and information technology industry, such as search engines, game developers and distributors, PC manufacturers, wearable technology device manufacturers and VR device manufacturers. The MAUs for our products, comprising that of our utility software of 120.4 million and that of game library of 4.9 million, amounted to approximately 125.3 million in April 2019. Among the MAUs of our products, there were 103.8 million MAUs in the PRC. Another 21.5 million MAUs were generated from products geared towards overseas markets.

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### SUPPLIERS

Our suppliers mainly provide advertising and promoting service for our PC version of Ludashi Software and pre-owned and factory smartphones for our procurement.

During the Track Record Period, we leased servers from Qihu Technology and a well-known cloud service provider. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our purchases from Qihu Technology accounted for 8.2%, 8.3%, 1.4%, 0.6% and 0.6% of our total purchases, respectively. For details, see “Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (B) Procurement of Services from 360 Group.”

We establish cooperation relationships with pre-owned and factory smartphone recyclers and wholesalers with inventories after mass distribution in Shenzhen, Wuhan, Chengdu and Shanghai to procure pre-owned and factory smartphones from them. We typically enter into individual and tailored purchasing agreements with those recyclers in each separated transaction. We usually do bulk procurement. Our pre-owned and factory smartphone expertise guarantees we are able to procure high quality and authentic pre-owned and factory smartphones in the market. The purchasing cost charged by recyclers and wholesalers is based on market supply and demand.

Purchases from our top five suppliers accounted for 77.7%, 70.1%, 62.7%, 84.7% and 83.5% of our total purchase amount for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. Purchases from our largest supplier accounted for 22.0%, 27.9%, 20.7%, 54.9% and 37.6% of our total purchase amount for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

The table below sets forth the details of our top five suppliers for the year ended 31 December 2016:

Suppliers	Years of business relationship with us	Place of incorporation	Services we purchased	Purchase volume	Principal business	
				<i>RMB'000</i>	<i>%</i>	
Songheng Group .....	4	Shanghai	advertising and promoting for PC version of Ludashi Software	2,108	22.0	Network and computer technology research and development
360 Group .....	4	Beijing	Server leasing	1,964	20.5	Software technology research and development

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Suppliers	Years of business relationship with us	Place of incorporation	Services we purchased	Purchase volume		Principal business
				RMB'000	%	
Company F .....	4	Beijing	advertising and promoting for PC version of Ludashi Software	1,629	17.0	Technology development, consulting and service
Maanshan Group .....	3	Maanshan	advertising and promoting for PC version of Ludashi Software	1,048	10.9	Website operation and management, software user distribution
Yantai Zhenghao Network Technology Company Limited* (煙臺市正浩網絡科技有 限公司) ("Yantai Zhenghao") ..	3	Yantai	advertising and promoting for PC version of Ludashi Software	694	7.2	Network product development and promotion

Among our top five suppliers for the year ended 31 December 2016, except Songheng Group (starting being a shareholder of Chengdu Qilu from 10 January 2017), Company F, Maanshan Group and Yantai Zhenghao being Independent Third Parties, the relationships between the following suppliers and us are as follows:

Suppliers	Relationship	Share Percentage <sup>(1)</sup>
360 Group .....	Qihu Technology, the shareholder of Chengdu Qilu	74%

*Note:*

(1) As of 31 December 2016.



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The table below sets forth the details of our top five suppliers for the year ended 31 December 2017:

Suppliers	Years of business relationship with us	Place of incorporation	Services we purchased	Purchase volume		Principal business
				RMB'000	%	
Company F . . . . .	4	Beijing	advertising and promoting for PC version of Ludashi Software	5,651	27.9	Technology development, consulting and service
Maanshan Group . . . . .	3	Maanshan	advertising and promoting for PC version of Ludashi Software	3,542	17.5	Website operation and management
Songheng Group . . . . .	4	Shanghai	advertising and promoting for PC version of Ludashi Software	2,157	10.7	Network and computer technology research and development
360 Group . . . . .	4	Beijing	Server leasing	1,680	8.3	Software technology research and development
Company Q . . . . .	2	Beijing	pre-owned and factory smartphone procurement	1,151	5.7	Computer software development and electronic devices sales

Among our top five suppliers for the year ended 31 December 2017, except Company F, Maanshan Group and Company Q being Independent Third Parties, the relationships between the following suppliers and us are as follows:

Suppliers	Relationship	Share Percentage <sup>(1)</sup>
360 Group . . . . .	Qihu Technology, the shareholder of Chengdu Qilu	49%
Songheng Group . . . . .	Shanghai Songheng, the shareholder of Chengdu Qilu	25%

*Note:*

(1) As of 31 December 2017.

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The table below sets forth the details of our top five suppliers for the year ended 31 December 2018:

Suppliers	Years of business relationship with us	Place of incorporation	Services we purchased	Purchase volume		Principal business
				<i>RMB'000</i>	%	
Shenzhen Yipin Communication Company Limited* (深圳壹品通訊有 限公司) .....	1	Shenzhen	pre-owned and factory smartphone procurement	33,466	20.7	Network technology and computer technology development
Company H .....	1	Yibin	pre-owned and factory smartphone procurement	24,764	15.3	Technical development and production of electronic products
Madhouse Company Limited .....	1	Hong Kong	advertising and promoting for PC version of Ludashi Software	19,560	12.1	Mobile advertising
R Group .....	1	Beijing	pre-owned and factory electronic devices procurement	13,238	8.2	Wholesale and retail of computers and electronic devices
Maanshan Group .....	3	Maanshan	advertising and promoting for PC version of Ludashi Software	12,866	7.9	Technical development, consulting and service

All of our top five suppliers for the year ended 31 December 2018 are Independent Third Parties.

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The table below sets forth the details of the top five suppliers for the four months ended 30 April 2019:

<u>Suppliers</u>	<u>Years of business relationship with us</u>	<u>Place of incorporation</u>	<u>Services we provided</u>	<u>Purchase volume</u>		<u>Principal business</u>
				<i>RMB'000</i>	<i>%</i>	
R Group . . . . .	1	Beijing	Other electronic devices and pre-owned and factory smartphone procurement	24,037	37.6	Wholesale and retail of various products and services
Company U . . . . .	1	Shenzhen	Pre-owned and factory electronic devices procurement	9,736	15.2	Supply chain management and domestic trade
Madhouse Company Limited . . . . .	1	Hong Kong	Advertising and promoting for PC version of Ludashi software	8,745	13.7	Mobile advertising
Maanshan Group . . . . .	3	Maanshan	Advertising and promoting for PC version of Ludashi Software	7,624	11.9	Technical development, consulting and service
Company V . . . . .	1	Kashi District	Advertising and promoting for PC version of Ludashi Software	3,190	5.0	Technology development and computer system service

Our top five suppliers for the four months ended 30 April 2019 are all Independent Third Parties.

***360 Group***

Qihu Technology and 360 Technology are also our suppliers. We lease servers from Qihu Technology and Qihu Technology provide information security service and detect security bugs of Ludashi Software for us. As we used to be a division of Qihu Technology and stored all of our operating data with it, such an arrangement would be favorable to our business continuity. We also lease servers from a well-known cloud service provider. For the year ended 31 December 2016, the amounts we paid for advertising and promoting with 360 Technology amounted to RMB1.2 million, accounting for 12.3% of our total cost. In 2016, we did not pay the amount out to 360 Technology but rather recorded it as deemed capital contribution by it. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our cost to Qihu Technology amounted to RMB0.8 million, RMB1.7 million, RMB2.2 million, RMB0.3 million and RMB0.4 million, respectively, accounting for 8.2%, 8.3%, 1.4%, 0.6% and 0.6% of our total cost, respectively. For details, see “Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (B) Procurement of services from 360 Group.”

***Songheng Group***

Starting from May 2016, Shanghai Songheng contracted with us to provide advertising and promoting for our PC version of Ludashi Software through its subsidiary, Shanghai Gaoxin Computer System Company Limited. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our cost to Shanghai Gaoxin, one of Shanghai Songheng’s subsidiaries, amounted to RMB0.5 million, RMB2.1 million, RMB0.6 million, RMB0.4 million and RMB1.0 million, respectively, accounting for 4.9%, 10.6%, 0.4%, 0.8% and 1.8% of our total cost, respectively. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018, our transactions with Shanghai Zhanmeng, one of Shanghai Songheng’s subsidiaries, amounted to RMB1.6 million, RMB11,000, RMB1,000 and nil, respectively, accounting for 17.1%, 0.1%, 0.0% and 0.0% of our total cost, respectively. For details, see “Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (D) Procurement of services from Shanghai Songheng and its subsidiaries.”

**RESEARCH AND DEVELOPMENT**

To further enhance our position in the Internet industry, we will continue to invest in research and development to improve and diversify our product and service offerings. As of the Latest Practicable Date, we have 84 research and development personnel, respectively of which 56 have bachelor’s degree and six have master’s degree. On average, they have approximately six years’ experience in information technology industry. Our research and development expenses amounted to RMB13.1 million, RMB16.8 million, RMB23.4 million, RMB7.3 million and RMB8.8 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

*Our Proprietary Technologies*

**System performance optimization and PC temperature control technologies**

Our hardware and system benchmarking and monitoring products provide system optimization solutions to our users, including PC temperature control, memory release and hard disk cleanups. Our system performance optimization technology assists our users to optimize the system settings and improve the system performance of their PCs. It releases the memory and improves hard drive performance through testing and defragmentation and automatically updates and backs up system files.

Our PC temperature control technology enables users to effectively monitor hardware temperature, prevents a PC from overheating and prolongs the life of a PC by maintaining the temperature of its key components at a healthy level, while enhancing the overall performance of a PC. This technology is also used in our hardware and system benchmarking and monitoring App for Android.

**Big-data analytics capabilities**

The accuracy of hardware and system benchmarking and monitoring largely depends on the comprehensiveness of the database of hardware information, which is dependent upon our big-data analytics capabilities. We have built a comprehensive system for data collection, including user-end data collection software development kits, server-end agents for the collection of user behavior and server-end data collectors dedicated to receiving user data. Currently, most data we collect passes through our real-time data collection channels, which efficiently distribute data for permanent storage and, at the same time, send data to different teams so that each team can receive the necessary user data they require in real time.

Ludashi Software collects users' hardware information with their permission authorized at the installation process, and then sends it to Ludashi Software's server cluster. We extract the data, transform the effective data into log files and load them up to servers, which delivers the data to Open Data Processing Service. Afterwards, the processed data is stored in our big-data base.

In addition, to comply with the Systematic Real Name Certification Measures on Online Games Addiction Prevention\* (《網路遊戲防沉迷系統實名認證方案》), game players shall register their game accounts on our platform and we shall collect their names and identification numbers. With the secure storage technologies and the information security service provided by our service provider, we respect users' privacy and protect the security of the information we collect.

Ludashi Software recorded the hardware information of each user's device equipped with it. We categorize the data into two classes by accuracy of the data collected from those devices. The first class of data is identified data which has been published in Ludashi Software's main program. This class of data is usually collected from popular products in the market. Since Ludashi Software has collected enough information about those products, we only need to read data restored in our data base in benchmarking and monitoring instead of that from the products. The second class of data is what we read and identify directly from users' devices. Usually the data collected in this way would be accurate in reflecting the devices' characters, apart from some manipulators' modification on the devices' operation system which may result in the inaccuracy of the data and further affect the accuracy of our benchmarking and monitoring result. To avoid being misled by the second class of data, we only use this class of data in rare cases. As our server collects an increasing amount of data, our engineers are able to identify more accurate information of those devices and upgrade the second class of data to the first class of data when they are qualified, by keeping track of feedbacks from those identified products and updating them from time to time. The foregoing information forms our data base. The more users we maintain, the more devices information we are able to collect and the more accurate our benchmarking and monitoring results could be.

### **AI technologies research and development**

Our success is based on our ability to create new and compelling products, services, and experiences for our users, to embrace disruptive technology trends, to enter new geographic markets, and to drive broad adoption of our products and services.

In recent years, we have invested significant resources in the research and development of AI technology and have made significant progress. We aim to explore different ways to apply AI technologies and accelerate the commercialization of AI products. Our AI technology team is responsible for applying the latest AI technology in our products and services which empower us to continuously improve our user experiences.

### ***Product Development Process***

We closely monitor user behavior and user preferences and respond to any changes or shifts by developing new products or by adding new or optimized features in existing products.

Our product development process comprises the following steps:

- *Initiation and development:* we initiate the development of a new product in response to user demands or market trend. Prototypes are developed by product managers and we then form a project team comprising personnel from our research and development, financial, sales and marketing and technology teams to conduct an in-depth feasibility study. If we find that a new product or feature is feasible in all respects, our research and development team will proceed to formulate steps in the development, internal tests and launch of the new product. The stage for new products research and development usually takes one to two months. The stage for new features research and development usually takes half a month.

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- *Testing:* (i) Alpha testing, after completing the initiation and development process, we then conduct internal tests to resolve any major technological issues and software bugs that may exist in the test version; and (ii) Beta testing, we subsequently make the new or updated products or features available to a limited number of randomly selected users for trial, continually monitoring and soliciting user feedback in order to optimize the product's performance.
- *Launch:* we determine a product to be officially launched when we upload it on our website or on one or more utility software or App distribution channels and make it publicly available for download. We determine a feature to be officially added upon the completion of Beta testing.
- *Ongoing optimization and improvement:* we continually monitor and optimize our products' and features' functions and performance based on user feedback. We periodically release new versions of our utility software and App with improved existing features, and each new version usually takes from approximately five to seven days to upgrade and launch, depending on the complexity of the improved features.

## DATA PRIVACY

We are committed to protecting our users' personal information and privacy. In the ordinary course of our business, we collect personal data and behavioral data from users and store this data on servers for three years. In compliance with the relevant PRC laws and regulations, game players are required to provide their ID number for registration on our platform. Game players can also choose to provide more information to us, such as gender and age, and become a fully registered player. During the ordinary course of our online sales platform, we collect users' address, telephone number and transaction history when they purchase electronic devices from our online sales platform. We also collect users' behavioral data as users use our products. To improve our software and services, we collect the information of installation and uninstallation and record such information to our server. We also record volume of online traffic of each function of our products to upgrade our users' experience. To improve the stability of our products, our software automatically creates an error report, which records the operational data when the software collapsed. We believe it is crucial that our users understand how we handle their information so that they can make informed choices in deciding how such information is used and shared. To this end, we collect personal information and data from users only with their prior consent, and we offer our users opt-out or opt-in options. Without the prior consent of our users, we will not provide, publish or share their information to any third parties, except under the following circumstances: (i) where the relevant PRC laws and regulations require us to disclose our users' information; (ii) where the judicial and administrative authorities require us to disclose our users' information based on legal procedure; and (iii) where we file the lawsuit or arbitration against our users, the judicial authorities require us to disclose the users' information in the legal proceeding. Our users can easily access our data privacy protection policy and information collection policy. We have established and implemented a strict company-wide policy on data collection and



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processing. We have set out specific internal procedures regarding the handling of information containing user data and intend to institute ethical standards in relation to user data protection. Violation of the relevant requirements can be traced via a system event log. The degree of access to and control of the information is determined by reference to the relevance to our staff's roles and seniority. In the event of an information security breach, we conduct investigations and take damage control measures. In general, the user information that our employees can access is anonymized. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

As confirmed by our PRC Legal Advisers, we are in compliance with the applicable PRC laws, rules and regulations relating to the collection, use, disclosure or security of personal data in all material respects.

### SALES AND MARKETING

During the Track Record Period, we relied, to a significant extent, on word-of-mouth among our satisfied loyal users and online game players to help us promote our products in China. We plan to advertise and promote Ludashi Software and related software and products on the third parties' electronic platforms, hold press conferences for digital products, and promote online and offline advertising.

#### *Utility Software*

We have marketed our utility software in the PRC and internationally through the following means:

- *Cross Promotion:* We cross-promote our utility software by reminding users of our other products through strategically placed icons and in-App links.
- *Online Advertising:* We cooperate with advertising providers by placing online advertisement and channels for installing compressed file of PC version of Ludashi Software on search engines, utility software download websites and game websites.
- *Testimonials:* We actively cooperate with Huawei, Qualcomm and MediaTek in replying on our benchmarking and ranking system in their products promotion and marketing conference.
- *Overseas marketing:* We advertise in overseas markets and cooperate with online user traffic retainers in promoting Dual Space and Easy Clean.

For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our sales and marketing expenses amounted to RMB12.9 million, RMB22.9 million, RMB37.5 million, RMB6.5 million and RMB16.1 million, respectively.

***Online Traffic Monetization***

We have also marketed our online traffic monetization in China and internationally through advertising and promoting on our Ludashi Software, approaching various major business cooperation groups and improving brand awareness.

***Electronic Devices Sales***

We have also marketed our electronic devices sales in China and internationally through advertising and promoting on our Ludashi Software and social media platforms, such as QQ and WeChat, approaching various major business cooperation groups and opening online-stores on third party websites.

**COMPETITION*****Hardware and System Benchmarking and Monitoring***

According to Frost & Sullivan, the market size of hardware and system benchmarking and monitoring software market increased quickly in the past few years. The average MAUs of PC hardware and system benchmarking and monitoring software increased from 11.7 million in 2014 to 60.1 million in 2018, representing a CAGR of 50.7%. The penetration rate of hardware and system benchmarking and monitoring software users, which is calculated as average MAUs for PCs divided by total PCs internet users in China, was 12.2% in 2018, indicating a potential for growth. The average MAUs of hardware and system benchmarking and monitoring software for mobile electronic products increased from 5.3 million in 2014 to 6.6 million in 2018, with a CAGR of 5.8%. Due to stable expansion of user base of electronic products including PCs and mobile electronic products and rising awareness and improving functions of hardware and system benchmarking and monitoring software, the number of users of hardware and system benchmarking and monitoring software increased in the past decade and is expected to increase in the future.

We believe that there are high entry barriers for hardware and system benchmarking and monitoring industry. These include, among other things, extensive brand awareness, great research and development capacities, accumulated experience and data, and the necessary network effect. According to Frost & Sullivan, the average MAUs of the PC version of Ludashi Software in the year ended 31 December 2018 represented a market share of 98.8% in China. Our hardware and system benchmarking and monitoring software compete primarily with products by Software T in the China market and Geekbench in overseas markets. We believe that our well-recognized products set us apart from our competitors.

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### *Online Traffic Monetization*

Driven by the continuous growth of China's economy and rapid development of Internet industry in China, the market size of online advertising market in China increased from RMB241.6 billion in 2014 to RMB496.1 billion in 2018 with a CAGR of 19.7% and is expected to further increase to RMB1,176.3 billion in 2023 with a CAGR of 18.1% from 2019 to 2023. Generally online advertising publishers compete with each other on traffic and audience attention through their offerings of various software, websites and mobile applications to consumers. The online advertising market for advertising publishers is relatively concentrated as leading market players, such as Tencent, Baidu, Alibaba, Toutiao and 360, have cumulated a large number of users. However, there is no direct competition between online advertising publishers offering different products with different functions and target customers.

China saw a rapid growth of online gaming market since 2014, and the market size grew from RMB112.1 billion in 2014 to RMB225.3 billion in 2018 with a CAGR of 19.1%. The online game market is concentrated. Top two players, Tencent Games and Netease Games, who are integrated online game companies covering development, publishing and distribution business, accounted for over 60% of the market in terms of revenue in 2018. The web game market is relatively fragmented and major web game distributors include Tencent Games, 37 Games and 360 Games.

### *Electronic Devices Sales*

The trading volume of pre-owned mobile phones in China increased from 8.4 million in 2014 to 36.2 million in 2018 with a CAGR of 44.0%. It is expected that the trading volume will further increase to 108.4 million in 2023, representing a CAGR of 22.3%. We compete primarily with platform A, platform B and platform C. Our competitors may have substantial market presence, diversified product lines, well-established supply and distribution systems, strong worldwide brand recognition and significant financial, marketing, research and development and other resources. However, we believe our strong hardware and system benchmarking and monitoring capabilities and well-recognized brand *Ludashi* would endorse quality and competition of our products.

## INFORMATION TECHNOLOGY

We believe that computerized information technology systems are critical to supporting our business process and strengthening our risk and financial management capacities. To manage our financial resources, we utilized Anyi V5 in 2015 and U8 Financial Software (用友財務軟件) since 2016, which enables us to record financial data, analyze our historical financial performance and monitor our financial condition. During the Track Record Period, we did not suffer any major information technology system failures or related losses. However, we may face information technology risks arising from the improper performance or malfunction of our information technology systems on which our operations significantly rely.

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During the Track Record Period, we leased servers from Qihu Technology and a well-known cloud service provider and leased bandwidth from telecommunication operators such as China Telecom (中國電信). We believe that our current network facilities and broadband capacity provide us with sufficient capacity to carry out our current operations. While we believe that our network infrastructure and maintenance will likely prevent network interruption resulting from attacks by hackers, there remains a possibility that such attacks could result in delays or interruptions on our network.

For more information, see “Risk Factors – Risks Relating to Our Business and Industry – Interruption or failure of our own information technologies and communications systems or those of third-party service providers we rely upon could impair our ability to effectively provide our products and services.”

### INSURANCE

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance. During the Track Record Period, we provided mandatory social insurance for our employees as required by PRC social insurance regulations, such as pension insurance, unemployment insurance, work injury insurance and medical insurance. We do not maintain key-man life insurance, insurance policies covering damages to our network infrastructure or information technology systems, or any insurance policies for our properties. We also do not maintain insurance policies against risks relating to the Contractual Arrangements. As of the Latest Practicable Date, we had not experienced any business interruptions that had a material adverse effect on our business.

### INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we registered 85 trademarks in China, and four trademarks in Hong Kong with the Trademark Registry of the Intellectual Property Department. As of the Latest Practicable Date, we did not license any of our intellectual property rights to any third parties. We also had 11 domain names in PRC, the following table sets forth the details:

<u>Domain Name</u>	<u>Registrant</u>	<u>Registration Date</u>	<u>Expiration Date</u>
monidashi.cn . . . . .	Chengdu Qilu	9 June 2017	9 June 2020
monidashi.com.cn . . . . .	Chengdu Qilu	9 June 2017	9 June 2020
birdpaper.cn . . . . .	Chengdu Qilu	14 June 2017	14 June 2020
ludashi.cn . . . . .	Chengdu Qilu	6 May 2010	6 May 2023
xiaoluerhuo.com . . . . .	Chengdu Qilu	22 March 2017	22 March 2021
xiaoluhaohuo.com . . . . .	Chengdu Qilu	17 April 2017	17 April 2021
ludashi.com . . . . .	Chengdu Qilu	7 July 2009	7 July 2023
taojike.cn . . . . .	Chengdu Qilu	6 August 2015	6 August 2020
ludan.cn . . . . .	Chengdu Qilu	28 May 2011	28 May 2024
xiaoluyouxuan.com . . . . .	Chengdu Qilu	7 February 2018	7 February 2021
taojike.com.cn . . . . .	Liu Liuyou Technology	6 August 2015	6 August 2024

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As of the Latest Practicable Date, we had three patents in the PRC, the following table sets forth the details:

Patent Name	Registry No.	Holder	Grant Date	Expiration Date
Smartphones with users' interfaces with graphics (smart charging accelerator) (帶圖形用戶界面的手機(智能充電加速器)) . . . . .	ZL201530460769.7	Chengdu Qilu	30 March 2016	17 November 2025
Smartphones with users' interfaces with graphics (smart charging accelerator) (帶圖形用戶界面的手機(智能充電加速器)) . . . . .	ZL201530460886.3	Chengdu Qilu	30 March 2016	17 November 2025
A method and system for evaluating ROM fluency on mobile ends (一種智能終端ROM流暢度評測方法及系統) . . . . .	ZL201510830466.9	Anyixun Technology	24 July 2018	24 November 2035

Our Directors confirm that we were not involved in any material disputes or legal proceedings in respect of, and we had not received notice of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be involved whether as claimant or respondent as of the Latest Practicable Date.

For further details of our intellectual property rights, see “Statutory and General Information – B. Further Information about Our Business – 2. Intellectual Property of the Group” in Appendix IV to this Prospectus.

### EMPLOYEES

As of the Latest Practicable Date, we had 189 full-time employees, all of whom were based in China. The following table sets forth the number of our employees by function as of the Latest Practicable Date:

	<b>Number of employees</b>
Senior management . . . . .	4
Sales and marketing . . . . .	76
Research and Development . . . . .	83
Administration . . . . .	26
<b>Total</b> . . . . .	<b>189</b>

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We recruit our personnel through professional search firms and recruiting websites in China. We offer employees competitive salaries, performance-based bonuses and incentives. Our employees are reviewed every year on the basis of, among other criteria, their ability to achieve stipulated performance targets.

During the Track Record Period, we did not experience any material labor disputes or strikes that may have a material and adverse effect on our business, financial condition or results of operations.

We place great emphasis on the training and development of our employees. We have developed a series of training meeting with individualized emphasis and focus based on our accumulated industry experience over the years. We invest in continuing education and training programs for our management personnel and other employees with a view to constantly upgrading their skills and knowledge. We also arrange for internal and external professional training programs to develop our employees' skills and knowledge. These programs include further educational studies, fundamental economics and finance knowledge and skills training, and professional development courses for our management personnel. New employees are required to attend induction training meeting to ensure that they are equipped with the necessary skills to perform their duties.

In accordance with applicable PRC regulations, we have made contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing funds for our employees. As of the Latest Practicable Date, we had complied with all statutory social insurance obligations applicable to us under PRC laws in all material aspects.

As of the Latest Practicable Date, we had no material ongoing work-related injury claims.

## PROPERTIES

### *Leased Properties*

As of the Latest Practicable Date, we did not own any properties and we leased three properties in Chengdu City as our offices, with an aggregate gross floor area of 1,484.63 m<sup>2</sup>, four properties in Tianjin City as register address and one property in Shanghai City as office.

1. Our headquarters is located at No. 22 and No. 24 11th Floor, No. 1 Building, No. 1268 Tianfu Road Middle, Hi-tech Zone in Chengdu City with an aggregate gross floor area of approximately 1,000.48 m<sup>2</sup>. Such office lease agreement was entered between us and an Independent Third Party for a term of three years commencing from 1 April 2018 at a monthly rent of RMB50,024.0.

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2. We leased an office located at No. 21 11th Floor, No. 1 Building, No. 1268 Tianfu Road Middle, Hi-tech Zone in Chengdu City with an aggregate gross floor area of approximately 411.15 m<sup>2</sup>. Such office lease agreement was entered between us and an Independent Third Party for a term of three years commencing from 1 December 2017 at a monthly rent of RMB20,557.5.
3. We leased an office located at No. 037-038, B1 Floor, Aokesi Square Pedestrian Street, No. 666 Jincheng Avenue, High-tech Zone in Chengdu City with an aggregate gross floor area of approximately 73.00 m<sup>2</sup>. Such office lease agreement was entered between us and an Independent Third Party for a term of three years commencing from 1 September 2018 at a monthly rent of RMB17,520 to RMB18,980.
4. We leased a property located at No. 9-3-401, No. 39 Hi-tech Sixth Road, Binhai Technology Park, Binhai Hi-tech Zone in Tianjin City as register address. We leased the property from an Independent Third Party which has a government background from 23 November 2017 to 22 November 2019 for nil rental consideration. The leased property serves as business incubator which has an objective to foster potential investment for certain internet companies on rent-free basis.
5. We leased an office located at No. 1049, No. 2 South Building, No. 18 West Haitai Road, Huayuan Industry District, Binhai Hi-tech Zone in Tianjin City with an aggregate gross floor area of approximately 50.00 m<sup>2</sup>. Such office lease agreement was entered between us and an Independent Third Party for a term of one year commencing from 13 November 2018 at a yearly rent of RMB12,000 to 12 November 2019.
6. We leased a property located at No. 2-204 Industrial Incubator-5-122, No. 18 West Haitai Road, Huayuan Industry District, Binhai Hi-tech Zone in Tianjin City with an aggregate gross floor area of approximately 10 m<sup>2</sup>. Such lease agreement was entered between us and an Independent Third Party for a term of one year commencing from 10 June 2019 for nil rental consideration. The leased property serves as business incubator which has an objective to foster potential investment for certain internet companies on rent-free basis.
7. We leased a property located at No. 2-204 Industrial Incubator-5-121, No. 18 West Haitai Road, Huayuan Industry District, Binhai Hi-tech Zone in Tianjin City with an aggregate gross floor area of approximately 10 m<sup>2</sup>. Such lease agreement was entered between us and an Independent Third Party for a term of one year commencing from 10 June 2019 for nil rental consideration. The leased property serves as business incubator which has an objective to foster potential investment for certain internet companies on rent-free basis.
8. We leased an office located at Room 176, No. 2 Building, No. 588 Zixing Road, Minhang District in Shanghai City with an aggregate gross floor area of approximately 20.00 m<sup>2</sup>. Such office lease agreement was entered between us and an Independent Third Party for a term of two years commencing from 9 January 2019 at a yearly rent of RMB3,650 to 8 January 2021.



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Our PRC Legal Advisers have confirmed that the lessors of the above properties in Chengdu City are the owners of the respective property. In addition, as of the Latest Practicable Date, we had duly registered the lease agreements for the first to third properties mentioned above leased by Chengdu Qilu and WFOE with the relevant regulatory authorities. We had not registered the lease agreements for the remaining five lease properties due to the difficulty of cooperating with the lessors to register such lease agreements. Our PRC Legal Advisor has advised us that the lack of registration will not affect the validity of the lease agreements under PRC law. Our PRC Legal Advisor has also advised us that a maximum penalty of RMB50,000 may be imposed for non-registration of such lease agreements. The Directors are of the view that the non-registration of five leased properties will not have a material adverse impact on the business operation of our Group. During the Track Record Period, we did not experience any dispute arising out of our leased properties.

According to Rule 5.01A of the Listing Rules and section 6(2) of the Companies Ordinance Notice (Exemption of Companies and Prospectuses from Compliance with Provisions), this Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in lands or buildings, because as of 30 April 2019, the carrying amount of our property interest was less than 15% of our consolidated total assets.

### ENVIRONMENTAL COMPLIANCE

Due to the nature of our business, we are not subject to any environmental regulation. As of the Latest Practicable Date, we did not have any environmental liabilities and did not expect to incur any environmental liabilities that could have any material impact on our financial condition or business operations in the future.

### RISK MANAGEMENT

#### *Operational Risk Management*

We are exposed to various risks associated with our operations and have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our key risk management objectives include: (i) identifying different risks of our operations; (ii) assessing and prioritizing the identified risks; (iii) developing appropriate risk management strategies for different risks; (iv) monitoring and managing risks and our risk tolerance level; and (v) execution of measures to respond to risks.

Our Board oversees and manages the overall risks associated with our operations. Besides, in order to improve our corporate governance and to prevent recurrence of non-compliance incidents in the future, we have adopted, or expect to adopt before Listing, a

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series of internal control policies, procedures and programs designed to achieve objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Key points of our internal control system include the following:

- Our Directors and senior management attended training session on 23 August 2018 in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;
- We have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, continuing connected transactions and information disclosures;
- We have implemented internal control policies related to financial management, including treasury management, financial reporting and disclosure, and budgetary management; and
- We have implemented a series of internal rules and policies relating to our business operations.

We have engaged an internal control consultant, RSM, to perform internal control review procedures in connection with our internal control policies related to entity-level controls, compliance monitoring controls, finance and accounting procedures, accounts receivable management, cash management procedures, intellectual property protection, human resources management procedures, fixed asset management procedures and other general control measures. RSM performed the work and put forward recommendations in April 2018 based on the review of our internal control policies. Accordingly, we have implemented rectification and improvement measures, as the case may be, in response to these findings and recommendations and our internal control consultant has also completed the follow-up reviews on our internal control system with regard to those actions taken by us. We did not receive any additional recommendations from the internal control consultant as of the Latest Practicable Date. Based on the scope of internal control review, RSM is of the opinion that there is no major control deficiency in our internal control system.

### ***Information System Risk Management***

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. Our objectives for information system management are to record, calculate, store and access our operational data by establishing an effective mechanism and practicable standards to ensure the accuracy, reasonableness and safety of our operational data. We have implemented relevant internal procedures and controls to ensure our operational data is protected and that leakage and loss of such data is avoided. The policies and procedures we have implemented are as follows: (i) pre-setting an automatic program to record, calculate and store all operational data periodically and automatically; (ii) evaluating the accuracy and reasonableness of the operational data by executing a step-by-step approval procedure on the

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launch of such automatic program; (iii) conducting the consistency check of our operational data by reviewing and approving all changes of such automatic program in advance; (iv) deploying the back-up mechanism to store and back up all operational data for the purpose of internal review and analysis; (v) strictly distinguishing and managing the authorities of the operators to prevent unauthorized access or modification; and (vi) monitoring the stability of the servers, which provide the operating environment for our system, by testing certain parameters, such as the load, the memory usage and the bandwidth of the servers, periodically. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

Our user data protection procedure is set forth in our Information Security Management Policy. We collect, use and store our user data in a secured facility, and back up such data on a regular basis in separate and various secured data back-up systems to minimize the risk of user data loss or leakage. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained.

In addition, we implemented a set of Information System Internal Control Management Procedures to mitigate the risks involved in the management of data and information in relation to our day-to-day operations. Procedures such as regular system check, password policy, user authorization and approval and data back-up, as well as data recovery test, are adopted to safeguard our information assets and ensure the proper management of our operational data.

We provide information security training to our employees and conduct ongoing trainings, and we discuss any issues or necessary updates from time to time. Our chief technology officer will occasionally and randomly review the updated publication. Our information technology department is responsible for ensuring that the usage, maintenance and protection of user data are in compliance with the applicable laws and regulations and our internal policies.

### ***Legal and Compliance Risk Management***

Our business is subject to regulations and supervisions by the national, provincial and local government authorities with regard to our operations, capital structure and pricing, internet security, privacy protection, intellectual property, foreign exchange, dividend distribution, employment and social warfare, and tax, which are subject to constant changes. See “Regulatory Overview” for more information. If we do not respond to these changes in a timely manner or are found not to be in compliance with applicable laws and regulations, we may incur significant penalties and losses. We have maintained close communications with the corresponding authorities at the local and provincial levels, which are responsible for operational compliance review and implementation of regulatory policies.

Our legal department, together with our other departments involved, advises on the legal and regulatory requirements and restrictions applicable to us, and handles disputes and legal proceedings against us. We also engaged external legal advisers since January 2017 to advise on the legal compliance aspects of our business.

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When planning new products or services, we will review the relevant development plan thoroughly, research on the legal and regulatory requirements applicable to such new products or services, and obtain advices from external legal advisers on the legal compliance aspects of offering such new products or services. Relevant regulatory requirements and advice from external legal advisers will be included in the new products or services proposal for the consideration and approval of the Board and senior management. Once new products or services have been approved, we will introduce such service or product as planned.

### LICENSES AND PERMITS

As advised by our PRC Legal Advisers, up to the Latest Practicable Date: (i) we had obtained all required licenses, approvals and permits from the relevant government authorities that are required for our business operations, and such licenses, approvals and permits remained in full effect; (ii) no circumstances existed that would render the revocation or cancellation of any required license, approval or permit, and we did not experience any material difficulty in obtaining or renewing any required license, approval or permit; and (iii) we were not admonished or penalized by the relevant government authorities for any material non-compliance in connection with our business operations. Taking into account our on-going compliance with the relevant regulatory requirements, our Directors are of the view that there is no legal impediment to renew any licenses, approvals, registrations and permits that are required for our business operations with the relevant authorities. The following table sets forth details of our material licenses and permits:

<u>License/Permit</u>	<u>Holder</u>	<u>Grant Date</u>	<u>Issuing Authority</u>	<u>Effective Period</u>
Value-Added Telecom Business Permit (增值電信業務經營許可證) . . . . .	Chengdu Qilu	7 March 2019	Sichuan Communications Administration (四川省通信管理局)	7 March 2019 to 1 September 2022
Online Cultural Business Permit (網絡文化經營許可證) <sup>(1)</sup> . . . . .	Chengdu Qilu	7 July 2016	Culture Department of Sichuan Province (四川省文化廳)	7 July 2016 to 6 July 2019
Online Cultural Business Permit (網絡文化經營許可證) <sup>(1)</sup> . . . . .	Liu Liuyou Technology	10 November 2017	Tianjin Culture, Broadcasting, Film and Television Bureau (天津市文化廣播影視局)	10 November 2017 to 9 November 2020

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*Note:*

- (1) Pursuant to the Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) issued by MOC, the predecessor of the Ministry of Culture and Tourism of the PRC, on 15 December 2017, companies should apply for the Online Cultural Business Permit to be authorized to operate online game business. As of the Latest Practicable Date, the Ministry of Culture and Tourism of the PRC was the only authorized government authority to grant the Online Cultural Business Permit. Pursuant to the Notice of the Administration of the Ministry of Culture and Tourism of the PRC on Adjusting the Scope of Approval of Online Cultural Business Permit and Further Enhance the Regulation of Approval\* (《文化和旅遊部辦公廳關於調整《網路文化經營許可證》審批範圍進一步規範審批工作的通知》) which was issued on 14 May 2019, the Ministry of Culture and Tourism of the PRC would no longer issue the Online Cultural Business Permit to grant authorization in relation to online game business operation, and it would no longer renew the Online Cultural Business Permit when it expires. According to the consultation with the Ministry of Culture and Tourism of the PRC conducted by our PRC Legal Advisers on 17 June 2019, online game business operation without Online Cultural Business Permit will not be deemed as illegal or unlicensed by government authorities since the issuance of such notice.

### AWARDS AND RECOGNITION

During the Track Record Period, we had received recognition for the quality and popularity of our products. Some of the significant awards and recognition we have received are set forth below:

<u>Award/Recognition</u>	<u>Award Year</u>	<u>Issuing Authority</u>
High and New Technology Enterprise (高新技術企業) .....	2016	Sichuan Science and Technology Department (四川省科學技術廳), Finance Department of Sichuan Province (四川省財政廳), State Administration of Taxation of Sichuan Province (四川省國家稅務局) and Local Administration of Taxation of Sichuan Province (四川省地方稅務局)
Software Enterprise Certificate (軟件企業證書) <sup>(1)</sup> .....	2018/2019	Sichuan Software Industry Association (四川省軟件行業協會)
“Internet Security and E-commerce” Brand in the “Entrepreneurship and Innovation” Brand Competition of Chengdu City in 2016 (2016成都市互聯網“雙創”品牌評選活動“互聯網安全及電子商務”類上榜品牌) .....	2017	Chengdu Internet Cultural Committee (成都市互聯網文化協會)

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Award/Recognition	Award Year	Issuing Authority
Top Ten Internet Brands in the “Entrepreneurship and Innovation” Brand Competition of Chengdu City in 2016 (2016成都市互聯網“雙創”品牌評選活動成都市十大互聯網品牌) . . . . .	2017	Chengdu Internet Cultural Committee (成都市互聯網文化協會)
Digital tools and E-commerce Brand in the Internet Brand Competition of Chengdu City in 2017 (2017年成都市屬地互聯網品牌評選活動“數字化工具和電商服務”類上榜品牌) . . . . .	2018	Chengdu Internet Cultural Committee (成都市互聯網文化協會)
Top Ten Internet Brands in the “Entrepreneurship and Innovation” Brand Competition of Chengdu City in 2017 (2017年成都市屬地互聯網品牌評選活動成都市十大互聯網品牌) . . . . .	2018	Chengdu Internet Cultural Committee (成都市互聯網文化協會)
The Membership of Internet Society of China (中國互聯網協會會員單位) . . . . .	2018	Internet Society of China (中國互聯網協會)

*Note:*

- (1) Sichuan Software Industry Association has granted Chengdu Qilu and Anyixun the Software Enterprise Certificate on 28 August 2018 and 31 May 2019, respectively.

## LEGAL PROCEEDINGS AND COMPLIANCE

### *Legal Proceedings*

We may involve, from time to time, in legal proceedings arising in the ordinary course of our operations. As of the Latest Practicable Date, we were subject to one outstanding litigation proceeding as a defendant.

### *Compliance*

During the Track Record Period and up to the Latest Practicable Date, we were not in non-compliance with the applicable laws, rules and regulations, which in the opinion of our Directors, is likely to have a material adverse impact on our business, prospects, financial condition or results of operations.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Upon Listing, Mr. Tian, Dashi Technology Holdings, True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou will be considered as a group of Controlling Shareholders for the purpose of the Listing Rules.

#### *Mr. Tian and Dashi Technology Holdings*

Immediately following the completion of the Capitalization Issue and Global Offering (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme), Dashi Technology Holdings, which is directly wholly owned by Mr. Tian, will hold approximately 21.2823% of the issued share capital of our Company. Also, pursuant to the Entrustment Agreements as more particularly described in “History, Reorganization and Corporate Structure – Entrustment Arrangements” in this Prospectus, Dashi Technology Holdings is entrusted by True Thrive, which will hold approximately 31.8250% of the issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering, to exercise all of True Thrive’s rights as a Shareholder. As a result, Mr. Tian and Dashi Technology Holdings will be entitled to exercise or control the exercise of an aggregate of approximately 53.1073% of the voting power at general meetings of our Company upon Listing.

Mr. Tian is our chairman, chief executive officer and general manager and an executive Director. For the background of Mr. Tian, see “Directors and Senior Management” in this Prospectus. Dashi Technology Holdings is an investment holding company and has no business operations.

#### *360 and its Associates*

Immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme), True Thrive will hold approximately 31.8250% of the issued share capital of our Company. True Thrive is directly wholly owned by 360 Technology, which is in turn directly wholly owned by 360, which is in turn held as to approximately 48.74% by Qixin Zhicheng and approximately 12.14% by Mr. Zhou. As mentioned above, pursuant to the Entrustment Arrangements, True Thrive has entrusted Dashi Technology Holdings to exercise all of its Shareholder’s rights including the voting power at general meeting of our Company. Qihu Technology is a subsidiary of 360 Technology.

True Thrive is an investment holding company and has no business operations.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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360 Technology is a limited liability company established in the PRC and is principally engaged in research and development of Internet technology with particular focus on Internet and computer security, and provision of online advertising and other value-added services and commercialization of intelligent devices based on its Internet security products.

360 is a joint stock company with limited liability established in the PRC whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (stock code: 601360.SH). 360 is principally engaged in investment holding. Qihoo 360 Technology Co. Ltd. (“**Qihoo 360**”), the predecessor of 360, had been previously listed on the New York Stock Exchange in the United States since 30 March 2011 (stock code: QIHU). In June 2015, the board of directors of Qihoo 360 announced the launch of the privatization plan proposed by a consortium led by Mr. Zhou. On 29 July 2016, Qihoo 360 was delisted from the New York Stock Exchange in the United States. In preparation for the proposed listing of Qihoo 360 in the PRC stock market, Qihoo 360 removed its VIE structure, and with the approval granted by CSRC on 29 January 2018, underwent a series of offshore and onshore reorganization and mergers among its shareholders, after which all assets and business of Qihoo 360 were transferred to 360 Technology. Through an asset swap with and issue of shares by Jiangnan Jiajie Elevator Stock Company Limited\* (江南嘉捷電梯股份有限公司) (“**Jiangnan Jiajie Elevator**”), a company listed on the Shanghai Stock Exchange, 360 Technology accomplished its backdoor A-share listing, and Jiangnan Jiajie Elevator changed its name to 360 Security Technology Inc.\* (三六零安全科技股份有限公司). 360 was then successfully listed on the Shanghai Stock Exchange in February 2018.

Qihu Technology is a limited liability company incorporated in the PRC on 13 August 2007, one of the Relevant Shareholders and directly wholly owned by 360 Technology, which in turn is wholly-owned by 360.

Qixin Zhicheng is a limited liability company established in the PRC and is principally engaged in investment holding.

As further detailed below, 360 and its associates are passive investors, and have not taken and will not take part in the management and operations of our Group. On the other hand, Mr. Tian has always been in charge of the business of our Group back to the time when it had been a business division of Qihu Technology, and Qihu Technology (and its nominated directors) has always followed Mr. Tian’s voting decisions since the incorporation of Chengdu Qilu.

Since the establishment of Chengdu Qilu, which is the principal operating subsidiary of our Group, Mr. Tian has been its chairman and general manager and responsible for the management and operations of the businesses of Chengdu Qilu and its subsidiaries. On the other hand, Qihu Technology has been a passive investor of Chengdu Qilu and has not participated in the business operations and management of Chengdu Qilu and its subsidiaries. Since the establishment of Chengdu Qilu, Qihu Technology and its nominated directors have followed Mr. Tian’s decisions in all shareholder and board meetings of Chengdu Qilu, and since 29 December 2016, Qihu Technology has entrusted Mr. Tian as its sole and exclusive

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attorney to exercise all the rights of Qihu Technology as a shareholder of Chengdu Qilu. None of the other shareholders of Chengdu Qilu, namely Shanghai Songheng and Qilu Haochen, which held 23.8095% and 6.4083% of the equity interests of Chengdu Qilu, respectively, has controlling interest in Chengdu Qilu. Based on the foregoing, the Directors consider that Mr. Tian is the actual controller of Chengdu Qilu. After the Reorganization, Chengdu Qilu will be deemed as an indirect wholly-owned subsidiary of our Company pursuant to the Contractual Arrangements, and to reflect the Entrustment Arrangements at our Company's level, on 4 September 2018, True Thrive and Dashi Technology, being the respective investment holding companies of 360 Technology and Mr. Tian at our Company's level, entered into the Company Shareholder Rights Entrustment Agreement. On the basis of above, despite the fact that True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou are considered Controlling Shareholders for the purpose of the Listing Rules, our Directors consider that Mr. Tian and Dashi Technology Holdings are the actual controller of our Group.

Based on the above, 360 Group does not have the controlling shareholding in or the controlling power of Chengdu Qilu since 29 December 2016. Other shareholders of Chengdu Qilu hold about 30% equity interest in total and cannot exert substantive influence on the voting of the shareholders' meeting of Chengdu Qilu. As such, Mr. Tian has the majority voting rights and substantial control power in Chengdu Qilu on the basis of the abovementioned facts and the entrustment arrangements between Mr. Tian and Qihu Technology, and is the controlling shareholder under PRC laws. The equity interest held by Qihu Technology in Chengdu Qilu does not exceed 50% and Qilu Technology does not have control over Chengdu Qilu. According to the PRC Company Law, a "controlling shareholder" refers to a shareholder whose equity interests accounts for 50% or more than 50% of the total capital or share capital a company or a shareholder whose equity interests accounts for less than 50% of the total capital or share capital but whose voting rights are sufficient to have a significant influence on resolutions of the board of shareholders or the general meeting. Our PRC Legal Advisers are of view that Qihu Technology is not the controlling shareholder of Chengdu Qilu under PRC laws. According to the Notice on Issues Relevant to Regulating Offshore Listing of Securities of Domestic Listed Companies (《中國證券監督管理委員會關於規範境內上市公司所屬企業到境外上市有關問題的通知》) (the "Spin-off Notice") promulgated by the CSRC on 21 July 2004, "listing of an enterprise affiliated to a listed company" refers to the act of publicly issuing shares and listing in the overseas securities market by the domestic listed company's affiliated enterprise. When an enterprise affiliated to a domestic listed company applies for overseas listing, it shall prepare and submit the application documents and related materials in accordance with the requirements of the CSRC, and the CSRC will implement an administrative license for the listing of the domestic listed company's affiliated enterprise to apply overseas. 360, the indirect shareholders of Qihu Technology, is a domestic listed company. As mentioned above, 360 Group has disposed of its 25% equity interest in Chengdu Qilu to Shanghai Songheng on 10 January 2017 and entrusted its voting rights owned in Chengdu Qilu pursuant to the entrustment arrangement since December 2016, and Chengdu Qilu has since then not been controlled by 360 Group before 360 become a domestic listed company on 28 February 2018. Chengdu Qilu is not a subsidiary controlled by 360 Group and 360 Group is not the controlling shareholder and does not own the controlling power under PRC laws. Based on a consultative interview conducted by a representative of the Sponsor and

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a representative of the PRC Legal Advisers with official of the Department of Public Offering Supervision of the CSRC on 5 November 2018, if an entity in which a domestic listed company holds equity interest is not controlled by such domestic listed company, the Spin-off Notice is not applicable to the offshore listing of such entity. Our PRC Legal Advisers are of the view that the Spin-off Notice is not applicable for the Listing since Chengdu Qilu is not a subsidiary controlled by 360 Group, and the Listing does not require the approval of the CSRC or any other PRC government authorities under the Spin-off Notice.

### RELATIONSHIP BETWEEN 360 GROUP AND OUR GROUP

#### *Background*

The relationship of our Group with 360 Group can be traced back to 2009 when Mr. Tian joined Qihu Technology. Mr. Tian had been an entrepreneur with expertise in developing his own information technology products, including music website platform, medical information website platform and video playing website platform before joining Qihu Technology. Leveraging Mr. Tian's experience in the industry, Qihu Technology invited Mr. Tian to join in 2009 to further develop, manage and operate Qihu Technology's products with an understanding that Mr. Tian would be granted equity interests and management control of such products. Qihu Technology acquired Ludashi Software in 2010 and ran Ludashi business as one of its independent business divisions. Since early 2014, Mr. Tian started to manage and operate Ludashi division due to his previous management experience and great contribution to the 360 products he operated. Subsequently in November 2014, in order to further develop, manage and operate Ludashi Software independently, Chengdu Qilu was established as a separate entity spun off from Qihu Technology (as opposed to a business division).

#### *Transactions with 360 Group*

During the Track Record Period, 360 Group, through 360 Technology and Qihu Technology and Star World, has been the largest customer of our Group. Revenue derived from 360 Group mainly includes online advertising services principally through homepage directing. When users install Ludashi Software in their PCs, the software will recommend the users to set the default homepage of their internet browser to <https://hao.360.cn/>, which is a web directory operated by 360 Group. The users are asked whether they agree to such default setting or whether they would like to input other website as the default home page of their internet browser. If the user agrees to such default setting, the user will be directed to <https://hao.360.cn/> as the first page every time the user opens its internet browser. From the perspective of 360, such service helps to increase traffic to its webpage <https://hao.360.cn/>. <https://hao.360.cn/> is a web directory operated by 360 Group with listing of numerous websites grouped into various topics of interest, aiming to assist the general public internet users to navigate the internet with matching interests. By operating and gaining traffic to this web-directory, 360 Group derives advertising-related revenue. As such, 360 Group aims to boost visits to its website and it pays fees to business partners (such as our Group) which can

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bring traffic to its website. For further details of the business operations of the homepage directing service, please refer to “Business – Our Business – Online traffic monetization – online advertising services” in this Prospectus.

In line with market practice, our Group charges 360 Group on the basis of cost-per-thousand IP times directed to 360 Group’s website. The revenue generated by our Group from 360 Group for provision of online advertising services amounted to approximately RMB46.8 million, RMB50.5 million, RMB66.2 million and RMB21.1 million, which accounted for approximately 67.1%, 41.2%, 20.7% and 18.6% of our Group’s total revenue, respectively, for the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019. The percentage contribution of the revenue generated by our Group from 360 Group for provision of online advertising services during the Track Record Period has been decreasing as our Group has been expanding its other businesses of online game business and electronic devices sales, and this trend is expected to continue to decrease along with the growth of the other business segments of our Group. Please refer to “Connected Transactions – Partially-exempt and Non-exempt Continuing Connected Transactions – (A) Provision of Services to 360 Group” in this Prospectus for further details.

### *Independence from and reliance on 360 Group*

Our Directors consider that the transactions with 360 Group should not render our Group unsuitable for listing on the following grounds:

- (i) Our Group is able to replace 360 Group with substitute customers – legally, there are no restrictive clauses under the agreements between 360 Group and our Group that would prohibit our Group to direct traffic (by recommending default browser homepage to users of Ludashi Software) to other webpages instead of <https://hao.360.cn/>. In fact, in January 2018, we entered into homepage directing service agreement to provide a small amount of online traffic to another leading web-directory, namely <https://www.hao123.com/> (being the web directory operated by Baidu), a customer that we engaged through an agent which is principally engaged in the development of mobile and desktop applications, through which it provides online traffic for a number of internet service providers. For the seven months ended 31 July 2018, our Group generated revenue of homepage directing services of approximately RMB6.8 million from <https://www.hao123.com/>, our Group’s cooperation with which was subsequently terminated in August 2018. Despite our current suspension of cooperation with Baidu, we remain open to any possible direct and/or indirect cooperation with Baidu in the future. Our Directors confirm that the cessation of the indirect cooperation with Baidu was due to a commercial arrangement with the agent which consolidated the online traffic for transacting with Baidu. Our Directors and Frost & Sullivan confirm that the cooperation in the sector of navigation alliance is commercially and demand and supply driven. With the substantial online traffic and its capability in the homepage directing service, our Directors consider that our Group has the capability of cooperating with other navigation alliances such as Baidu for achieving win-win situation. However, since the cooperation with 360 Group is working well for a

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number of years, we do not attempt to change this status and did not take active step in promoting cooperating with other navigation alliances. As a matter of fact, the revenue derived from the cooperation with the agent who consolidated online traffic for the Baidu navigation alliance was relatively small. We intend to devote our resources in diversification of our revenue in other segments of online advertising. The revenue diversification strategy of our Group is also geared towards the business segments of sales of electronic devices and online games instead. On the other hand, our Directors believe that the cooperation with the Baidu navigation alliance during part of the Track Record Period is adequate in demonstrating the capability of our Group in working with other navigation alliances though, as a matter of strategy, we do not attempt to put in resources in promoting such cooperation.

We believe that we are capable of finding substitute customers if demand from 360 Group decreases because of the followings: (i) we possess strong business development capability which is supported by our experienced sales and marketing personnel who quickly grasp the market trends, discover potential customers of leading web-directories, emerging advertisers, and other traffic buyers, and communicate with customers in a timely manner to achieve business cooperation; (ii) we are able to charge rates within the same broad range as that for our other customers as we currently charge for 360 Group through engaging agents. For instance, prior to the aforementioned suspension, rates within the broad range of that of 360 Group was charged by us on <http://www.hao123.com> during our period of cooperation with Baidu from January to July 2018; (iii) with a well-recognized brand image and reputation as a trustable hardware expert, we believe advertisers and traffic buyers in the Internet advertising industry tend to cooperate with us to achieve high-quality user sources and stable user traffic; (iv) we possess a large and ever-growing user base which is highly attractive to our existing and potential customers being advertisers from the Internet industry, smartphone industry and information technology industry; and (v) we leverage our strong research and development capabilities to constantly develop new products and online advertising services which not only diversify our traffic monetization channels but also our customer base.

- (ii) In the unlikely event that 360 Group ceases to purchase traffic from our Group for whatsoever reasons, given the vast user base of our Ludashi Software, our Directors believe that we can monetize by directing traffic to other Internet industry players. Our Directors understand that “traffic” and a vast user base are the keys to success in many kinds of businesses in the Internet industry and as such there are strong demands from market players to purchase traffic.
- (iii) It is expected that the concentration level of our Group’s revenue from 360 Group is likely to decrease in the future. The aggregate revenue attributable to 360 Group for provision of online traffic monetization had decreased during the Track Record Period from approximately 67.2% of our Group’s total revenue for the year ended

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31 December 2016 to approximately 41.3% of our Group's total revenue for the year ended 31 December 2017, and further to approximately 22.4% of our Group's total revenue for the year ended 31 December 2018. It is expected that the concentration level (in terms of percentage of our Group's revenue) will continue to decrease mainly due to the increase of our Group's revenue under the online game platform operation and our Group's operation of electronic devices sales, in particular, the revenue generated from our Group's online game platform operation increased by 50.2% in the first four months of 2019 as compared to the corresponding period in 2018, as well as the further diversification of customer base under the mini-page advertising service and banner advertising service. In view of the positive business development of our mini-page advertising service and banner advertising service achieved in the first four months of 2019, we expect that the revenue to be generated from each of the aforesaid business lines will further grow by 102.0% and 21.2%, respectively. Furthermore, as mentioned in paragraph (i) above, we believe that we are capable and will continue to broaden our customer base which will reduce the concentration level of our revenue from 360 Group, and thereby further reduce our Group's reliance on 360 Group gradually over the coming years.

- (iv) A few market players have dominated the choices of web directories in the PRC. Web directories (being the major potential customers of our Group's homepage directing service) are online catalog of websites with listing of numerous web-pages grouped into various topics of interests. Web-directories assist the general public users in navigating the Internet to find their interested web-pages more easily. Web-directories generate advertising related revenue based on visits to their website. Accordingly, web-directories may purchase traffic from traffic generators (in this context, our Group is an example of traffic generator by the provision of free download Ludashi Software). There was a gradual decrease in user traffic of web directories in China during the Track Record Period with the number of average daily unique visitors reduced from about 85.7 million in 2016 to about 75.6 million in 2018. According to Frost & Sullivan, a few web directories have dominated the market in terms of frequency of visits with the top five players accounted for an aggregate of 51.6% of the market share in terms of number of daily unique visitors in 2018. Examples of popular web-directories in the PRC include: <https://hao.360.cn/>, 360 影視, 搜狗搜索, hao123, [2345.com](http://2345.com) and [QQ.com](http://QQ.com).
- (v) The reliance between 360 Group and our Group is mutual and complimentary. Whilst we generate a substantial portion of our revenue from 360 Group, and in case of termination of our business relationship with 360 Group, our revenue may experience significant fluctuations, we believe that we contribute to the traffic being directed to the homepage of 360 Group significantly given the vast user base of our Ludashi Software. As such, our Directors believe that the likelihood of terminating or materially adversely changing the business relationship with 360 Group is low. For further details in relation to the business relationship with and reliance on 360 Group, please refer to "Risk Factors – Risk Relating to our Business and Industry



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- We generate a substantial portion of our revenue from 360 Group and Shanghai Songheng which may cause significant fluctuations in our revenue.” and “Business – Customers – 360 Group” above in this Prospectus.
- (vi) The transactions between 360 Group and our Group have been entered into, and will be carried out, in the ordinary and usual course of our Group’s business and on normal commercial terms or better (or terms no less favorable to our Group than terms available to or from Independent Third Parties); and the terms of transactions contemplated thereunder are fair and reasonable and are in the interest of our Company and its Shareholders as a whole.
- (vii) Our Group is capable of carrying on its business independently from the Controlling Shareholders including 360 Group. For further details, please refer to “– Independence of Management, Financing and Operation” in this section.

### OTHER BUSINESSES ENGAGED BY OUR CONTROLLING SHAREHOLDERS

#### *Other Business of Mr. Tian*

Mr. Tian controls Xiaofeiniu Technology, a limited liability company established in the PRC, which is principally engaged in provision of PC wallpapers. Our Directors are of the view that there is a clear delineation between the businesses of our Group and Xiaofeiniu Technology which does not compete with our Group’s business. Based on the foregoing, our Directors believe it is inappropriate to include the business of Xiaofeiniu Technology into our Group.

#### *Potential Competition between our Group and 360 Group*

Both our Group and 360 Group engage in software, online advertising and online game operations. Nevertheless, our Directors consider that the potential direct or indirect competition between our Group and 360 Group is not extreme and that our Group is capable of carrying on its business independently of, and at arm’s length from the potential competing business of 360 Group on the following grounds:

- (i) In respect of the software:

Our Group offers software for free download (defined as “**Ludashi Software**”) while 360 Group also offer software for free download (defined as “**360 Software**”). By offering these software for free download, each of our Group and 360 Group attracts and accumulates vast user base which lays foundation for monetization. The product nature of our Group and 360 Group are different. Ludashi Software focuses on hardware conditions while 360 Software focuses on Internet and computer security in the software aspect.



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Ludashi Software is hardware testing, monitoring and benchmarking software for PCs and mobiles. It focuses on the efficient functioning of computer hardware and mobiles. The core functions of Ludashi Software include, amongst others, the followings:

- monitoring and benchmarking the functioning efficiency of the various hardware of the computer system of the users;
- distinguishing whether the various hardware are officially authorized products or fake products;
- monitoring the temperature and cooling down of various working devices; and
- memory clearing and acceleration.

In contrast, 360 Software focuses on Internet and computer security in the software aspect. Its core function is to prevent, detect and remove virus, attacks and infections. From the perspective of users, Ludashi Software and 360 Software are not competing, rather, they are providing different services and are compatible with each other meaning that users can install both in their PCs or mobiles.

(ii) In respect of online advertising:

Online advertising is one of the most commonly adopted ways of traffic monetizing in the Internet industry. Our Group's online advertising business can be categorized into the below three major types:

<b>Types of our Group's online advertising business:</b>	<b>Whether there are any competition with 360 Group:</b>
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***Homepage Directing Service***

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• directing the homepage of its users' Internet browsers to a designated website</li><li>• fee charged by our Group based on cost-per-thousand IP times</li></ul> | <p>While our Group recommends users to default the homepage of their Internet browsers to <a href="https://hao.360.cn">https://hao.360.cn</a> and/or other web directories operated by third parties in return for revenue, 360 Group does not provide homepage directing service to third parties. 360 Group aims to attract visits to its own webpage <a href="https://hao.360.cn/">https://hao.360.cn/</a> rather than directing visits to other third-parties' homepages.</p> |
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**Types of our Group's online advertising business:**      **Whether there are any competition with 360 Group:**

### *Mini-Page Advertising Service*

- offering pop-up mini-page windows directing users to an online content provider
  - fee charged by our Group based on cost-per-UV or PV (unique visitors/page view)
- While our Group “rents-out” mini-page spaces to third parties operators for revenue (e.g. mini.eastday.com and wap.yigou.com/ and those third parties are responsible to provide contents so as to generate visits and thus derive their own revenue, 360 Group does not “rent out” mini-page to third parties for revenue. Rather, 360 Group uses mini-page to advertise their own products aiming at cross selling other 360 Group's products.

### *Banner and other miscellaneous kinds of advertising (via PC or mobile devices)*

- providing banners and other miscellaneous advertising on PCs or mobile devices installed with Ludashi Software
  - fee charged by our Group based on cost-per-action
- For the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our revenue from banner advertising services amounted to approximately RMB5.4 million, RMB11.0 million, RMB46.3 million and RMB18.4 million, representing approximately 7.7%, 8.9%, 14.5% and 16.2% of our total revenue, respectively. As revenue of our Group contributed from this part of business was not substantial, although 360 Group also operates online advertising, the competition is not extreme. Furthermore, the advertisers cooperating with us in respect of the banner advertising business are mainly comprehensive e-commerce platforms. We believe that it is common for such comprehensive e-commerce platforms to place advertisements through a variety of channels including our Group and 360 Group in order to extend their exposure.

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Revenue derived from the above advertising-related services is calculated on a cost-per-action basis (either per IP directed/unique visitors/page view/click). Particularly in respect of banner and other miscellaneous kinds of advertising (via PC or mobile devices), the counter parties of our Group are mainly various advertising agents (including software developing kit advertising agents operated by Baidu, Alibaba, Tencent). As such, our Group is able to tap into the vast market of online advertising via these advertising agents but seldom needs to get in touch with specific advertisers.

Because the advertising fee is calculated on a cost-per-action basis, the more users of Ludashi Software there are, the more advertising fee could be derived. And because of the needs of keeping up the efficient functioning of the PCs or mobiles of the users and catering the users' experience, our Group deliberately controls and manages the frequency of popping up advertising banners. As such, the ability of our Group to generate advertising-related revenue mainly lies with the ability to attract and retain users of our Ludashi Software (rather than competing for a large number of advertisers).

As detailed above, on the basis that the core functions of our Ludashi Software is different from that of 360 Software, our Directors consider that our Group and 360 Group are providing different functions to attract and retain users. Moreover, as our Ludashi Software and 360 Software are compatible with each other, that means users can install both Ludashi Software and 360 Software in order to achieve all rounded IT management (i.e. including both hardware efficient functioning as well as Internet and computer security). On the basis that Ludashi Software is not in competition with 360 Software, our Directors believe that even though both our Group and 360 Group are monetizing their vast user base by way of online advertising, the competition between our Group and 360 Group is not extreme.

(iii) In respect of online game operation:

Online game is another commonly adopted traffic monetization method in the Internet industry. Our Group commenced its online game operation in 2016 and the revenue generated by the Group from the online game operation amounted to approximately RMB2.6 million, RMB22.6 million, RMB42.9 million and RMB19.0 million, which accounted for approximately 3.7%, 18.4%, 13.4% and 16.7% of our Group's total revenue, for the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, respectively. Our Group expects that such business line will continue to grow. Our Directors consider that the online game operation between 360 and our Group can be differentiated on the following basis:

- (a) as of the Latest Practicable Date, our Group was offering about 53 games while 360 Group was offering 334 games in the market. Our Group observes that the players in our Group's gaming platform are mostly PC users of our Ludashi Software. Through our online game player account registration, we are

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able to gather information such as age, gender, etc. from the registration process when game players sign up for our Group's gaming platform. In addition, we also occasionally conduct surveys among Ludashi Software PC users to collect relevant sociodemographics such as education level, income level, users behaviour, etc. As such, we are able to deduce the general characteristics shared by our game players. A majority of our game players are male, younger in age and with higher education level and stronger spending power. Our Group deliberately and finely selects games which are popular and at the same time cater to the appetite of our Ludashi Software users who are mainly the more advanced computer users and are keen on hardware performance (as our Ludashi Software mainly provides PC hardware testing, monitoring and benchmarking services). Games operated on our platform include role-playing and strategy games. Most of the games currently operated on our online game platform are role-playing games with various themes such as heroes, legends and strategies focusing on players who have specific preferences for legendary adventures. Because the games are finely selected, our Group can focus its resources to provide player services on these finely selected games. Such player services include, among other things, tailor-made promotion plan, and employing skillful gamers as counter parties in our Group's gaming platform to enhance users' experience;

- (b) in contrast, to the best knowledge of our Directors, 360 Group focuses on comprehensiveness and intends to cover as many games as possible. The target users of 360 Group's online game platform is the general public. As the players in our Group's gaming platform are mainly users of our Ludashi Software users (who are mainly the more advanced computer users), the interaction amongst players in our Group's gaming platform is unique and is different from the online game platform operated by 360 Group which targets at the general public;
- (c) even though there are overlapping games in different online game platforms, the fact that virtual items in the same game cannot be transferred from one platform to another adds stickiness of players to a platform; and
- (d) in respect of the online game business, our Group derives revenue from online game operation when the players recharge value in our Group's online game platform which are to be shared between our Group and the relevant game developers. Accordingly, the more players playing in the online game platform of our Group, the more revenue can our Group generate. Our Group attracts players to its online game platform by showing icons (linking to the Group's online game platform) on the users' PC installed with Ludashi Software and on the official website of Ludashi. As a result, most of the players in the online game platform of our Group are mainly users of Ludashi Software. Accordingly, the more users of Ludashi Software there are, the more players could possibly be attracted to our Group's online game platform. As explained

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above, given that the core functions of Ludashi Software are largely different from that of 360 Software and that Ludashi Software and 360 Software are compatible with each other, our Group is accumulating users by Ludashi Software which are different from those of 360 Group. In light of the fact that Ludashi Software is not in competition with 360 Software, our Directors consider that the potential competition in respect of online game operation between our Group and 360 Group is not extreme.

Given 360 Group focuses on comprehensiveness and intends to cover as many games as possible, and it is common for game developers to cooperate with a number of platforms to extend their games exposure, most of the games on our online game platform can be found on the platform of 360 Group. Nonetheless, a registered player on our Group's online game platform cannot play the overlapping games on the platform of 360 Group without further registration. For the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our revenue from the overlapping games amounted to approximately RMB0.5 million, RMB12.6 million, RMB38.6 million and RMB15.9 million, representing approximately 21.3%, 55.8%, 90.1% and 83.7% of our total revenue from the online game business, respectively. Notwithstanding the overlapping games, taking into account the different strategic focuses, different target players, separate registration required on each of the platforms as well as the stickiness of players to specific platform, our Directors believe that our online game operation can be differentiated from that of the 360 Group.

(iv) Mitigating corporate governance measures:

Pursuant to the Entrustment Arrangements, as more particularly described in "History, Reorganization and Corporate Structure – Entrustment Arrangements" in this Prospectus, Dashi Technology Holdings, which is wholly owned by Mr. Tian, is entrusted by True Thrive, which is indirectly wholly owned by 360, to exercise all of True Thrive's rights as a Shareholder. The Entrustment Arrangements mitigate potential competition between our Group and 360 Group in that 360 Group is prevented from exercising its influence over our Company to favor itself in any potential competition with our Group. For the purpose of the Listing, the following additional corporate governance measures have been implemented to (i) ensure True Thrive (being the investment vehicle of 360 Group at our Company's level) will not exercise any voting right as a Shareholder in the strict compliance with the Entrustment Arrangements, (ii) enhance corporate governance standard, and (iii) ensure our Group can compete with 360 Group (if any) on a fair basis without any undue influence from 360 Group:

- Our Company will establish and maintain an independent Board, and there will be no overlapping of directors or senior management between our Group and the 360 Group.
- Notwithstanding the Entrustment Arrangements, True Thrive, the investment vehicle of 360 Group, will be considered as one of the Controlling Shareholders for the purpose of the Listing Rules and shall comply with the relevant requirements of the Listing Rules accordingly.

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- Our Company has adopted internal control guidelines in respect of, among others, connected transactions and only enter into transactions with connected persons that are carried out in the ordinary course of business and on normal commercial terms and are in the interests of the Shareholders as a whole. The compliance of the internal control guidelines (including with respect to the transactions with 360 Group) will be reviewed by the audit committee of the Board which comprises of the independent non-executive Directors on an annual basis and reported upon in the annual report of our Company. Where necessary, our Directors, including the independent non-executive Directors, will seek independent professional advice from external parties in appropriate circumstances at our Company's costs.

### DIRECTORS' INTERESTS IN OTHER BUSINESS

Mr. He, an executive Director, holds 30% interest in Youyunda, which in turn holds 85% equity interest in Xiaofeinia Technology. As disclosed under “– Other Businesses Engaged by Our Controlling Shareholders – Other business of Mr. Tian” above, Xiaofeinia Technology is controlled by Mr. Tian and principally engaged in provision of PC wallpapers, which is different from and does not compete with our Group's business.

### RULE 8.10 OF THE LISTING RULES

Save as disclosed in this section, the Controlling Shareholders and the Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### NON-COMPETITION UNDERTAKING BY MR. TIAN AND DASHI TECHNOLOGY HOLDINGS

Each of Mr. Tian and Dashi Technology Holdings (each a “**Covenantor**” and collectively as the “**Covenantors**”) has given an irrevocable non-competition undertaking in favor of the Company (for itself and for benefit of each of the members of our Group) under the Deed of Non-Competition pursuant to which, each of the Covenantors has irrevocably, unconditionally and severally undertaken with the Company that, among others, with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors are individually or collectively with any of their respective close associates interested directly or indirectly in not less than 30% of the voting power in general meetings of the Company (the “**Restricted Period**”), each Covenantor shall not, and shall procure that their respective close associates will not:

- (i) save for engaging in the Restricted Business (as defined below) through our Group, directly or indirectly, whether on its own account or in conjunction with or on behalf of any person, carry on, develop, invest in, engage in, participate or be interested in or acquire or hold any right or interest in or otherwise be involved in any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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venture, employee, consultant, agent or otherwise) in competition with or likely to be in competition with the existing business carried on by our Group in the PRC and any part of the world (the “**Restricted Business**”); and/or

- (ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business including, but not limited to, (a) soliciting our Group’s customers, suppliers or personnel of any member of our Group; (b) inducing or soliciting any person to induce any competition or suspension of the business of our Group; and (c) engaging in any business or activity on its own account or jointly with any person, that uses any trade name or trademark (registered or non-registered) of our Group, or any name of our Group that is used in association with our Group’s business or activity at intervals, or any fraudulent imitations (except for circumstances in which our Group is involved);

Each of the Covenantors also undertakes to procure that, during the Restricted Period, any business investment or other commercial opportunity within and/or outside the PRC relating to the Restricted Business (the “**Business Opportunity**”) identified by or offered to the Covenantors and/or any of their close associates (the “**Offeror**”) is first referred to the Company in the following manner:

- (i) the Covenantors are required to, and shall procure their close associates to, refer, or procure the referral of, the Business Opportunity to the Company, and shall give written notice to the Company of any Business Opportunity containing all information reasonably necessary for the Company to consider whether (i) the Business Opportunity would constitute competition with its core business and/or any other new business which our Group may undertake at the relevant time, and (ii) it is in the interest of our Group to pursue the Business Opportunity, including but not limited to the nature of the Business Opportunity and the details of the investment or acquisition (the “**Offer Notice**”); and
- (ii) the Offeror will be entitled to pursue the Business Opportunity only if (i) the Offeror has received a written notice from the Company declining the Business Opportunity and confirming that the Business Opportunity would not constitute competition with its core business, or (ii) the Offeror has not received the notice from the Company within 20 days from the receipt of the Offer Notice, provided that the principal terms by which the Offeror subsequently pursues the Business Opportunity are not more favorable than those made available to the Company; if there is a material change in the terms and conditions of the Business Opportunity pursued by the Offeror, the Offeror shall refer to the Business Opportunity as so revised to the Company again in the manner as set out above as if it were a new Business Opportunity.

Upon receipt of the Offer Notice, the Company shall seek opinions and decisions from its Board (other than Directors who have a material interest in the matter) as to whether (a) such Business Opportunity would constitute competition with the Company’s core business, and (b) it is in the interest of the Company and its Shareholders as a whole to pursue the Business



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Opportunity. Any Director who has material interest in the Business Opportunity shall abstain from voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such Business Opportunity.

Notwithstanding the aforesaid, the non-competition undertaking as set out above shall not prevent the Covenantors and their respective close associates from holding or being interested in a direct or indirect shareholding interest of not more than 5% of the issued shares in a company listed on a recognized stock exchange and engaged in any Restricted Business provided that the relevant Covenantors and/or their respective close associates do not control the majority of the composition of the board of directors of that company.

### CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to strengthen its corporate governance practice to safeguard the interests of our Shareholders:

- (i) our Directors will comply with our Articles of Association which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested;
- (ii) our independent non-executive Directors will, on an annual basis, review the compliance of the Deed of Non-Competition by Mr. Tian and Dashi Technology Holdings and its enforcement. Mr. Tian and Dashi Technology Holdings have undertaken that they will and will procure their close associates to provide all information necessary for the annual review by our independent non-executive Directors. The Company will disclose the review in our annual report or by way of announcement to the public. Mr. Tian and Dashi Technology Holdings have also undertaken that they will make an annual declaration on the compliance of the Deed of Non-Competition in our annual report;
- (iii) our independent non-executive Directors will also review, on an annual basis, all decisions made in relation to any new business opportunities offered during the year. The Company will disclose such decisions and basis for them in our annual report or by way of announcement to the public;
- (iv) if our independent non-executive Directors consider it necessary or desirable, they may also engage professional advisers (including an independent financial adviser) at the costs of the Company to advise them on matters relating to the Deed of Non-competition or on any business opportunities, which may be referred to us by Mr. Tian and Dashi Technology Holdings;
- (v) the Company has appointed Guosen Securities (HK) Capital Co., Ltd. as the compliance adviser who shall provide it with professional advice and guidance, in respect of compliance with the Listing Rules and applicable laws; and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (vi) any transaction between (or proposed to be made between) the Company and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules.

Our Directors reviewed the above corporate governance measures adopted by our Company, and has discussed with our Company's Internal Control Consultant. For details, see "Business – Risk Management."

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Covenantors, our Controlling Shareholders and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

### INDEPENDENCE OF MANAGEMENT, FINANCING AND OPERATION

Our Directors consider that our Group is capable of carrying on its business independent of, and does not place undue reliance on, our Controlling Shareholders and their close associates for the following reasons:

#### *Management Independence*

Our management and operational decisions are made by our Board and our senior management. Our Board will comprise two executive Directors, one non-executive Director and three independent non-executive Directors. While one out of our six Directors, namely Mr. Tian, is also our Controlling Shareholder, all of our other Directors and senior management team members possess relevant management and/or industry-related experience to act as Directors or senior management of our Company and to make management decisions independent from our Controlling Shareholders. Save for the fact that Mr. Tian is the sole director of Dashi Technology Holdings, there is no overlapping of directors or senior management between the Company and the Controlling Shareholders. Further details are set forth in the section headed "Directors and Senior Management" in this Prospectus.

In addition, each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Group and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to make business decisions independently. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board.

Based on the above, our Directors are of the view that our Board, as a whole, together with our senior management team, is capable of managing our business independently from our Controlling Shareholders.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### *Operational Independence*

We have established our own business independent of that of our Controlling Shareholders and/or their respective associates. We make business decisions independently, hold all relevant licenses necessary to carry on our business and have sufficient capital, and manpower to operate our business independently. We have established our own organizational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to financiers and customers. We have not shared any operational resources such as sales and marketing, risk management and general administration resources with our Controlling Shareholders and/or their respective associates during the Track Record Period. We have established a set of internal controls to facilitate the effective operation of our business. As of the Latest Practicable Date, save as the transactions described in the section headed “Connected Transactions” in this Prospectus, there were no significant business transactions between us and any of our Controlling Shareholders and/or their respective associates.

Based on the above, our Directors are of the view that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates.

### *Financial Independence*

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. We have our own internal control and accounting systems and finance department to perform independent treasury function on cash receipts and payments, independent accounting and reporting functions and independent internal control function.

During the Track Record Period, we primarily funded our operations and expansions through cash flow from our operations, our Shareholders’ equity and capital contribution from non-controlling interests of a subsidiary. As of the Latest Practicable Date, there was no outstanding loan or guarantee provided by, or granted to, any of our Controlling Shareholders or their respective associates. In the circumstances, we believe we are able to obtain financing from third parties or from our internally generated funds without reliance on our Controlling Shareholders.

Based on the above, our Directors are of the view that we are financially independent of our Controlling Shareholders.

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## CONNECTED TRANSACTIONS

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### CONNECTED PERSONS

The table below sets forth the connected persons of our Company who will conduct continuing connected transactions with our Group and the nature of their connection with our Group:

<u>Connected person</u>	<u>Connected relationship</u>
Shenzhen Blog . . . . .	Shenzhen Blog is a subsidiary of Shenzhen FTX Technology, which is a substantial shareholder of Liu Liuyou Technology, a non-wholly owned subsidiary of the Company. Shenzhen Blog is therefore a connected person at subsidiary level of the Company.
Xiaofeiniaoy Technology . . . . .	Xiaofeiniaoy Technology is a company controlled by Mr. Tian, and therefore a connected person of the Company.
360 Technology . . . . .	360 Technology is a Controlling Shareholder and therefore a connected person of the Company.
Shanghai Songheng . . . . .	Shanghai Songheng is a substantial shareholder and therefore a connected person of the Company.
Mr. Tian . . . . .	Mr. Tian is an executive Director and a Controlling Shareholder, and therefore a connected person of the Company.
Qihu Technology . . . . .	Qihu Technology is wholly owned by 360 Technology and therefore a connected person of the Company.
Qilu Haochen . . . . .	Qilu Haochen is owned as to 43.76% by Mr. He (an executive Director) and hence a connected person of the Company.

## CONNECTED TRANSACTIONS

### SUMMARY OF CONTINUING CONNECTED TRANSACTIONS

Following the Listing, the following transactions are expected to continue between our Group and the relevant connected persons, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending 31 December (RMB million)		
			2019	2020	2021
<b>De minimis transactions</b>					
1. . . Transactions with Shenzhen Blog	Rule 14A.76(1)	N/A	N/A	N/A	N/A
2. . . License of domain name to Xiaofeiniu Technology	Rule 17A.76(1)	N/A	N/A	N/A	N/A
<b>Partially-exempt continuing connected transactions</b>					
1. . . 360 Master Purchase Agreement	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement	2.4	2.6	2.9
2. . . Songheng Master Purchase Agreement	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement	3.0	3.0	3.0
<b>Non-exempt continuing connected transactions</b>					
1. . . 360 Master Sales Agreement	Rule 14A.35 Rule 14A.36 Rule 14A.53 Rule 14A.105	Announcement, circular and independent shareholders' approval	103.5	122.5	142.1
2. . . Songheng Master Sales Agreement	Rule 14A.35 Rule 14A.36 Rule 14A.53 Rule 14A.105	Announcement, circular and independent shareholders' approval	33.0	48.4	65.8
3. . . Contractual Arrangements	Rule 14A.35 Rule 14A.36 Rule 14A.52 Rule 14A.53 Rule 14A.105	Announcement, circular, independent shareholders' approval, annual cap, limiting term to three years	N/A	N/A	N/A

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## CONNECTED TRANSACTIONS

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### DE MINIMIS TRANSACTIONS

#### *(A) Transactions with Shenzhen Blog*

Shenzhen Blog is a subsidiary of Shenzhen FTX Technology, which is a substantial shareholder of Liu Liuyou Technology, a non-wholly owned subsidiary of the Company. Shenzhen Blog is therefore a connected person at subsidiary level of the Company.

During the Track Record Period, Shenzhen Blog paid fees to our Group by way of sharing revenue received from game players on the online game platform of our Group. The amounts paid by Shenzhen Blog to our Group were nil, approximately RMB29,000, RMB215,000 and RMB38,000 for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, respectively.

As all of the percentage ratios used to calculate the threshold for continuing connected transactions under the Listing Rules for the above transaction are less than 1% on an annual basis, these constitute de minimis connected transactions of the Company and are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements according to Rule 14A.76(1)(b) of the Listing Rules.

#### *(B) License of domain name to Xiaofeiniu Technology*

Xiaofeiniu Technology is a company controlled by Mr. Tian, and therefore a connected person of the Company.

Chengdu Qilu is the registered proprietor of the domain name of birdpaper.cn (the "**Domain Name**"). For the period from 1 January 2016 to 31 August 2018, Chengdu Qilu has licensed the Domain Name to Xiaofeiniu Technology for use as its operating website at nil consideration. Commencing from 1 September 2018, pursuant to a license agreement dated 1 September 2018 (the "**License Agreement**"), Xiaofeiniu Technology shall pay Chengdu Qilu a license fee of RMB1,000 per month settled in arrear on a quarterly basis. The said license fee payable by Xiaofeiniu Technology is determined after arm's length commercial negotiations with reference to the ongoing costs of Chengdu Qilu in maintaining the Domain Name. The License Agreement does not have a fixed term. Pursuant to the License Agreement, Chengdu Qilu is entitled to terminate the license of the Domain Name to Xiaofeiniu Technology by giving 30 days' notice in writing. The amounts paid by Xiaofeiniu Technology to our Group for the license of the Domain Name were nil, nil, approximately RMB12,000 and RMB43,000 for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019.

As all of the percentage ratios used to calculate the threshold for continuing connected transactions under the Listing Rules for the above transaction are less than 0.1% on an annual basis, these constitute de minimis connected transactions of the Company and are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements according to Rule 14A.76(1)(a) of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### PARTIALLY-EXEMPT AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### *(A) Provision of Services to 360 Group*

##### **Background**

The Group provided online advertising services principally through homepage directing and to a lesser extent through banner advertising (“**Online Advertising Services**”) to 360 Group during the Track Record Period. The Group also generated revenue from Star World, a wholly-owned subsidiary of 360 Technology, through operation of the online games of Star World on the Group’s online game platform (“**Online Game Business**”). The Group will continue to provide services to 360 Group following the Listing.

##### **Principal terms**

The Company entered into a master agreement with 360 Technology dated 18 September 2019 (the “**360 Master Sales Agreement**”) which sets out the terms and conditions upon which members of the Group will provide services to 360 Group. The 360 Master Sales Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the 360 Master Sales Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

It is envisaged that from time to time and as required, members of the Group has entered and/or will enter into individual service agreement with 360 Technology and/or its subsidiaries. Such individual service agreements are expected to set out the detailed terms of the transactions and provisions which reflect the binding principles, guidelines, terms and conditions in the 360 Master Sales Agreement.

##### **Price determination**

In respect of the Online Advertising Services, 360 Group pays the Group on a cost-per-action basis. For homepage directing services, the Group charges 360 Group based on the standard scales set by 360 Group on which 360 Group pays service fees to its homepage directing service providers including the Group. For banner advertising service of the Online Advertising Services, the service fees charged by the Group to 360 Group is based on arm’s length commercial negotiations and are comparable to the service fees charged by the Group to Independent Third Party customers for similar services.

In respect of the Online Game Business, 360 Group authorizes the Group to operate selected games on the Group’s platform for certain period of time and the Group shares with 360 Group the revenue the Group receives from game players. The percentage of revenue sharing with 360 Group for the Online Game Business is based on arm’s length commercial negotiations and are comparable to the percentages shared with Independent Third Party game developers and distributors for similar services.



## CONNECTED TRANSACTIONS

### Historical figures

For the years ended 31 December 2016, 2017 and 2018, the revenue generated by the Group from 360 Group is as follows:

	For the year ended 31 December			For the four months ended 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Online Advertising Services . .	46,829	50,541	66,242	21,123
– Homepage directing service .	44,163	45,375	61,010	20,613
– Banner advertising service . .	2,666	5,166	5,232	510
Online Game Business . . . . .	111	48	5,511	7,501
<b>Total . . . . .</b>	<b>46,940</b>	<b>50,589</b>	<b>71,753</b>	<b>28,624</b>

### Annual caps

It is expected that the aggregate service fees from the transactions with 360 Group under the 360 Master Sales Agreement for the years ending 31 December 2019, 2020 and 2021 will not exceed RMB103.5 million, RMB122.5 million and RMB142.1 million as follows:

	For the year ending 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Online Advertising Services . . . . .	76,700	91,300	108,500
– Homepage directing service . . . . .	75,100	89,400	106,300
– Banner advertising service . . . . .	1,600	1,900	2,200
Online Game Business . . . . .	26,800	31,200	33,600
<b>Total . . . . .</b>	<b>103,500</b>	<b>122,500</b>	<b>142,100</b>

The above proposed annual caps for the transactions under the 360 Master Sales Agreement are based on historical transaction amounts and the expected increase in future transaction amounts with 360 Group taking into account the following factors:

- The continuous expansion of business scale of our Group and hence users of the Ludashi Software which will result in an increase in volume of IPs directed to 360 web directory and hence revenue to be generated from 360 Group through our provision of homepage directing service.

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## CONNECTED TRANSACTIONS

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- The continuous growth in advertising and promotion expenses of 360 for its own business development which will result in an increase in revenue to be generated from 360 Technology through our provision of banner advertising service.
- The development of our new business lines of online game business and sales of electronic devices will continue to enlarge our user base resulting in expected synergy effect among our transactions and hence revenue to be generated from 360 Group.
- Due to the success of *Mie Shen* (滅神), *Yu Hun Jiu Xiao* (御魂九霄), *Wu Lin San* (武林三), game products of 360 Group launched on our Group's online game platform in July and October 2018 and February 2019, respectively, the revenue generated from 360 Group in respect of the Online Game Business increased significantly for the second half of 2018 and first four months of 2019. The continuous cooperation with 360 Group on operation of its existing and new online game products coupled with the expansion of our user base will result in an increase in revenue received from game players and hence revenue generated from the Online Game Business.

### *Online Advertising Services*

The revenue generated from 360 Group from the Group's Online Advertising Services, being principally provision of homepage directing service, mainly depends on the volume of IPs and the unit price charging for homepage directing service on the cost-per-thousand IP times basis. For the purpose of calculating the above proposed annual caps for the years ending 31 December 2019, 2020 and 2021, we assume that (i) there will be no change in the fee schedule adopted and applied by 360 Group to its business partners, including our Group, on homepage directing service, and our Group will continue to maintain sufficient volume of IPs directed and remain in the existing scale of the fee schedule of 360 Group; and (ii) the unit price charging for homepage directing service currently charged to 360 Group, being RMB85 per thousand IPs, will remain unchanged for the purpose of 3-year annual caps estimation.

With respect to the revenue to be generated from 360 Group through our provision of the Online Advertising Services, the estimated year-on-year annual growth rates for the annual caps for the years ending 31 December 2019, 2020 and 2021 will be approximately 15.6%, 19% and 19%, respectively. The estimated annual growth rates for the annual caps for the years ending 31 December 2019, 2020 and 2021 are within the historical annual growth rates ranging from 8% to 31% for the three years ended 31 December 2018. For the homepage directing service segment of the Online Advertising Services, the proposed annual cap for the year ending 31 December 2019 is estimated based on the estimated annual growth rate of approximately 23% for the year ending 31 December 2019 which in turn is based on the actual period-on-period growth rate for the six months ended 30 June 2019 as compared to the corresponding period in 2018, whilst for the banner advertising service segment of the Online Advertising Services, the proposed annual cap for the year ending 31 December 2019 is estimated based on the full year projection with reference to the average monthly revenue for the four months ended 30 April 2019. Owing to our strategic plan to use 20% of the net

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## CONNECTED TRANSACTIONS

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proceeds of the Global Offering to substantially increase our marketing and promotion efforts to promote our Ludashi Software and related software and products, such as, by promoting our brands extensively and purchasing more online traffic, it is expected that there will be a continuous increase in the number of users in using our homepage directing service, and in turn, a corresponding increase in the volume of IPs. Accordingly, a significant increase in the revenue is expected to be generated by our Group from 360 Group particularly for the year ending 31 December 2019. On the other hand, the estimated annual growth rates of approximately 19% and 19% for the years ending 31 December 2020 and 2021, respectively, are based on the CAGR of the revenue generated from 360 Group through our provision of the Online Advertising Services during the three years ended 31 December 2018.

### *Online Game Business*

The revenue generated from 360 Group from the Online Game Business increased significantly in 2018 and the first four months of 2019 and is expected to continue to grow in the next few years mainly because of the continuous cooperation with 360 Group on its existing and new game products on our online game platform. The revenue generated from 360 Group from the Online Game Business increased from approximately RMB46,000 for the year ended 31 December 2017 to approximately RMB5.5 million for the year ended 31 December 2018, and further to approximately RMB7.5 million for the four months ended 30 April 2019 which was mainly attributable to the launch of two new games of 360 Group, namely *Mie Shen* (滅神), *Yu Hun Jiu Xiao* (御魂九霄), on our online game platform in the second half of 2018. We further launched two other 360 Group's online games, *Wu Lin San* (武林三), *The Song of War* (熱血戰歌), on our online game platform in the first quarter and July of 2019 respectively. Based on our experience, depending on, among others, the life cycles of different games and our promotional efforts, it generally takes a game a period of about six to nine months from its launching on our online game platform to reaching full and stable revenue contribution. We therefore expect the aforesaid online games launched in the second half of 2018 and the first quarter of 2019 will have fully contributed their respective revenues generated from 360 Group in respect of the Online Game Business in 2019 and subsequently. Furthermore, it is expected that we will continue to cooperate with 360 Group in introducing new games to our online game platform which will further contribute to the revenue to be generated from 360 Group in respect of the Online Game Business.

The proposed annual caps for the year ending 31 December 2019 is based on the historical revenue for the first four months and an estimated monthly revenue of RMB2.4 million for the remaining eight months, and the proposed annual caps for the years ending 31 December 2020 and 2021 are based on an estimated monthly revenue of RMB2.6 million and RMB2.8 million, respectively. The proposed annual caps for the Online Game Business have taken into account the historical performance of the Online Game Business with 360 Group particularly the explosive growth in the first four months of 2019 as well as the aforesaid typical life cycles of the online games. The average monthly revenue generated from 360 Group in respect of the Online Game Business increased from approximately RMB0.9 million for the second half of 2018 to approximately RMB1.9 million for the first four months of 2019. It is estimated that the average monthly revenue will further increase to approximately RMB2.4 million for the remaining eight months of 2019 given that all the aforesaid games, namely *Mie Shen* (滅神),

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## CONNECTED TRANSACTIONS

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*Yu Hun Jiu Xiao* (御魂九霄) and *Wu Lin San* (武林三), which were launched in the second half of 2018 and first quarter of 2019, are expected to generate full revenue contribution since around mid-2019. In addition, we launched another online game of 360 Group, namely *The Song of War* (熱血戰歌), on our online game platform in July 2019. Subject to market conditions and our negotiations with 360 Group, we intend to launch around two to three new games of 360 Group on our online game platform in the second half of 2019, and around three to five additional games per year in 2020 and 2021. With the aforesaid games expected to reach full and stable revenue contribution in 2019 and afterwards, the continuous introduction of 360 Group's new games on our online game platform, it is therefore estimated that the monthly revenue from the 360 Group in respect of the Online Game Business will continue to increase to approximately RMB2.6 million and RMB2.8 million for years ending 31 December 2020 and 2021, respectively.

### **Implications under the Listing Rules**

Notwithstanding the Entrustment Arrangements, for the purpose of the Listing Rules, 360 Technology will be considered as one of the Controlling Shareholder, and hence a connected person of the Company.

As one or more than one of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 5%, the 360 Master Sales Agreement and the transactions contemplated thereunder will constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and would require compliance with the reporting and announcement requirements, the annual review requirements, and the independent shareholders' approval requirements under the Listing Rules.

### ***(B) Procurement of Services from 360 Group***

#### **Background**

The Group leased servers from Qihu Technology for data processing and storage purpose (the "**Server Service**") during the Track Record Period. The Group will continue to procure the Server Service from 360 Group following the Listing.

#### **Principal terms**

The Company entered into a master agreement with 360 Technology dated 18 September 2019 (the "**360 Master Purchase Agreement**") which sets out the terms and conditions upon which members of the Group will procure Server Service from 360 Group. The 360 Master Purchase Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the 360 Master Purchase Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

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## CONNECTED TRANSACTIONS

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It is envisaged that from time to time and as required, members of the Group will enter into individual service agreement with 360 Technology and/or its subsidiaries. Such individual service agreements are expected to set out the detailed terms of the transactions and provisions which reflect the binding principles, guidelines, terms and conditions in the 360 Master Purchase Agreement.

### **Price determination**

In respect of the Server Service, the Group pays 360 Group on the basis of the amount of services provided taking into account number of devices, traffic volume and storage space volume involved. The service fees paid by the Group to 360 Group is based on arm's length commercial negotiations and are comparable to the service fees paid by the Group to Independent Third Party suppliers for similar services.

### **Historical figures**

For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, the service fees of Server Service paid by the Group to 360 Group were approximately RMB0.8 million, RMB1.7 million, RMB2.2 million and RMB0.4 million, respectively.

### **Annual caps**

It is expected that the service fees from the transactions with 360 Group under the 360 Master Purchase Agreement for the years ending 31 December 2019, 2020 and 2021 will not exceed RMB2.4 million, RMB2.6 million and RMB2.9 million, respectively.

The service fees of Server Service principally entail the server rental fees and information security service fees, which are positively correlated to the number of users of our Group's products. For the purpose of calculating the above proposed annual caps for the transactions under the 360 Master Purchase Agreement, on the basis that the unit cost charged by 360 Group for the Server Service has remained unchanged since 2017, we assume that the unit cost for the Server Service will remain unchanged thereafter for the purpose of 3-year annual caps estimation. Taking into account the expected increase in number of users of our software products (as represented by the expected increase in MAUs), we therefore expect a corresponding increase in the demand for the Server Service from 360 Group. The 3-year annual caps estimation is therefore based on an estimated year-on-year growth rate of approximately 10.3% with reference to the industry average growth of MAUs.

### **Implications under the Listing Rules**

As mentioned above, for the purpose of the Listing Rules, 360 Technology will be considered as one of the Controlling Shareholder, and hence a connected person of the Company.

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## CONNECTED TRANSACTIONS

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As one or more than one of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 0.1% but less than 5%, the 360 Master Purchase Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company exempt from the independent shareholders' approval requirements and would require compliance with the reporting and announcement requirements and the annual review requirements under Chapter 14A of the Listing Rules.

### *(C) Provision of Services to Shanghai Songheng*

#### **Background**

Chengdu Qilu provided online advertising services principally through mini-page advertising to Shanghai Songheng during the Track Record Period. The Group will continue to provide services to Shanghai Songheng following the Listing.

#### **Principal terms**

The Company entered into a master agreement with Shanghai Songheng dated 18 September 2019 (the "**Songheng Master Sales Agreement**") which sets out the terms and conditions upon which members of the Group will provide services to Shanghai Songheng and/or its subsidiaries. The Songheng Master Sales Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the Songheng Master Sales Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

It is envisaged that from time to time and as required, members of the Group will enter into individual service agreement with Shanghai Songheng and/or its subsidiaries. Such individual service agreements are expected to set out the detailed terms of the transactions and provisions which reflect the binding principles, guidelines, terms and conditions in the Songheng Master Sales Agreement.

#### **Price determination**

In respect of the online advertising services, Shanghai Songheng pays the Group on a cost-per-action basis. The service fees charged by the Group to Shanghai Songheng is based on arm's length commercial negotiations and are comparable to the service fees charged by the Group to Independent Third Party customers for similar services.

#### **Historical figures**

For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, the revenue generated by the Group from Shanghai Songheng were approximately RMB9.0 million, RMB41.5 million, RMB24.0 million and RMB11.0 million, respectively.

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## CONNECTED TRANSACTIONS

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### Annual caps

It is expected that the service fees from the transactions with Shanghai Songheng under the Songheng Master Sales Agreement for the years ending 31 December 2019, 2020 and 2021 will not exceed RMB33.0 million, RMB48.4 million and RMB65.8 million.

The above proposed annual caps for the transactions under the Songheng Master Sales Agreement are based on historical transaction amounts and the expected increase in future transaction amounts with Shanghai Songheng taking into account the following factors:

- The Group has increased the unit price for mini-page advertising services since 2017 in response to changes in market conditions which results in an increase in revenue to be generated from Shanghai Songheng.
- The continuous growth in advertising and promotion expenses of Shanghai Songheng for its own business development which will result in an increase in revenue to be generated from Shanghai Songheng from online advertising services. The Group also intends to strengthen its provision of online advertising services to Shanghai Songheng.
- The development of our new business lines of online game business and sales of electronic devices will continue to enlarge our user base resulting in expected synergy among our transactions and hence revenue to be generated from Shanghai Songheng and its subsidiaries.

The revenue generated from Shanghai Songheng from our provision of mini-page advertising service is principally affected by the frequency of mini-page advertising and the unit price charged for mini-page advertising service on the cost-per-action basis. For the purpose of calculating the above proposed annual caps for the years ending 31 December 2019, 2020 and 2021, with reference to the unit price charged since June 2018, which remains consistently above RMB10 per thousand impressions, we assume that the unit price charged for mini-page advertising service currently charged to Shanghai Songheng, being RMB10 per thousand impressions, will remain unchanged thereafter for the purpose of 3-year annual caps estimation.

In an attempt to reduce our reliance on Shanghai Songheng for the Group's revenue generated from the provision of mini-page advertising service, we have begun to cooperate with other third parties to expand our client base. Hence, the revenue from provision of mini-page advertising service to Shanghai Songheng for the year ended 31 December 2018 dropped by 104% as compared to 2017. Nonetheless, we are of the view that the cooperation with Shanghai Songheng is more profitable as compared to that with other third party operators in consideration of the bigger volume of business of the Group with Shanghai Songheng and the fact that the cooperation with Shanghai Songheng is more stable. In light of the above, we have decided to strengthen our cooperation with Shanghai Songheng again, it is therefore expected the revenue generated from Shanghai Songheng in respect of the mini-page



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## CONNECTED TRANSACTIONS

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advertising service for the year ending 31 December 2019 will return to about the same level as of the year ended 31 December 2017 and hence far exceeded the amount for the year ended 31 December 2018. In this regard, we have and will continue to tighten our cooperation with Shanghai Songheng by among others, strengthening our marketing efforts, tailoring and improving the quality and contents of its advertisements, and prioritizing its advertisements in mini-page pop-ups. For the four months ended 30 April 2019, we recorded revenue in the amount of approximately RMB11.0 million for the mini-page advertising service provided to Shanghai Songheng.

The proposed annual cap for the year ending 31 December 2019 is estimated based on the full year projection with reference to the revenue for the first four months of 2019. With respect to the proposed annual caps for the years ending 31 December 2020 and 2021, as mentioned above, the mini-page advertising service income is principally affected by the frequency of mini-page advertising and the unit price charged for mini-page advertising service on the cost-per-action basis. It is assumed that the unit price will remain unchanged for the 3-year annual caps estimation. On the other hand, the frequency of mini-page advertising will principally depend on the number of users who allow the popping-up of mini-page advertising (which is represented by the growth in DAUs as discounted by the daily average percentage of users who opt-in the popping-up function) and the frequency of popping up mini-page advertisement. As such, with respect to the proposed annual caps for the years ending 31 December 2020 and 2021, the estimated growth rates are calculated by multiplying (a) the estimated increase in DAUs as discounted by the daily average percentage of users who allow popping-up advertisements; and (b) the estimated increase in frequency of popping up mini-page advertisement.

For the estimated increase in DAUs, pursuant to Frost & Sullivan, the industry average growth per year is approximately 10.8%. For the percentage of users who allow popping-up advertisements, for the year ended 31 December 2018, in average, approximately 81% of the daily users who have downloaded our PC version of our Ludashi software allowed the popping up of mini-page advertisements. Based on the above, the yearly growth rate of the number of users who allow the popping-up of mini-page advertising is estimated to be approximately 8.7%. For the estimated increase in frequency of popping up mini-page advertisement, as further illustrated below, we plan to increase the frequency of popping up of mini-page advertisements by 35% and 25% for the years ending 31 December 2020 and 2021, respectively. Accordingly, it is estimated that (i) the proposed annual cap for the year ending 31 December 2020 will increase by approximately 46.7% as compared to the year ending 31 December 2019 by multiplying (a) 8.7%, being the estimated yearly growth rate of the number of users who allow the popping-up of mini-page advertising and (b) 35%, being our planned yearly increment in frequency of popping-up mini-page advertisement; and (ii) the proposed annual cap for the year ending 31 December 2021 will increase by approximately 36.0% as compared to the year ending 31 December 2020 by multiplying (a) 8.7%, being the estimated yearly growth rate of the number of users who allow the popping-up of mini-page advertising and (b) 25%, being our planned yearly increment in frequency of popping-up mini-page advertisement.

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## CONNECTED TRANSACTIONS

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Given that our software is provided to users free of charge, we make profit through online monetization, which includes online advertising. To enhance revenue growth, in line with industry practice, we continuously optimize the frequency of directing IP and popping up mini-page in order to strike a balance between profitability and software user experience. According to Frost & Sullivan, for PC software with popping up mini-page such as Tencent QQ, 360 Security and Baofeng Player, the daily frequency of mini-page display ranges from 2 to 4 times per unique visitor. Based on the planned yearly increment of 35% and 25% in the frequency of popping up mini-page for 2020 and 2021, respectively, the average daily frequency of popping up mini-page is estimated to increase to 2.3 and 2.9 times per software user in 2020 and 2021, respectively, which are within the range of industry average, based on the information provided by Frost & Sullivan above. Besides, our software provides a function which allows users to opt out the mini-page advertising windows so as to enhance software user experience. Furthermore, with respect to homepage directing services, opt-in request for the homepage directing function will only pop up at the time when the software users first download and subsequently update our software. Besides, similar to mini-page advertising windows, software users are allowed to opt-out the homepage directing service at any time at their own will. As such, our Directors are of the view that there is no material adverse impact on software user experience caused by the increase in frequency of directing IP and/or popping-up mini-page. On the above basis, notwithstanding the planned increase in frequency of directing IP and popping up mini-page, we believe that we will be able to ensure pleasant user experience, and that the planned increase in frequency of directing IP and popping up mini-page will not likely to lead to uninstallation of our software by our users.

### **Implications under the Listing Rules**

Songchang International is a substantial shareholder and hence a connected person of the Company. Songchang International is indirectly wholly owned by Shanghai Songheng. Shanghai Songheng is therefore an associate of Songchang International and hence a connected person of the Company.

As one or more than one of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 5%, the Songheng Master Sales Agreement and the transactions contemplated thereunder will constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and would require compliance with the reporting and announcement requirements, the annual review requirements, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### ***(D) Procurement of Services from Shanghai Songheng and Its Subsidiaries***

#### **Background**

Shanghai Zhanmeng Network Technology Company Limited\* (上海展盟網絡科技有限公司) (“**Shanghai Zhanmeng**”) and Shanghai Gaoxin Computer System Company Limited\* (上海高欣計算機系統有限公司) (“**Shanghai Gaoxin**”) provided certain services to Chengdu Qilu

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## CONNECTED TRANSACTIONS

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during the Track Record Period. Shanghai Zhanmeng and Shanghai Gaoxin are both subsidiaries of Shanghai Songheng. The services (the “**Songheng Service**”) provided by Shanghai Zhanmeng and Shanghai Gaoxin were mainly on-line advertising of Ludashi Software on the platform of Shanghai Songheng as well as directing services whereby users of Shanghai Songheng are directed to installation of Ludashi Software. The Group will continue to procure the Songheng Service from Shanghai Songheng and/or its subsidiaries following the Listing.

### **Principal terms**

The Company entered into a master agreement with Shanghai Songheng dated 18 September 2019 (the “**Songheng Master Purchase Agreement**”) which sets out the terms and conditions upon which members of the Group will procure Songheng Service from Shanghai Songheng and/or its subsidiaries. The Songheng Master Purchase Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the Songheng Master Purchase Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

It is envisaged that from time to time and as required, members of the Group will enter into individual service agreement with Shanghai Songheng and/or its subsidiaries. Such individual service agreements are expected to set out the detailed terms of the transactions and provisions which reflect the binding principles, guidelines, terms and conditions in the Songheng Master Purchase Agreement.

### **Price determination**

The service fees paid by the Group to Shanghai Songheng and/or its subsidiaries is based on arm’s length commercial negotiations and are comparable to the service fees paid by the Group to Independent Third Party suppliers for similar services.

### **Historical figures**

For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, the service fees paid by the Group to Shanghai Songheng and its subsidiaries were approximately RMB2.1 million, RMB2.2 million, RMB0.6 million and RMB1.0 million, respectively.

### **Annual caps**

It is expected that the service fees paid by the Group under the Songheng Master Purchase Agreement for the years ending 31 December 2019, 2020 and 2021 will not exceed RMB3.0 million, RMB3.0 million and RMB3.0 million.

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The above proposed annual caps for the transactions under the Songheng Master Purchase Agreement are based on (i) the service fees paid by our Group to Shanghai Songheng of approximately RMB1.0 million (or a monthly average of approximately RMB0.25 million) for the first four months ended 30 April 2019 and (ii) the fact that our Group intends to control the amount of service fees payable under the Shanghai Songheng Master Purchase Agreement during the two years ending 31 December 2020 and 2021 at the same level to that of the proposed annual cap for the year ending 31 December 2019.

### **Implications under the Listing Rules**

As mentioned above, Shanghai Songheng is a substantial shareholder and hence a connected person of the Company.

As one or more than one of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 0.1% but less than 5%, the Songheng Master Purchase Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company exempt from the independent shareholders' approval requirements and would require compliance with the reporting and announcement requirements and the annual review requirements under Chapter 14A of the Listing Rules.

### ***(E) Contractual Arrangements***

#### **Background**

The Group operates its Online Game Business in the PRC through the Contractual Arrangements entered into between WFOE, Chengdu Qilu and the Relevant Shareholders. The Relevant Shareholders, namely Mr. Tian, Qihu Technology, Shanghai Songheng and Qilu Haochen, who are connected persons of the Company for the purpose of Chapter 14A of the Listing Rules. Through the Contractual Arrangements, the Group exercises effective control over the operations of the PRC Operating Entities. Please refer to the section headed "Contractual Arrangements" in this Prospectus for details.

#### *Principal terms of the transactions*

The Contractual Arrangements comprise the following agreements: Exclusive Business Cooperation Agreement, Powers of Attorney, Exclusive Option Agreement and Share Pledge Agreement. Details of the continuing connected transactions (i.e. the transactions contemplated under the said agreements which constitute the Contractual Arrangements) entered into between the relevant connected person and the Group are set out in the section headed "Contractual Arrangements" in this Prospectus.

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## CONNECTED TRANSACTIONS

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### **Reasons for the waiver application and the view of the directors on the continuing connected transactions**

The Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to the Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms or on terms more favorable to the Group in the ordinary and usual course of the Group's business and are fair and reasonable or to the advantage of the Group and are in the interests of the Shareholders as a whole.

The Directors also believe that the Group's structure, whereby the financial results of the PRC Operating Entities are consolidated into the Group's financial statements as if they were the Group's wholly-owned subsidiaries, and all the economic benefits of their business flows to the Group, places the Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to the Company, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of independent Shareholders.

In addition, given the Contractual Arrangements were entered into prior to the Listing and are disclosed in this Prospectus, and potential investors of the Company will participate in the Global Offering on the basis of such disclosure, the Directors consider that compliance with the announcement and the independent Shareholders' approval requirements in respect thereof immediately after Listing would add unnecessary administrative costs to the Company.

To ensure sound and effective operation of the Group after the adoption of the Contractual Arrangements, the management of the Group plans to take the following measures:

- (i) as part of the internal control measures, major issues arising from implementation and performance of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. The Board will determine, as part of its periodic review process, whether legal advisers and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the Contractual Arrangements;
- (ii) matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than on a quarterly basis;

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## CONNECTED TRANSACTIONS

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- (iii) the relevant business units and operation divisions of the Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the Contractual Arrangements and other related matters; and
- (iv) the Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements.

### **Application for and conditions of waiver**

In view of the above, we have applied to the Stock Exchange pursuant to Rule 14A.105 of the Listing Rules for, and the Stock Exchange has granted, a waiver from (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, for the fees payable to WFOE under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as our Shares are listed on the Stock Exchange subject to the following conditions:

- (i) *No Change without Independent Non-executive Directors' Approval*: No changes to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (ii) *No Change without Independent Shareholders' Approval*: Save as described in paragraph (iv) below, no changes to the terms of any of the agreements constituting 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 announcement or approval of the independent Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of the Company (as set out in paragraph (v) below) will however continue to be applicable.
- (iii) *Economic Benefits Flexibility*: The Contractual Arrangements shall continue to enable the Group to receive the economic benefits derived by the PRC Operating Entities through: (i) the Group's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in Chengdu Qilu; (ii) the business structure under which the net profits generated by the PRC Operating Entities (after deducting the necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year) is substantially retained by WFOE (such that no annual caps shall be set on the amount of services fees payable to WFOE under the Exclusive Business Cooperation Agreement); and (iii) WFOE's right to control the management and operation of, as well as, in substance, all of the voting rights of Chengdu Qilu.

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## CONNECTED TRANSACTIONS

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- (iv) *Renewal and Cloning*: 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 Chengdu Qilu, on the other hand, that framework may be renewed and/or cloned 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 described under the section headed “Contractual Arrangements” in this Prospectus. Such new wholly foreign-owned enterprise or operating company (including branch company) may be established by the Group for expansion into the market due to potential business growth. If and when the term of operation of Chengdu Qilu as set out in its operating license comes to an end in future, the Group may also establish new companies as and when considered necessary. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) 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 when justified by business expediency will, upon renewal and/or cloning of the Contractual Arrangements, however be treated as the Group’s connected persons and transactions between these connected persons and the Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.
- (v) *Ongoing Reporting and Approvals*: the Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (a) 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.
  - (b) 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: (A) 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 PRC Operating Entities has been substantially retained by WFOE; (B) no dividends or other distributions have been made by Chengdu Qilu to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (C) any new contracts entered into, renewed or reproduced between the Group and Chengdu Qilu during the relevant financial period under paragraph (iv) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Company and the Shareholders as a whole.



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## CONNECTED TRANSACTIONS

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- (c) The Company's auditors will carry out procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten Business Days before our Company bulk prints its annual report, reporting their findings whether 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 Chengdu Qilu to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.
- (d) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," the PRC Operating Entities will be treated as our Company's wholly-owned subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of PRC Operating Entities and their respective associates will be treated as the Company's "connected persons." As such, transactions between these connected persons and the Group (including for this purpose PRC Operating Entities) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.

Chengdu Qilu undertakes that, for so long as the Shares are listed on the Stock Exchange, Chengdu Qilu will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of procedures to be carried out by the Company's auditors' on the connected transactions.

### **Listing Rules implications**

The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **WAIVERS**

The transactions under the each of the 360 Master Purchase Agreement and Songheng Master Purchase Agreement constitute continuing connected transactions for the Group, which are exempt from the independent shareholders' approval requirements but subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules. In respect of the transactions under the each of the 360 Master Purchase Agreement and

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## CONNECTED TRANSACTIONS

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Songheng Master Purchase Agreement, the Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirements under Chapter 14A of the Listing Rules.

The transactions under the 360 Master Sales Agreement, Songheng Master Sales Agreement and the Contractual Arrangements constitute continuing connected transactions for the Group, which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In respect of the transactions under the 360 Master Sales Agreement and Songheng Master Sales Agreement, the Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In respect of the transactions under the 360 Master Sales Agreement and Songheng Master Sales Agreement, apart from the announcement and independent shareholders' approval requirements for which waivers have been sought, the Group will comply with the relevant requirements under Chapter 14A of the Listing Rules. In respect of the transactions under the Contractual Arrangements, the Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, under Rule 14A.53 of the Listing Rules for the fees payable to WFOE under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules. In respect of the transactions under the Contractual Arrangements, apart from the announcement and independent shareholders' approval requirements and the requirements under Rules 14A.53 and 14A.52 for which waivers have been sought, the Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of each of the 360 Master Purchase Agreement, Songheng Master Purchase Agreement, 360 Master Sales Agreement, Songheng Master Sales Agreement and the Contractual Arrangements are altered or if our Group enters into any new agreements with any connected persons in the future, our Group will fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless our Group applies for and obtains a separate waiver from the Stock Exchange.

### **CONFIRMATION FROM THE DIRECTORS**

The Directors (including the independent non-executive Directors) are of the opinion that (i) the continuing connected transactions described above for which waivers are sought have been and will be entered into in the ordinary and usual course of business of the Company, on normal commercial terms or better, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, (ii) the proposed annual caps for such continuing connected transactions under each of the 360 Master Sales Agreement, 360 Master Purchase Agreement, Songheng Master Purchase Agreement and Songheng Master Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and (iii) the Contractual Arrangements and the continuing connected transactions contemplated therein are fundamental to the Group's legal structure and business, and with respect to the term of the

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## CONNECTED TRANSACTIONS

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relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (a) the financial and operational policies of the PRC Operating Entities can be effectively controlled by WFOE, (b) WFOE can obtain the economic benefits derived from the PRC Operating Entities, and (c) any possible leakages of assets and values of the PRC Operating Entities can be prevented, on an uninterrupted basis.

### **CONFIRMATION FROM THE SOLE SPONSOR**

The Sole Sponsor is of the view that (i) the continuing connected transactions described above, for which waivers are sought, have been and will be entered into in the ordinary and usual course of business of the Company, on normal commercial terms or better, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, (ii) the proposed annual caps for such continuing connected transactions under each of the 360 Master Sales Agreement, 360 Master Purchase Agreement, Songheng Master Purchase Agreement and Songheng Master Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and (iii) the Contractual Arrangements and the continuing connected transactions contemplated therein are fundamental to the Group's legal structure and business, and with respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (a) the financial and operational policies of the PRC Operating Entities can be effectively controlled by WFOE, (b) WFOE can obtain the economic benefits derived from the PRC Operating Entities, and (c) any possible leakages of assets and values of the PRC Operating Entities can be prevented, on an uninterrupted basis.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD OF DIRECTORS

Our Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. The functions and duties of our Board include but are not limited to, convening the general meetings, reporting on the performance of the Board's work at the general meetings, implementing the resolutions passed at the general meetings, determining business and investment plans, formulating our annual financial budget and final accounts, formulating our proposals for profit distributions, and formulating proposals for increase or reduction of our capital as well as exercising other powers, functions and duties as conferred by our Articles of Association.

The following table sets forth the information in respect of the members of our Board:

<u>Name</u>	<u>Age</u>	<u>Date of appointment as Director</u>	<u>Year and month of joining our Group</u>	<u>Current position</u>	<u>Roles and responsibilities</u>	<u>Relationship with other Directors and senior management</u>
Tian Ye (田野) .....	38	7 February 2018	November 2014	Chairman, chief executive officer, general manager and executive Director	Responsible for overall strategic planning and overseeing general management and daily operation of our Group	None
He Shiwei (何世偉) .....	48	26 August 2018	November 2014	Chief technology officer and executive Director	Responsible for overseeing research and technology development of our Group	None
Sun Chunfeng (孫春鋒) .....	32	26 August 2018	10 January 2017	Non-executive Director	Responsible for overseeing management and strategic planning of our Group	None
Li Yang (李洋) .....	36	5 June 2019	5 June 2019	Independent non-executive Director	Responsible for supervising and providing independent judgment to our Board	None

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Date of appointment as Director	Year and month of joining our Group	Current position	Roles and responsibilities	Relationship with other Directors and senior management
Wang Xinyu (王新宇) .....	48	5 June 2019	5 June 2019	Independent non-executive Director	Responsible for supervising and providing independent judgment to our Board	None
Zhang Ziyu (張子煜) .....	35	5 June 2019	5 June 2019	Independent non-executive Director	Responsible for supervising and providing independent judgment to our Board	None

### DIRECTORS

#### *Executive Directors*

**Mr. Tian Ye (田野)**, aged 38, is the founder of our Group and was appointed as Director on 7 February 2018. Mr. Tian is also our chief executive officer, general manager and chairman of the Board responsible for overall strategic planning and overseeing the general management and daily operation of our Group. Mr. Tian holds directorships in Ludashi Consulting, HK Company, WFOE and Chengdu Qilu. He is also the chairman of the nomination committee and a member of the remuneration committee of our Group.

Mr. Tian has around 15 years of experience in software development industry. From July 2004 to July 2005, Mr. Tian worked in Kingsoft Corporation Limited (stock code: 03888), whose shares are listed on the Main Board of the Stock Exchange and is a leading software developer, distributor and service provider in China, as senior programmer. From August 2005 to December 2009, Mr. Tian was an entrepreneur in information technology industry. From December 2009 to October 2014, Mr. Tian joined 360 Group as the senior director (高級總監) responsible for the software development and management. He then founded the Group in November 2014.

Mr. Tian has received a bachelor's degree of computer science from Shenyang University of Technology\* (瀋陽工業大學) in July 2003.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. He Shiwei** (何世偉), aged 48, was appointed as Director on 26 August 2018. Mr. He is our chief technology officer principally responsible for overseeing research and technology development of our Group. Mr. He holds directorships in WFOE, Liu Liuyou Technology and Zhongzhixing.

Mr. He has around 19 years of experience in software development industry. From March 2000 to April 2002, he worked in Beijing Luosen Technology Company Limited\* (北京絡森科技有限公司) as chief technology officer. From May 2002 to November 2009, Mr. He joined Beijing Wanxun Botong Technology Development Company Limited\* (北京萬訊博通科技發展有限公司) as a manager of the development department. From December 2009 to November 2014, he worked at 360 Group as a technology manager (技術經理). In November 2014, he joined Chengdu Qilu and has served as our chief technology officer since then.

Mr. He has received a bachelor degree of computer science from the Tianjin University\* (天津大學) in July 1992.

### *Non-executive Director*

**Mr. Sun Chunfeng** (孫春鋒), aged 32, is a non-executive Director, and is principally responsible for overseeing management and strategic planning of our Group. Mr. Sun also holds directorship in Chengdu Qilu.

Mr. Sun has around seven years of experience in software development industry. In January 2013, he founded Shanghai Gaoxin, which is principally engaged in software design, operation and development, and has served as its general manager since April 2015. In March 2014, he further co-founded Shanghai Songheng, which is principally engaged in network technology development, and has served as its general manager since then.

Mr. Sun received a diploma of computer information management (計算機信息管理) from Zhejiang Institute of Communications\* (浙江交通職業技術學院) in June 2009.

Mr. Sun was previously a director of the following companies shown in the table below which have been dissolved:

<u>Name of Company</u>	<u>Place of Incorporation</u>	<u>Nature of Business</u>	<u>Date of Dissolution</u>	<u>Means of Dissolution</u>	<u>Reasons of Dissolution</u>
Huai'an Cenfeng Corporate Management Limited Partnership (淮安岑鋒企業管理合夥企業(有限合夥)) . .	PRC	Corporate management	2 July 2018	De-registration	Cessation of business

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## DIRECTORS AND SENIOR MANAGEMENT

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<u>Name of Company</u>	<u>Place of Incorporation</u>	<u>Nature of Business</u>	<u>Date of Dissolution</u>	<u>Means of Dissolution</u>	<u>Reasons of Dissolution</u>
Shanghai Zhiyou Network Technology Company Limited (上海稚佑網絡科技有限公司) .....	PRC	Network development	5 March 2018	De-registration	Cessation of business
Shanghai Fenghan Network Information Technology Workshop (上海鋒翰網絡信息科技工作室).....	PRC	Network development	23 June 2015	De-registration	Cessation of business

Mr. Sun confirmed that each of the above companies was solvent at the time of their respective dissolutions and so far as he was aware, no claim has been made or will be made against him as a result of such dissolutions.

### *Independent Non-executive Directors*

**Mr. Li Yang (李洋)**, aged 36, an independent non-executive Director, was appointed to our Board on 5 June 2019. Mr. Li is responsible for supervising and providing independent judgment to our Board. He is also a member of the nomination committee and audit committee of our Board.

Mr. Li has been an associate professor of marketing of Cheung Kong Graduate School of Business (長江商學院) since July 2012.

Mr. Li received a bachelor degree of science in electronics science in July 2005 from Peking University, a master degree of science in biomedical engineering in February 2007, a master degree of philosophy in marketing and a doctor degree of philosophy in marketing both in May 2012 from Columbia University.

**Mr. Wang Xinyu (王新宇)**, aged 48, an independent non-executive Director, was appointed to our Board on 5 June 2019. Mr. Wang is responsible for supervising and providing independent judgment to our Board. He is also the chairman of the remuneration committee and a member of the nomination committee and audit committee of our Board.

In September 1998, Mr. Wang founded Beijing Jingtianwei Technology Development Company Limited\* (北京京天威科技發展有限公司), which is principally engaged in design and sales of locomotive software, and served as its general manager from September 1998 to August 2010. In March 2011, Mr. Wang founded Suzhou Huaxing Zhiyuan Electronics Technology Company Limited\* (蘇州華興致遠電子科技有限公司), which is principally engaged in electronic technology development and was acquired by China High Speed Railway



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## DIRECTORS AND SENIOR MANAGEMENT

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Technology Co., Ltd (神州高鐵技術股份有限公司) (stock code: 000008) in 2015, whose shares are listed on Shenzhen Stock Exchange. In June 2016, Mr. Wang founded Suzhou Eavision Robotics Co., Ltd\* (蘇州極目機器人科技有限公司) which is engaged in robotics technology development.

Mr. Wang received a bachelor degree in industrial electronic automation in July 1992 from Lanzhou Railway College\* (蘭州鐵道學院) (now known as Lanzhou Communications University\* (蘭州交通大學)), and a doctor degree in systems engineering in July 2009 from Beijing Jiao Tong University\* (北京交通大學).

**Mr. Zhang Ziyu (張子煜)**, aged 35, an independent non-executive Director, was appointed to our Board on 5 June 2019. Mr. Zhang is responsible for supervising and providing independent judgment to our Board. He is also the chairman of the audit committee and a member of the remuneration committee of our Board.

From September 2006 to January 2010, Mr. Zhang had worked for Deloitte Touche Tohmatsu Hong Kong office as a senior associate of the audit department when he left the firm. In October 2010, he joined finance department in China Resources (Holdings) Co., Ltd (華潤(集團)有限公司) and was the senior manager when he left the firm. Mr. Zhang subsequently served as the assistant vice president in compliance and monitoring of the listing and regulatory affairs division of the Hong Kong Exchanges and Clearing Limited from September 2014 to October 2015. In May 2016, Mr. Zhang joined China Tian Yuan Finance Group (Holdings) Limited (中國天元金融(集團)控股有限公司) and he is currently serving as its president.

Mr. Zhang received a bachelor degree of business administration in November 2006 from Lingnan University, a master degree of finance in November 2013 and a postgraduate diploma in commercial law in September 2016 from The University of Hong Kong. He has been a non-practicing member of Hong Kong Institute of Certified Public Accountants since January 2010, a fellow member of Association of Chartered Certified Accountant since June 2016, and a member of CFA Institute since September 2010.

### *Disclosure Required under Rule 13.51(2) of the Listing Rules*

Save as disclosed above, none of our Directors:

- (i) held any other positions in our Company or other members of our Group as of the Latest Practicable Date;
- (ii) had any other relationship with any Directors, senior management or substantial shareholders or Controlling Shareholders of our Company as of the Latest Practicable Date; and
- (iii) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date and other major appointments and professional qualifications.

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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed in “Substantial Shareholders” and “Appendix IV – Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders,” none of our Directors has any interest in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a company which has an interest or short position in the Shares and underlying Shares of our Company.

Each of our Directors has confirmed that none of them is engaged in, or interested in, any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as of the Latest Practicable Date.

### SENIOR MANAGEMENT

**Mr. Tian Ye (田野).** Please refer to “– Directors – Executive Directors” above in this section for details of biography of Mr. Tian.

**Mr. He Shiwei (何世偉).** Please refer to “Directors – Executive Directors” in this section for details of biography of Mr. He.

**Mr. Zhang Fanchen (張凡琛),** aged 33, is our chief finance officer, and is principally responsible for overseeing strategy planning, capital operation and finance management of the Group. Mr. Zhang also holds directorship in Shanghai Qilu.

Mr. Zhang has around 11 years of experience in capital market and financial related industry. Mr. Zhang joined our Group in September 2018. Prior to joining us, Mr. Zhang worked at investment banking department of Morgan Stanley Huaxin Securities Company Limited (摩根士丹利華鑫證券有限責任公司) from July 2015 to September 2018. Mr. Zhang worked at Sinolink Securities Company Limited (國金證券股份有限公司) from July 2014 to June 2015 and Huatai United Securities Company Limited (華泰聯合證券有限公司) from August 2011 to July 2014. Mr. Zhang worked at Ernst & Young’s Shanghai office as a senior auditor from August 2008 to July 2011.

Mr. Zhang has passed the Chinese Sponsor Representative test in May 2015. He has been a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since September 2014 and is a member of Association of Chartered Certified Accountant (英國特許公認會計師公會).

Mr. Zhang received a bachelor degree of accounting from Sichuan University\* (四川大學) in July 2008 and a master degree of business administration from Shanghai Jiao Tong University\* (上海交通大學) in June 2016.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Zhang Xiaozhen (張曉真)**, aged 33, is the general manager of Xiaolu Second-Hand, and is responsible for overseeing our business of pre-owned electronic devices sales.

Mr. Zhang has around 10 years of experience in the pre-owned smartphone industry. Mr. Zhang joined our Group in April 2017. Prior to joining us, Mr. Zhang founded Fujian Refone Environment Protection Technology Company Limited\* (福建銳鋒環保科技有限公司) in August 2010 and created the website “[Refone.com.cn](http://Refone.com.cn)” (銳鋒網), which is principally engaged in recycling of pre-owned smartphone.

Mr. Zhang graduated with a diploma of English in the Open University of Fujian (福建廣播電視大學) in July 2008.

### COMPANY SECRETARY

**Mr. Cheng Ching Kit (鄭程傑)**, aged 31, was appointed as our company secretary on 30 August 2018. Mr. Cheng is an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional service provider specializing in corporate services and has over six years of experience in corporate secretarial field. He is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom since 2018. He received a bachelor degree of commerce in finance from the University of Queensland in December 2010.

### BOARD COMMITTEES

Our Board delegates certain responsibilities to various committees. In accordance with our Articles of Association and the Listing Rules, we have formed three Board committees, namely the audit committee, the remuneration committee and the nomination committee. Each of the three Board committees has written terms of reference. The committees operate in accordance with the terms of reference established by our Board.

#### *Audit Committee*

We have established an audit committee pursuant to a resolution of our Board passed on 9 September 2019 with terms of reference in compliance with the CG Code. The primary duties of our audit committee are to make recommendations to our Board on the appointment and dismissal of the external auditor, monitor and review the financial statements and information and oversee the financial reporting system, risk management and internal control systems of our Company. Our audit committee consists of three members: Mr. Zhang Ziyu, Mr. Li Yang and Mr. Wang Xinyu. The chairman of our audit committee is Mr. Zhang Ziyu.

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## DIRECTORS AND SENIOR MANAGEMENT

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### *Remuneration Committee*

We have established a remuneration committee pursuant to a resolution of our Board passed on 9 September 2019 with terms of reference in compliance with the CG Code. The primary duties of our remuneration committee are to make recommendation to our Board on the overall remuneration policy and structure for all Directors and senior management of our Group, review remuneration and ensure that none of our Directors determine their own remuneration. Our remuneration committee consists of three members: Mr. Wang Xinyu, Mr. Zhang Ziyu and Mr. Tian. The chairman of our remuneration committee is Mr. Wang Xinyu.

### *Nomination Committee*

We have established a nomination committee pursuant to a resolution of our Board passed on 9 September 2019 with terms of reference in compliance with the CG Code. The primary duties of our nomination committee are to review the structure, size, composition and diversity of our Board at least annually and make recommendation to our Board regarding candidates to fill vacancies on our Board and/or in senior management. Our nomination committee consists of three members: Mr. Tian, Mr. Wang Xinyu and Mr. Li Yang. The chairman of our nomination committee is Mr. Tian.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management receive compensation from our Group mainly in the form of staff compensation and allowances and retirement benefit scheme contributions. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

The aggregate remuneration paid to our Directors for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019 were approximately RMB2.2 million, RMB1.7 million, RMB2.0 million and RMB0.7 million, respectively.

The aggregate remuneration paid to the five highest paid individuals of our Group, excluding our Directors, for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019 were approximately RMB1.3 million, RMB1.5 million, RMB1.7 million and RMB1.0 million, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable to the Directors for the year ending 31 December 2019 is estimated to be approximately RMB2.4 million.

No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to the Directors by our Group. None of the Directors waived any emoluments during the Track Record Period.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPLIANCE ADVISER

We have appointed Guosen Securities (HK) Capital Co., Ltd as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to provide us with services including providing guidance and advice in connection with compliance with the Listing Rules. The compliance adviser will have access to all relevant records and information relating to our Group that it may reasonably require to properly perform its duties. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated under the Listing Rules, including but not limited to share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where our business activities, development or results deviate from any forecast, estimate, or other information in this Prospectus; and
- (iv) where the Stock Exchange makes inquiries of our Company regarding unusual movements in the price or trading volume of Shares, the possible development of a false market in its securities, or any other matters as mentioned under Rule 13.10 of the Listing Rules.

The term of appointment of our compliance adviser will commence on the Listing Date and is expected to end on the date on which our Company complies with Rule 13.45 of the Listing Rules on the distribution of our annual report in respect of the financial results the first full financial year commencing after the Listing Date.

### SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 9 September 2019 under which certain selected classes of participants (including, among others, Directors and full-time employees) may be granted options to subscribe for the Shares to motivate them to optimize their future contributions to our Group. The principal terms of the Share Option Scheme are summarized in “Appendix IV – Statutory and General Information – D. Share Option Scheme” in this Prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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### CORPORATE GOVERNANCE CODE

#### *Chairman and chief executive officer*

Pursuant to code provision A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Tian currently performs these two roles concurrently. Our Board believes that vesting the roles of both the chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group for more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority within our Group will not be impaired by the present arrangement and the current structure will enable our Company to make and implement decisions more promptly and effectively. Our Board will from time to time review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company to ensure appropriate and timely arrangements are in place to meet changing circumstances.

#### *Board Diversity*

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of skills, experience and diversity perspectives of our Board that are relevant to our business growth support the execution of our business strategy. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age cultural and educational background, professional qualifications, skills, knowledge, and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our Board comprises six members, including two executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including business management, strategic development, direct selling and social commerce, public administration and management, finance, auditing and accounting experiences. Our Board members also obtained degrees or diplomas in various majors including computer science, computer information management, science, marketing, industrial electronic automation, systems engineering and business administration. Furthermore, the ages of our Directors range from 32 years old to 48 years old. While we recognize that gender diversity at our Board level can be improved given its current composition of all-male Directors, we will continue to apply the principle of appointments based on merits with reference to our board diversity policy as a whole, and we have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to the Board and the management levels. After the Listing, we will strive to achieve gender balance of the Board through certain measures to be implemented by our nomination committee in accordance with our board diversity policy. In particular, taking into account the business needs of our Group and changing circumstances from time to time that may affect our Group's

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## DIRECTORS AND SENIOR MANAGEMENT

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business plans, we will actively identify female individuals suitably qualified to become our Board members and we aim to be able to introduce at least one female Board member to our Board by the end of 2020. To further ensure gender diversity of our Board in a long run, our Group will also identify and select several female individuals with a diverse range of skills, experience and knowledge in different fields from time to time, and maintain a list of such female individuals who possess qualities to become our Board members, which will be reviewed by our nomination committee quarterly in order to develop a pipeline of potential successors to our Board to promote gender diversity of our Board.

We are also committed to adopting similar approach to promote diversity of the management (including but not limited to the senior management) of our Company to enhance the effectiveness of our corporate governance.

Our nomination committee is responsible for compliance with relevant codes governing board diversity under the CG Code. After the Listing, our nomination committee will review the board diversity policy and our diversify profile (including gender balance) from time to time to ensure its continued effectiveness and we will disclose the implementation of the board diversity policy in our corporate governance report on an annual basis.



## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme), the following persons will have or be deemed or taken to have beneficial interests and/or short position in the Shares or the underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of our Group:

Name	Nature of interest	Number of Shares as of the Latest Practicable Date <sup>(1)</sup>	Approximate percentage of interest in our Company as of the Latest Practicable Date	Number of Shares <sup>(1)</sup>	Approximate percentage of interest in our Company immediately after the Global Offering and the Capitalization Issue
Dashi Technology Holdings <sup>(2)(4)</sup> .....	Beneficial owner	695,304 (L)	69.0395%	138,079,057 (L)	53.1073%
Mr. Tian <sup>(2)(4)</sup> .....	Interest in controlled corporation	695,304 (L)	69.0395%	138,079,057 (L)	53.1073%
True Thrive <sup>(3)(4)</sup> .....	Beneficial owner	416,667 (L)	41.3725%	82,745,082 (L)	31.8250%
360 Technology <sup>(3)(4)</sup> .....	Interest in controlled corporation	416,667 (L)	41.3725%	82,745,082 (L)	31.8250%
360 <sup>(3)(4)</sup> .....	Interest in controlled corporation	416,667 (L)	41.3725%	82,745,082 (L)	31.8250%
Qixin Zhicheng <sup>(3)(4)</sup> .....	Interest in controlled corporation	416,667 (L)	41.3725%	82,745,082 (L)	31.8250%
Mr. Zhou <sup>(3)(4)</sup> .....	Interest in controlled corporation	416,667 (L)	41.3725%	82,745,082 (L)	31.8250%
Songchang International <sup>(5)(6)</sup> .....	Beneficial owner	238,095 (L)	23.6414%	47,282,819 (L)	18.1857%
Songyuan International <sup>(5)(6)</sup> .....	Interest in controlled corporation	238,095 (L)	23.6414%	47,282,819 (L)	18.1857%

## SUBSTANTIAL SHAREHOLDERS

Name	Nature of interest	Number of Shares as of the Latest Practicable Date <sup>(1)</sup>	Approximate percentage of interest in our Company as of the Latest Practicable Date	Number of Shares <sup>(1)</sup>	Approximate percentage of interest in our Company immediately after the Global Offering and the Capitalization Issue
Shanghai Gaoxin <sup>(5)(6)</sup> . . . . .	Interest in controlled corporation	238,095 (L)	23.6414%	47,282,819 (L)	18.1857%
Shanghai Songheng <sup>(5)(6)</sup> . . . . .	Interest in controlled corporation	238,095 (L)	23.6414%	47,282,819 (L)	18.1857%
Shanghai Dongfangwang <sup>(5)(6)</sup> . . . . .	Interest in controlled corporation	238,095 (L)	23.6414%	47,282,819 (L)	18.1857%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Dashi Technology Holdings is directly and wholly owned by Mr. Tian. Mr. Tian is therefore deemed to be interested in all the Shares held by Dashi Technology Holdings.
- (3) True Thrive is wholly owned by 360 Technology, which is wholly owned by 360, which is ultimately held by Mr. Zhou and Qixin Zhicheng. Each of 360 Technology, 360, Mr. Zhou and Qixin Zhicheng is therefore deemed to be interested in all the Shares held by True Thrive.
- (4) Pursuant to the Entrustment Arrangements, as more particularly described in “History, Reorganization and Corporate Structure – Entrustment Arrangements” in this Prospectus, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in the Company to Dashi Technology Holdings. True Thrive holds and will hold approximately 41.3725% and 31.8250% of the issued share capital of the Company as of the Latest Practicable Date and immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme). Dashi Technology Holdings is deemed to be interested in all the Shares and voting rights held by True Thrive.
- (5) Songchang International is directly and wholly owned by Songyuan International, which is in turn directly and wholly owned by Shanghai Gaoxin, which is in turn directly and wholly owned by Shanghai Songheng, which is in turn controlled by Shanghai Dongfangwang. Songyuan International, Shanghai Gaoxin, Shanghai Songheng and Shanghai Dongfangwang are therefore deemed to be interested in all the Shares held by Songchang International.
- (6) Shanghai Songheng is an Internet company established on 18 March 2014 which is principally engaged in development and consulting of Internet technology and PC technology. Shanghai Dongfangwang is the controlling shareholder of Shanghai Songheng, and directly and through its subsidiary, Shanghai Dongfangwang Investment Company Limited\* (上海東方網投資有限公司), holds in aggregate approximately 34.3566% of Shanghai Songheng. Shanghai Dongfangwang is in turn controlled by State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會) of the Shanghai City. Shanghai Songheng is held as to 20.3566% by Shanghai Dongfangwang Investment Company Limited, 14% by Shanghai Dongfangwang and 11.8332% by Mr. Li Song (李嵩), being the top three shareholders of Shanghai Songheng. Mr. Li Song (李嵩) is an Independent Third Party.

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## SUBSTANTIAL SHAREHOLDERS

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Save as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme), have beneficial interests or short positions in any of our Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in the circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of the Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalization Issue and the Global Offering:

#### *Authorized Share Capital*

	<i>HK\$</i>
10,000,000,000 Shares	100,000,000

#### *Issued Share Capital*

Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, the issued share capital of the Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

	<i>HK\$</i>
<i>Issued share capital:</i>	
1,007,110 Shares in issue at the date of this Prospectus	10,071.10

#### *Shares to be issued, fully paid or credited as fully paid:*

198,992,890 Shares to be issued pursuant to the Capitalization Issue <sup>(1)</sup>	1,989,928.90
<u>60,000,000</u> Shares to be issued pursuant to the Global Offering	<u>600,000</u>
<u>260,000,000</u> <b>Total</b>	<u>2,600,000</u>

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## SHARE CAPITAL

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Assuming the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, the issued share capital of the Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

HK\$

***Issued share capital:***

1,007,110	Shares in issue at the date of this Prospectus	10,071.10
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***Shares to be issued, fully paid or credited as fully paid:***

198,992,890	Shares to be issued pursuant to the Capitalization Issue <sup>(1)</sup>	1,989,928.90
60,000,000	Shares to be issued pursuant to the Global Offering	600,000
9,000,000	Shares to be issued upon exercise of the Over-allotment Option in full	90,000
<hr/>		<hr/>
<u>269,000,000</u>	<b>Total</b>	<u>2,690,000</u>

*Note:*

- (1) Pursuant to the written resolutions passed by our Shareholders on 9 September 2019 and the resolutions passed by our Board on 9 September 2019, conditional on the share premium account of the Company being credited and the Company having sufficient distributable reserves arising from the issue of the Offer Shares by the Company as a result of the Global Offering, our Directors were authorized to capitalize all or a portion, as the case may be, of the balance of the share premium account of the Company as a result of the Global Offering and apply such sum in paying up in full at par value a total of 198,992,890 Shares for allotment and issue to the existing Shareholders of the Company whose name(s) appear on the register of members of the Company as of the date of such resolutions in proportion to their then existing shareholdings in the Company, and the Shares to be allotted and issued pursuant to the Capitalization Issue shall rank *pari passu* in all respects with the existing issued Shares.

### ASSUMPTIONS

The above tables assume the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account: (i) any Shares which may be allotted and issued pursuant to the issue mandate (as described below); or (ii) any Shares which may be repurchased by the Company pursuant to the repurchase mandate (as described below).

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## SHARE CAPITAL

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### RANKING

Our Shares are ordinary shares in our share capital and rank *pari passu* with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of issue of such Share.

### ISSUE MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted by the Shareholders a general and unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- (i) 20% of the aggregate number of Shares in issue and to be issued immediately following completion of the Capitalization Issue and the Global Offering (excluding any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme); and
- (ii) the aggregate number of Shares repurchased by the Company (if any) pursuant to the repurchase mandate as referred to below.

The issue mandate will expire at the earliest of:

- (i) the conclusion of the Company's next annual general meeting;
- (ii) the expiration of the period within which the Company is required by the applicable laws or the Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

For more information on this issue mandate, see "Appendix IV – Statutory and General Information – A. Further Information about the Company and its Subsidiaries – 3. Written Resolutions of all the Shareholders passed on 9 September 2019" in this Prospectus.

### REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted by the Shareholders a general mandate to exercise all the powers of the Company to repurchase not more than 10% of the aggregate number of Shares in issue and to be issued immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme).

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## SHARE CAPITAL

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The repurchase mandate only relates to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and which are in accordance with the Listing Rules and all other applicable laws, regulations and rules.

The repurchase mandate will expire at the earliest of:

- (i) the conclusion of the Company's next annual general meeting;
- (ii) the expiration of the period within which the Company is required by the applicable laws or the Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

For more information on this repurchase mandate, see "Appendix IV – Statutory and General Information – A. Further Information about the Company and its Subsidiaries – 7. Repurchase of Our Own Securities" in this Prospectus.

### SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 9 September 2019. Further details of the rules of the Share Option Scheme are set out in "Appendix IV – Statutory and General Information – E. Share Option Scheme" in this Prospectus.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of Cayman Companies Law, an exempted company is not required by law to hold any general meetings or class meetings on an annual or regular basis. The holding of a general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles, a summary of which is set out in "Appendix III – Summary of the Constitution of the Company and Cayman Companies Law" in this Prospectus.

The Company has only one class of Shares, namely ordinary Shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, the Company may from time to time by ordinary resolutions of Shareholders (i) increase its share capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, the Company may, subject to the provisions of the Cayman Companies Law, reduce



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## SHARE CAPITAL

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the share capital or capital redemption reserve by our Shareholders passing a special resolution. For more information, see “Appendix III – Summary of the Constitution of the Company and Cayman Companies Law” in this Prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, all or any of the special rights attached to the Shares or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. For more information, see “Appendix III – Summary of the Constitution of the Company and Cayman Companies Law” in this Prospectus.

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*You should read the following discussion and analysis in conjunction with our audited financial statements included in the Accountants' Report set out in Appendix I to this Prospectus, together with the accompanying notes. The Accountants' Report has been prepared in accordance with HKFRS. You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements."*

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### *Overview*

We develop a series of PC and mobile devices utility software, under an established brand name *Ludashi* (魯大師), which means *Master Lu*, and offer them to users free of charge in exchange for online traffic and further expand our brand by electronic devices to individual customers and to business entities. We therefore make profits through online traffic monetization and electronic devices sales. We adopt methods of online advertising services and build up and expand our online game business to monetize our user base. The electronic devices sales comprise sales of certified pre-owned and factory smartphones, smart accessories and other electronic devices.

Under our online advertising service, we offer three types of services, which are: (i) homepage directing service, (ii) mini-page service, and (iii) banner advertising service. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from online advertising service was RMB66.8 million, RMB97.7 million, RMB174.6 million, RMB42.2 million and RMB65.2 million, respectively, accounting for 95.7%, 79.7%, 54.5%, 43.2% and 57.4%, respectively, of our total revenue.

Prior to 2017, we primarily operated online game directing business. We launched our own online game platform in September 2017 and cooperate with game developers and distributors by sharing with them the revenue we receive from game players. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from online game business was RMB2.6 million, RMB22.6 million, RMB42.9 million, RMB12.6 million and RMB19.0 million, respectively, accounting for 3.7%, 18.4%, 13.4%, 12.9% and 16.7%, respectively, of our total revenue.

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To make full use of our large user base as well as our hardware and system benchmarking and monitoring software development expertise, we started selling smart accessories sales from January 2015, certified pre-owned and factory smartphones sales from August 2017 and other electronic devices sales from November 2018. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our revenue from sales of electronic devices, primarily sales of certified pre-owned and factory smartphones, was RMB0.4 million, RMB2.3 million, RMB102.8 million, RMB42.8 million and RMB29.4 million, respectively, accounting for 0.6%, 1.9%, 32.1%, 43.9% and 25.9%, respectively, of our total revenue.

We grew rapidly during the Track Record Period. Our revenue increased from RMB69.8 million for the year ended 31 December 2016 to RMB122.6 million for the year ended 31 December 2017, and further to RMB320.3 million for the year ended 31 December 2018. Our revenue also increased from RMB97.7 million for the four months ended 30 April 2018 to RMB113.7 million for the four months ended 30 April 2019. Our net profit attributable to shareholders increased from RMB31.7 million for the year ended 31 December 2016 to RMB53.2 million for the year ended 31 December 2017, and further to RMB71.9 million for the year ended 31 December 2018. Our net profit attributable to shareholders also increased from RMB18.9 million for the four months ended 30 April 2018 to RMB27.4 million for the four months ended 30 April 2019.

### ***Basis of Presentation***

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 7 February 2018 with an authorized share capital of HK\$380,000 divided into 38,000,000 shares with par value of HK\$0.01. On the same date, one share of the Company were issued and allotted to the incorporated at par value.

The Company is an investment holding company and its subsidiaries mainly engage in online traffic monetization, as well as sales of electronic devices in the PRC.

Prior to the incorporation of the Company and the completion of the Reorganization, our operations in the PRC were conducted through Chengdu Qilu and its subsidiaries, including Anyixun Technology, Liu Liuyou Technology, Xiaolu Second-Hand and Lubang Technology. Upon completion of the Reorganization, the Company became the holding company that, among other things, (i) indirectly owns Anyixun Technology, which owns Xiaolu Second-Hand, Zhonghe Yilian, Zhongzhixing and Xiaolu Zhidian, and (ii) has effective control over Chengdu Qilu and its subsidiaries through the Contractual Arrangements. See “History, Reorganization and Corporate Structure” and “Contractual Arrangements” for more details. The Reorganization was merely a reorganization of business and did not result in any changes to our business substance, management or Controlling Shareholders. Accordingly, the consolidated financial statements of the companies now comprising our Group are presented using the carrying value of our business for all periods presented. Inter-group transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated on consolidation.

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### *Factors Affecting Our Results of Operations and Financial Condition*

Our results of operations have been, and have expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

#### **Abilities to maintain and further expand our large user base and generate continuously increasing service revenues**

Our business depends on our ability to monetize our large and active user base without compromising users' experience. We are at an early stage of monetization, and our future business will be significantly affected by the effectiveness of the implementation of our monetization strategies. We continually seek to leverage our proprietary insights into our users' behavior and preferences to create value for our users, our business partners and ourselves. For example, we provide different types of online advertising services and successfully developed our own online game platform. Our online traffic monetization contributed 99.4%, 98.1%, 67.9%, 56.1% and 74.1% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. We intend to increasingly diversify our revenue sources, such as through: (i) providing tailored advertising services to customers in the need of marketing to targeted customers and establishing cooperation with famous e-commerce platforms under our online advertising service, (ii) increasing the types and quantity of banner advertisements on the mobile end, (iii) developing our own games and more functions for our online game platform, and (iv) expanding such a platform by marching into the market of smartphone games. In particular, with the majority of our users being male information technology savvy users, we believe we are well-positioned to tap into the market of high-end information technology-related products, such as advertising for high-tech products and more attractive online games particularly for male players. We plan to continue to develop and adapt our monetization strategies to anticipate and meet the evolving needs of our users and create value for ourselves and also for all the participants with our business.

#### **Shipment volume and pricing of electronic devices**

We believe sales of certified pre-owned and factory smartphones will become a significant revenue source for our business operations. Our certified pre-owned and factory smartphone sales business is affected by the pricing and shipment volume of our certified pre-owned and factory smartphones. We sell those certified pre-owned and factory smartphones to individual consumers and to some business entities. The selling price of our certified pre-owned and factory smartphones is affected by the cost of our procurement, the market price of the smartphones we procured, anticipated demand for the particular model, income levels of target users, mix of sales channels, the price of pre-owned and factory smartphones launched by our competitors, and historical sales volume of previous models we have launched. For example, in general, as to our certified pre-owned and factory smartphones, newly-launched models of the same series tend to be priced higher than older models, as newer generations of our certified pre-owned and factory smartphones generally tend to offer higher

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quality, better performance and more features. Average selling prices and demand for a particular smartphone model typically decline during its life cycle. As a result, the price at which we sell our certified pre-owned and factory smartphones significantly affects our revenue and results of operations.

### **Mix of online and offline sales for electronic devices**

We sell electronic devices online to individual consumers and offline to business entities for their resale. We generated revenues of RMB0.4 million, RMB2.3 million, RMB2.1 million, RMB0.9 million and RMB0.5 million from online electronic devices retail for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively, representing 100.0%, 100.0%, 2.1%, 2.1% and 1.8% of revenues from electronic devices sales for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. We started selling electronic devices offline to the business entities for resale in March 2018 relating to orders entered into in December 2017. We generated revenues of RMB100.6 million, RMB41.9 million and RMB26.8 million from offline electronic devices sales for the year ended 31 December 2018, and the four months ended 30 April 2018 and 2019, representing 97.9%, 97.9% and 98.2% of revenues from electronic devices sales for the year ended 31 December 2018, and the four months ended 30 April 2018 and 2019. Thus, exploiting additional cost-effective offline sales channels will be a significant part of our cost and expenses.

### **Brand recognition expansion cost**

We believe that strong brand recognition is a key element of our success. The *Ludashi* brand's close association with hardware has enabled us to build a powerful and positive brand image as a trustable hardware expert and maintain a loyal user base. Since 2014, we have grown the vast majority of our user base in China organically, building in part upon the strength of the *Ludashi* brand. Our information technology savvy users and business partners, such as leading consumers, advertisers, game developers and distributors, have recognized our brand value and have become active participants in our business. We are planning to further expand our brand through various methods, such as developing overseas markets and establishing physical experiencing centers.

We spent RMB12.9 million, RMB22.9 million, RMB37.5 million, RMB6.5 million and RMB16.1 million over marketing for all of our products in the PRC market for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. Such marketing expenses consist of (i) advertising and promoting fees recorded under cost of sales and services, and (ii) brand marketing expenses recorded under selling and distribution expenses. Starting from March 2018, we began to invest significantly in promoting our brand and products in overseas markets, such as advertising and promoting for Dual Space and Easy Clean on international App platforms. For the year ended 31 December 2018, and the four months ended 30 April 2018 and 2019, we spent RMB22.2 million, RMB5.0 million and RMB9.7 million over marketing in the overseas markets for all of our products. In the future, we will devote more financial resources to further develop our overseas markets. We plan to

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set up series of physical experiencing centers in Chengdu and other major cities in China to provide professional and tailored smart hardware repairing and fixing service, Ludashi-related products experiencing opportunities, certified pre-owned and factory smartphones and smart accessory sales in the physical experiencing centers. The physical experiencing centers will work as windows and extensions of our online business, expand our brand influence and in turn complement our online business, by demonstrating our technologies and ideas on site. The cost of setting up such physical experiencing centers will be part of our capital expenditures and lower our short-term profit margin, but will boost our long-term revenues upon their successful operation. Furthermore, our pre-owned and factory smartphones are packaged with name and brand of *Ludashi*, which shows our character and the difference from other pre-owned and factory smartphones, and promote the *Ludashi* brand.

### **Investment in technology and infrastructure**

Our research and development expenses increased over the Track Record Period as we continue to develop and improve our products and services as well as the underlying technologies. For the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, our research and development expenses were approximately RMB13.1 million, RMB16.8 million, RMB23.4 million, RMB7.3 million and RMB8.8 million, respectively. We have invested and intend to continue to invest in hiring additional engineers, designers, product managers and other personnel with specific technology expertise. As our user base and user engagement levels continue to grow, we expect to continue to increase capital expenditures and expenses associated with our infrastructure to better support such a large, active user base. Such capital expenditure and expenses include expenses associated with our data base and their operations, servers and other equipment to increase the capacity of our infrastructure, and increased bandwidth and server custody costs which may impact our results of operations and financial condition.

### **Consolidation of invested businesses**

During the Track Record Period, we invested in nine companies by holding a small amount of their equity interest together with some of our employees and/or Independent Third Parties. Among the nine companies, we have consolidated six companies' financials into ours before 31 August 2018 and deemed these companies as our subsidiaries because the equity interests of Chengdu Qilu and its employees were over 50%. Besides, since all the capital and working capital of these investees were solely contributed by us, based on the relevant shareholders' agreements, we enjoy rights to all the net assets of those investees. Therefore, we believe that we enjoy the rights to their variable returns as a result of our involvement with these investees. These deemed subsidiaries are (i) Aidai Technology, (ii) Kuleng Technology, (iii) Sudu Technology, (iv) Zhonghe Yilian Technology, (v) Aiyu Technology and (vi) Jiubake Technology. After 31 August 2018, we ceased to combine three investee companies' financials, namely Aidai Technology, Kuleng Technology and Sudu Technology, because we had disposed such deemed subsidiaries in August 2018. Aiyu Technology and Jiubake Technology passed the resolutions of shareholder meeting for voluntary winding-up on 5 September 2018, respectively. As of 30 April 2019, de-registration of Jiubake Technology has not been

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completed and de-registration of Aiyu Technology has been completed. As such, we continue to combine the financials of Aiyu Technology and Jiubake Technology into our Group's financials. Under the common shareholding structure, Chengdu Qilu paid in RMB3.0 million (except for Jiubake Technology) and holds from 15% to 19% of the equity interest of the deemed subsidiaries, while our employees and Independent Third Parties aggregately hold 81% to 85% of the equity interest and pending the corresponding subscribed capital to be paid until future dates pursuant to the PRC Company Law.

We do not treat other three companies, though associated with us, as our deemed subsidiaries because: (i) Xiaofeiniu Technology has been sold to Mr. Tian; (ii) Ju'a Network was not owned by any of our employees and its other shareholders paid in to the registered capital together with Chengdu Qilu, and (iii) Zhonghe Lianchuang was not owned by any of our employees.

Such Accounting Treatment might affect our profit, loss, revenues and assets in our financial statements. However, since the revenues of those consolidated six companies were very limited, the effect such Accounting Treatment may have on our results of operations and financial condition during the Track Record Period has been minimized. Please refer to "Business – Venture Investments" for further information regarding our investment. Among these nine venture investments, six have been disposed of and two have been deregistered as of the Latest Practicable Date. For details of the disposal, see "History, Reorganization and Corporate Structure – Reorganization – Disposals of minority interests in certain investee companies."

### *Critical Accounting Policies, Judgments and Estimates*

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There had not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We have consistently applied the accounting policies, which conform HKFRSs, IASs, amendments and the related Interpretations, issued by the HKICPA which are effective for the financial year beginning on 1 January 2018 throughout the Track Record Period, except that our Group adopted HKFRS 9 "Financial Instruments" on 1 January 2018 and applied HKAS 39 "Financial Instruments: Recognition and Measurement" for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019. Specifically, we have adopted HKFRS 15 "Revenue from Contracts with Customers" on a consistent basis



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throughout the Track Record Period. The adoption of HKFRS 9, HKFRS 15 and HKFRS 16 does not have significant impact on amounts reported in respect of our Group's financial assets and financial liabilities based on the analysis of our Group's financial instruments as of 1 January 2018.

Our Directors assess that the early adoption of HKFRS 15 would not have significant impact on the financial position and performance of our Group when compared to that of HKAS 18 "Revenue."

We have adopted HKFRS 16 "Leases" on a consistent basis throughout the Track Record Period. The adoption of HKFRS 16 does not have material impact on amounts reported in respect of our Group's financial position and financial ratios.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 3 and 4 to the Accountant's Report included in Appendix I to this Prospectus.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied or services provided, stated net of discounts, returns and value-added taxes. The way we recognize revenue depends on the categories of our income sources.

We generate service revenue from our online advertising and online game business and sales revenue from sales of certified pre-owned and factory smartphones and smart accessories. Service revenue is recognized upon rendering of such services. Revenue is recognized to depict the transfer of promised services or goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, revenue is recognized by the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We base our estimates of return on historical results, taking into consideration the types of customers, the types of transactions and the specifics of each arrangement.

### *Service income*

Service income includes online advertising service and online game business. Such revenues are recognized over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

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Regarding the online game business carried out by us, we act as an agent since our performance obligations are to arrange the provision of our platform for the online game service by game developers and distributors and act as an agent for game developers and distributors in respect of collecting the prepayments made by ultimate game players. We do not control the specified online game service provided by game developers and distributors before that service is transferred to a customer. The game developers and distributors take primary responsibilities for game operating, including determining the distribution channels and payment vendors, hosting game servers, and controlling games and services specifications and pricing. Therefore, we serve as an agent in the online game business in accordance with paragraph 36 in Appendix B to HKFRS 15 and when we, as an agent, satisfy a performance obligation, we recognize revenue in the amount of any fee or commission to which we expect to be entitled in exchange for arranging our platform for the specified online game service to be provided by game developers and distributors and collecting the prepayments made by ultimate game players on behalf of the game developers and distributors. The revenue is recognized on the net amount of consideration that we retain after paying the game developers and distributors the consideration received from ultimate game players in exchange for the online game service to be provided by those game developers and distributors.

### *Sales income*

Sales income includes the sales of certified pre-owned smartphones and smart accessories. Such revenues are recognized when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location. A receivable is recognized by us when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. A contract liability represents our obligation to transfer goods to a customer for which we has received consideration from the customer.

### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

We make provision for inventories based on historical experience and estimation of future market condition and sales. We will adjust the provision where actual net realized value is higher or lower than previously estimated.

### **Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In

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estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### **Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The intangible assets are amortized on a straight-line basis over seven years, which is estimated by the management with reference to similar market practices.

### **Interest in associates**

The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. When our share of loss of associates exceeds our interest in those associates, which includes any long-term interests that, in substance, form part of the Group's net investment in the associates, we discontinue recognizing our share of further losses. Additional losses are recognized only to the extent that we have incurred legal or constructive obligations or made payments on behalf of the associates.

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### *Accumulated Loss before the Track Record Period*

For the year ended 31 December 2014, we had accumulated losses of RMB0.96 million, which mainly consisted of staff costs and other administrative expenses. Such accumulated losses were incurred primarily because Chengdu Qilu was founded in November 2014 and did not generate any revenue until January 2015 but had incurred some administrative expenses, in particular, staff costs, during the starting period. Under such circumstance, we operated a series of PC and mobile devices utility software and monetized our online traffic by online advertising based on the large user base of Ludashi Software and further expanded our brand by selling electronic devices from 2015. We therefore made profits through online monetization and electronic devices sales, which can fully cover the accumulated losses and increasing costs and expenses of our operation and development.

### *Description of Components of Results of Operations*

#### **Revenue**

During the Track Record Period, we generated revenue from two business lines: online traffic monetization and electronic devices sales. Our online monetization revenues are generated from online advertising and online game business. Our electronic devices sales revenues comprise sales of certified pre-owned and factory smartphones, smart accessories and other electronic devices. We generated substantially all of our revenue in China and a limited portion from overseas markets during the Track Record Period. Our revenue is recorded net of returns and value-added taxes. The following table sets forth our revenue by amount and as a percentage of our revenue for the periods presented.

	For the year ended 31 December						For the four months ended				
	2016		2017		2018		30 April		2019		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
<b>Revenue:</b>											
Online traffic monetization . . . . .	69,404	99.4	120,244	98.1	217,484	67.9	54,844	56.1	84,246	74.1	
Online advertising . . . . .	66,840	95.7	97,668	79.7	174,595	54.5	42,244	43.2	65,233	57.4	
Online game business . . . . .	2,564	3.7	22,576	18.4	42,889	13.4	12,600	12.9	19,013	16.7	
Electronic devices sales . . . . .	408	0.6	2,317	1.9	102,782	32.1	42,842	43.9	29,418	25.9	
Certified pre-owned and											
factory smartphone sales . . .	–	–	1,361	1.1	85,689	26.8	42,549	43.6	6,822	6.0	
Smart accessory sales . . . . .	408	0.6	956	0.8	2,317	0.7	293	0.3	2,133	1.9	
Other electronic devices											
sales . . . . .	–	–	–	–	14,776	4.6	–	–	20,463	18.0	
<b>Total . . . . .</b>	<b>69,812</b>	<b>100.0</b>	<b>122,561</b>	<b>100.0</b>	<b>320,266</b>	<b>100.0</b>	<b>97,686</b>	<b>100.0</b>	<b>113,664</b>	<b>100.0</b>	

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### *Online traffic monetization*

We generated a significant majority of our revenue from online traffic monetization, which comprises online advertising services and online game business, during the Track Record Period.

The following table sets forth the revenues resulting from online advertising services and online game business under online traffic monetization for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Online advertising services . . . . .	66,840	96.3	97,668	81.2	174,595	80.3	42,244	77.0	65,233	77.4
Online game business . . . . .	2,564	3.7	22,576	18.8	42,889	19.7	12,600	23.0	19,013	22.6
<b>Revenue from online traffic monetization . . . . .</b>	<b><u>69,404</u></b>	<b><u>100.0</u></b>	<b><u>120,244</u></b>	<b><u>100.0</u></b>	<b><u>217,484</u></b>	<b><u>100.0</u></b>	<b><u>54,844</u></b>	<b><u>100.0</u></b>	<b><u>84,246</u></b>	<b><u>100.0</u></b>

The following table sets forth a breakdown of our revenue from online traffic monetization for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Online advertising services . . . . .</b>	66,840	97,668	174,595	42,244	65,233
<i>PC software . . . . .</i>	62,893	89,742	138,501	32,925	50,663
Homepage directing service . . . . .	43,683	44,491	67,770	19,326	20,613
Mini-page service . . . . .	17,802	42,211	60,522	12,969	26,192
Banner advertising service . . . . .	1,408	3,040	10,209	630	3,858
<i>Mobile device software . . . . .</i>	3,947	7,926	36,094	9,319	14,570
Banner advertising service . . . . .	3,947	7,926	36,094	9,319	14,570
<b>Online game business . . . . .</b>	2,564	22,576	42,889	12,600	19,013
<i>Web game . . . . .</i>	2,564	22,576	41,400	12,204	17,793
<i>Mobile game . . . . .</i>	—	—	1,489	396	1,221
<b>Revenue from online traffic monetization . . . . .</b>	<b><u>69,404</u></b>	<b><u>120,244</u></b>	<b><u>217,484</u></b>	<b><u>54,844</u></b>	<b><u>84,246</u></b>

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The following table sets forth a breakdown of the CAGRs of the growth in the revenue from our online advertising for the periods indicated:

	<b>From the year started 1 January 2016 to the four months ended 30 April 2019</b>
	%
<b>CAGR</b>	
<i>PC software</i> . . . . .	30.3
Homepage directing service . . . . .	11.0
Mini-page service . . . . .	56.2
Banner advertising service . . . . .	88.3
<i>Mobile device software</i> . . . . .	105.9
Banner advertising service . . . . .	105.9

(i) Online advertising services

We generate online advertising service revenue primarily by offering homepage directing service, mini-page service and banner advertising service. We charge our advertising customers on a cost-per-action basis at large. The online advertising services had been experiencing continuing growth over the Track Record Period because we continued to provide diversified advertising services, attracting an increased number of advertiser customers whose businesses are in need of our online traffic contribution. We generated revenues of RMB66.8 million, RMB97.7 million, RMB174.6 million, RMB42.2 million and RMB65.2 million from online advertising services for the years ended on 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

(ii) Online game business

We generate online game business revenue by sharing with game developers and distributors the revenue we receive from game players. Generally, we take 70% of the gross billing while the other 30% goes to game developers and distributors. Throughout the Track Record Period, our revenue from online game business increased due to the increased number of games operated on our platform. Before September 2017, we operated our online game business by directing users from our website to a game platform operated by a third party. The revenue of our online game directing service for the year ended 31 December 2016 was RMB2.6 million. For the eight months ended 31 August 2017, the revenue of our online game directing service was RMB10.3 million. After September 2017, we operated online game platform through our website. The revenue of our online game platform for the four months from 1 September to 31 December 2017 was RMB12.3 million. For the year ended 31 December 2018, and the four months ended 30 April 2018 and 2019, the revenue of our online game platform was RMB42.9 million, RMB12.6 million and RMB19.0 million, respectively.

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### *Electronic Devices Sales*

We generated a part of our revenue from electronic devices sales, which comprises sales of certified pre-owned and factory smartphones, smart accessories and other electronic devices during the Track Record Period.

The following table sets forth the revenues resulting from certified pre-owned and factory smartphone sales, smart accessory sales and other electronic devices sales under electronic devices sales for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Certified pre-owned and factory smartphone sales . . . . .	–	–	1,361	58.7	85,689	83.4	42,549	99.3	6,822	23.1
Smart accessory sales . . . . .	408	100.0	956	41.3	2,317	2.3	293	0.7	2,133	7.3
Other electronic devices sales . . . . .	–	–	–	–	14,776	14.3	–	–	20,463	69.6
<b>Revenue from electronic devices sales . . . . .</b>	<b>408</b>	<b>100.0</b>	<b>2,317</b>	<b>100.0</b>	<b>102,782</b>	<b>100.0</b>	<b>42,842</b>	<b>100.0</b>	<b>29,418</b>	<b>100.0</b>

The following table sets forth a breakdown of our revenue from electronic devices sales for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April	
	2016		2017		2018		2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Certified pre-owned and factory smartphones sales. . . . .</b>	–	1,361	85,689	42,549	6,822			
Online e-commerce sales. . . . .	–	1,361	2,025	880	435			
Offline wholesales . . . . .	–	–	83,664	41,669	6,387			
<b>Smart accessory sales (offline sales) . . . . .</b>	<b>408</b>	<b>956</b>	<b>2,317</b>	<b>293</b>	<b>2,133</b>			
<b>Other electronic devices sales . . . . .</b>	<b>–</b>	<b>–</b>	<b>14,776</b>	<b>–</b>	<b>20,463</b>			
<b>Revenue from electronic devices sales . . . . .</b>	<b>408</b>	<b>2,317</b>	<b>102,782</b>	<b>42,842</b>	<b>29,418</b>			



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(i) Certified pre-owned and factory smartphones

We generate revenues from certified pre-owned and factory smartphone sales from both online and offline sales. We determine the price of our certified pre-owned and factory smartphones based on the cost of our procurement, the market price of the smartphones we procured, anticipated demand for the particular model, income levels of target users, mix of sales channels, the price of pre-owned and factory smartphones launched by our competitors, and historical sales volume of previous models we have launched. From 2016 to 2018, revenues from certified pre-owned and factory smartphones sales increased primarily due to the increased sales volume.

We established the business line of certified pre-owned and factory smartphone sales in August 2017. We recorded revenues of RMB1.4 million, RMB85.7 million, RMB42.5 million and RMB6.8 million from sales of certified pre-owned and factory smartphones for the years ended 31 December 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. From 2016 to 2018, the increase in the revenue from sales of certified pre-owned and factory smartphones was primarily due to the expansion of this business line. From the four months ended 30 April 2018 to the four months ended 30 April 2019, the decrease in the revenue from sales of certified pre-owned and factory smartphones was mainly due to (i) the allocation of resources to expand other electronic devices sales during the first four months of 2019 with the motives of building up a new product line and deriving higher overall profit margin. The gross profit margin of our other electronic devices sales was relatively higher as compared with that of certified pre-owned and factory smartphone sales in January 2019, and decreased subsequently due to the pricing adjustment of our suppliers of other electronic devices; and (ii) sales of certified pre-owned and factory smartphones decreased primarily because (a) we started to sell iPhone XS and iPhone XS MAX which are launched in September 2018 in April 2019, and these two popular models have not entered into the pre-owned smartphones sales market in large quantity before the end of March 2019; and (b) the number of iPhone 8 and iPhone X which were launched in September 2017 has decreased in the pre-owned smartphone sales market and became difficult to procure in the first quarter of 2019. We started to sell iPhone XS and iPhone XS MAX in April 2019, which led to the increase in the profit margin of our certified pre-owned and factory smartphone sales which was higher than that of the other electronic devices sale.

(ii) Smart accessory sales

During the Track Record Period, we also sold smart accessories, such as wireless charger and iPhone Li-Polymer.

(iii) Other electronic devices

We started selling other electronic devices in November 2018. Other electronic devices sales mainly comprise sales of pre-owned laptops, computer monitors, and projectors. We generated revenue of RMB14.8 million and RMB20.5 million from sales of other electronic devices for the year ended 31 December 2018 and the four months ended 30 April 2019, respectively. We did not generate revenue from sales of other electronic devices for the four months ended 30 April 2018 because we launched this business line in November 2018.

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### *Cost of sales and services*

Our cost of sales and services primarily comprises: (i) cost of advertising and promoting, (ii) cost of server leasing, (iii) cost of sales of certified pre-owned and factory smartphones, (iv) cost of sales of our smart accessories and (v) cost of sales of other electronic devices.

The following table sets forth a breakdown of our cost of sales and services by amount and as a percentage of cost of sales and services for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April				
	2016		2017		2018		2018		2019		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
<b>Online Traffic Monetization</b> . . . . .	9,006	95.6	17,977	89.3	61,053	38.0	11,074	21.2	26,925	48.4	
Advertising and promoting . . . . .	8,005	85.0	15,180	75.4	53,374	33.2	9,586	18.3	23,887	42.9	
Server leasing . . . . .	1,001	10.6	2,797	13.9	7,679	4.8	1,488	2.8	3,038	5.5	
<b>Electronic Devices Sales</b> . . . . .	415	4.4	2,143	10.7	99,709	62.0	41,216	78.8	28,722	51.6	
Certified pre-owned and factory smartphones . . . . .	–	–	1,374	6.8	83,352	51.8	40,991	78.4	6,661	12.0	
Smart accessories . . . . .	415	4.4	769	3.9	2,010	1.3	225	0.4	1,961	3.5	
Other electronic devices . . . . .	–	–	–	–	14,347	8.9	–	–	20,100	36.1	
<b>Total</b> . . . . .	<b>9,421</b>	<b>100.0</b>	<b>20,120</b>	<b>100.0</b>	<b>160,762</b>	<b>100.0</b>	<b>52,290</b>	<b>100.0</b>	<b>55,647</b>	<b>100.0</b>	

#### (i) Advertising and promoting

The cost of advertising and promoting comprises advertising and promoting for PC version of Ludashi Software, mobile devices version of Ludashi Software and online game business in the PRC market, and Dual Space and Easy Clean in the overseas markets. We cooperate with different electronic platforms and advertise our products on those platforms, attracting Internet users to install our software or have trial experience and consume on our online games, which were either operated on our game platform or third-party's game business to which we directed our users. We incurred cost of advertising and promoting of RMB8.0 million, RMB15.2 million, RMB53.4 million, RMB9.6 million and RMB23.9 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

#### (ii) Server leasing

To support the operation of Ludashi Software and online game business, we incurred the cost of server leasing. The cost of server leasing comprises the cost of server leasing and the cost of information security service. The cost of leasing servers incurred from servers we

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leased from Qihu Technology. The information security service, which was primarily cloud drives, was provided by Alibaba Cloud and Qihu Technology. We incurred cost of server leasing of RMB1.0 million, RMB2.8 million, RMB7.7 million, RMB1.5 million and RMB3.0 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

(iii) Sales of certified pre-owned and factory smartphones

The cost for sales of certified pre-owned and factory smartphones primarily comprises the purchase price of certified pre-owned and factory smartphones. We incurred cost of sales of certified pre-owned and factory smartphones starting from August 2017. The cost for sales of certified pre-owned and factory smartphones was RMB1.4 million, RMB83.4 million, RMB41.0 million and RMB6.7 million for the years ended 31 December 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

(iv) Sales of smart accessories

The cost for sales of smart accessories primarily comprises the purchase price of smart accessories we sold. We incurred cost of sales of smart accessories of RMB0.4 million, RMB0.8 million, RMB2.0 million, RMB0.2 million and RMB2.0 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

(v) Sales of other electronic devices

Our cost of other electronic devices mainly comprised the procurement cost of other electronic devices. We incurred cost of sales of other electronic devices of RMB14.3 million and RMB20.1 million for the year ended 31 December 2018 and the four months ended 30 April 2019, respectively.

### **Gross profit and gross profit margin**

As a result for the foregoing, our gross profit for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019 was RMB60.4 million, RMB102.4 million, RMB159.5 million, RMB45.4 million and RMB58.0 million, respectively.

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The following table sets forth our gross profit and gross profit margin by business lines for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Online Traffic Monetization . . . . .	60,398	87.0	102,267	85.0	156,431	71.9	43,770	79.8	57,321	68.0
Electronic Devices Sales . . . . .	(7.0)	(1.7)	174	7.5	3,073	3.0	1,626	3.8	696	2.4
<b>Total Gross Profit and Gross Profit Margin . . . . .</b>	<b><u>60,391</u></b>	<b><u>86.5</u></b>	<b><u>102,441</u></b>	<b><u>83.6</u></b>	<b><u>159,504</u></b>	<b><u>49.8</u></b>	<b><u>45,396</u></b>	<b><u>46.5</u></b>	<b><u>58,017</u></b>	<b><u>51.0</u></b>

During the Track Record Period, the increase in our gross profit of online traffic monetization was primarily due to the increase in our revenue from online traffic monetization. For the years ended 31 December 2016 and 2017, the decrease in gross profit margins of online traffic monetization was mainly due to the increase in online traffic purchases, as a result of the business expansion. For the year ended 31 December 2018, the decrease in gross profit margins of online traffic monetization was mainly due to an increase in the cost of advertisement and promotion in the overseas markets. Comparing the four months ended 30 April 2018 with the four months ended 30 April 2019, the decrease in gross profit margin of online traffic monetization was mainly because we started to incur cost of advertisement and promotion in the overseas markets since March 2018. For the years ended 31 December 2016 and 2017, the fluctuation of gross profit and gross profit margin of electronic devices sales was primarily due to the fluctuation of smart accessories sales during a stage of its business development of the relatively new business line. During 2016, we were exploring the electronic devices sales business and traded in a small number of products. However, it takes sizable transactions to be able to make a profit in hardware devices sales, which can be difficult to achieve during the stage of commencement and exploration. As such, we recorded negative gross profit margin for electronic devices sales business for the year ended 31 December 2016. The increase in the gross profit of electronic device sales for the year ended 31 December 2018 as compared to that of the same period in 2017 was mainly due to the growth of sales of the certified pre-owned and factory smartphones during the period. The gross profit margin of electronic device sales for the year ended 31 December 2018 mainly represented that of our certified pre-owned and factory smartphone business line. The gross profit margin of electronic devices for the year ended 31 December 2017 mainly represented that of our smart accessories business line. The gross profit margin for the business line of sales of certified pre-owned and factory smartphones is much lower than that for the business line of sales of smart accessories. As such, the gross profit margin for the sales of electronic devices for the year ended 31 December 2018 was substantially lower than that for the same period in 2017. The decrease in the gross profit of electronic devices sales from the four months ended 30 April 2018 to the four months ended 30 April 2019 was primarily due to a decrease in the sales of certified pre-owned and factory smartphone. From the four months ended 30 April 2018 to the four months ended 30 April 2019, the decrease in gross profit margin of electronic

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devices sales was mainly due to the significantly increased revenue from other electronic devices sales and the lower gross profit margin of other electronic devices sales as compared with certified pre-owned and factory smartphone sales.

### Other income

Other income primarily comprises government grants, interest on bank deposits and financial products issued by banks. We recorded other income of RMB1.7 million, RMB4.1 million, RMB6.2 million, RMB1.0 million and RMB1.4 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Government grants .....	775	45.7	2,424	58.5	3,564	57.3	286	28.5	110	7.8
Interest on bank deposits and financial products issued by banks .....	921	54.3	1,721	41.5	2,656	42.7	719	71.5	1,293	92.2
<b>Total .....</b>	<b>1,696</b>	<b>100.0</b>	<b>4,145</b>	<b>100.0</b>	<b>6,220</b>	<b>100.0</b>	<b>1,005</b>	<b>100.0</b>	<b>1,403</b>	<b>100.0</b>

The government grants we gained are generally tax returns, rental subsidies and enterprise revenue awards. Interest on bank deposits and financial products issued by banks comprise interest on bank deposits and interest on financial products.

### Other gains and losses

Other gains and losses comprise allowance for trade receivables, allowance for inventories, impairment loss on AFS investments and others. We recorded other losses of RMB0.6 million and RMB2.2 million for the years ended 31 December 2016 and 2017, and recorded other gains of RMB1.7 million for the year ended 31 December 2018. Other gains for the year ended 31 December 2018 were mainly gains on disposal of associates and subsidiaries. We recorded other losses of RMB0.2 million for the four months ended 30 April 2018 and other gains of RMB20,000 for the four months ended 30 April 2019. Other losses for the four months ended 30 April 2018 were mainly allowance for the trade receivables; other gains for the four months ended 30 April 2019 were mainly due to changes in fair value of put option liability.

### Listing expenses

We incurred listing expenses of RMB0.5 million, RMB16.1 million, RMB4.9 million and RMB3.0 million for the years ended 31 December 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

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### Administrative expenses

Administrative expenses mainly comprise compensation for administrative staff, depreciation and amortization and other operating expenses. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs .....	3,041	36.0	2,757	26.7	6,035	30.0	1,429	33.7	3,349	41.3
Consulting fees .....	396	4.7	2,502	24.2	4,600	22.9	675	16.0	707	8.7
Depreciation & Amortization .....	1,937	22.9	2,063	19.9	2,585	12.9	674	16.0	1,020	12.6
Property rentals and related expenses .....	–	–	241	2.3	563	2.8	72	1.7	232	2.9
Other operating expenses .....	3,084	36.4	2,784	26.9	6,321	31.4	1,382	32.6	2,794	34.5
<b>Total .....</b>	<b>8,458</b>	<b>100.0</b>	<b>10,347</b>	<b>100.0</b>	<b>20,104</b>	<b>100.0</b>	<b>4,232</b>	<b>100.0</b>	<b>8,102</b>	<b>100.0</b>

We incurred administrative expenses of RMB8.5 million, RMB10.3 million, RMB20.1 million, RMB4.2 million and RMB8.1 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. The consulting fees during the Track Record Period were taxation consulting fees, industrial and commercial consulting fees and evaluation consulting fees.

### Research and development expenses

Research and development expenses mainly comprise staff compensation and social security insurance. The following table sets forth a breakdown of our research and development expenses by amount and as a percentage of research and developments expenses for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff compensation .....	9,888	75.4	13,229	78.7	18,281	78.2	5,807	79.7	7,122	80.2
Welfare .....	326	2.5	391	2.3	367	1.6	155	2.1	76	0.9
Housing fund .....	774	5.9	958	5.7	1,452	6.2	388	5.3	520	5.9
Social security insurance .....	1,654	12.6	2,149	12.8	3,126	13.4	903	12.4	1,104	12.4
Depreciation .....	37	0.3	73	0.4	141	0.6	38	0.5	56	0.6
Others .....	–	–	16	0.1	–	–	–	–	–	–
Commissioned research and development expenses .....	427	3.3	–	–	–	–	–	–	–	–
<b>Total .....</b>	<b>13,107</b>	<b>100.0</b>	<b>16,816</b>	<b>100.0</b>	<b>23,368</b>	<b>100.0</b>	<b>7,290</b>	<b>100.0</b>	<b>8,878</b>	<b>100.0</b>

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We incurred research and development expenses of RMB13.1 million, RMB16.8 million, RMB23.4 million, RMB7.3 million and RMB8.8 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. Our research and development expenses increased during the Track Record Period, due to the increase in the number and salary of research and development staff we recruited. The following table sets forth the number of research and development staff at the beginning and end of each period during the Track Record Period:

For the year ended 31 December						For the four months ended 30 April			
2016		2017		2018		2018		2019	
At the beginning	At the end	At the beginning	At the end	At the beginning	At the end	At the beginning	At the end	At the beginning	At the end

Number of research and development Staff . . . . .	32	37	37	56	56	79	56	71	79	80
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### Selling and distribution expenses

Selling and distribution expenses mainly comprise compensation for sales staff. The following table sets forth a breakdown of our selling and distribution expenses by amount and as a percentage of selling and distribution expenses for the periods indicated:

	For the year ended 31 December						For the four months ended 30 April			
	2016		2017		2018		2018		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Staff compensation . . . . .	2,095	30.0	3,766	32.5	9,787	58.2	2,320	52.2	4,049	62.3
Brand marketing . . . . .	4,846	69.3	7,714	66.5	6,403	38.1	1,980	44.5	1,908	29.3
Other operating expenses . . . . .	52	0.7	113	1.0	630	3.7	147	3.3	545	8.4
<b>Total . . . . .</b>	<b>6,993</b>	<b>100.0</b>	<b>11,593</b>	<b>100.0</b>	<b>16,820</b>	<b>100.0</b>	<b>4,447</b>	<b>100.0</b>	<b>6,502</b>	<b>100.0</b>

During the Track Record Period, we incurred selling and distribution expenses of RMB7.0 million, RMB11.6 million, RMB16.8 million, RMB4.4 million and RMB6.5 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. The reason for the substantial selling and distribution expenses in 2017 was compensation for sales staff and marketing for *Ludashi* brand, such as brand marketing on Micro-blog, WeChat, and other websites. The reason for the substantial selling and distribution expenses for the year ended 31 December 2018 was remuneration for sales staff. The reason for the significant increase in staff compensation for the year ended 31 December 2018 was that we recruited more marketing staff due to the development of offline certified pre-owned and factory smartphone sales business and the sales staff salary increased. The reason for the increase in the selling and distribution expenses comparing the four months ended 30 April 2019 to the four months ended 30 April 2018 was mainly due to the increased number of employees and average salary. The number of sales staff increased from 13, to 36, to 68, and further to 70, during the Track Record Period.



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### Share of results of associates

Share of results of associates represents profits of an associated company, Xiaofeiniiao Technology, under equity method.

### Taxation

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Further Encouraging the Development of Enterprise Income Tax Policy in Software Industry and Integrated Circuit Industry (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》), the registered software enterprise is entitled to a two-year enterprise income tax exemption and a three-year preferential enterprise income tax, calculated from the first profit-making year. To register as a software enterprise, Chengdu Qilu needed to submit a financial statement of a complete financial year with the information about its revenue of software development, research expenses and other required data up to date. Pursuant to the requirements aforesaid, Chengdu Qilu timely submitted its application by providing its financial statement of the year ended 31 December 2015 and then was awarded its first certificate of software enterprise issued by Software Industry Association of Sichuan dated 22 June 2016, by which the tax due date for 2015 annual EIT filing has expired. Even though Chengdu Qilu started generating profit from the year of 2015, Chengdu Qilu was ineligible to the tax exemption for the year of 2015 without certificate of software enterprise. Pursuant to the EIT Law, the local tax authority assessed its taxable income based on revenue for the year ended 31 December 2015. Chengdu Qilu further confirmed that there was no tax return on the revenue for the year ended 31 December 2015 afterwards. As registered as a software enterprise, Chengdu Qilu was entitled to the tax exemption for the year of 2016. Chengdu Qilu continued to register as a software enterprise in 2017 and 2018. It was entitled to a preferential enterprise income tax in 2017. As confirmed by our PRC Legal Advisers, Chengdu Qilu had not been subject to any additional tax liabilities or penalties as a result of the foregoing matters. Anyixun has also been satisfied the conditions for software enterprise's tax preference, and was subject to three years of 50% tax deduction with effect from 2018. Pursuant to the EIT Law and the respective regulations, most of the other companies of the Group except for Chengdu Qilu and Anyixun established in the PRC are subject to the PRC EIT at a rate of 25% on its taxable income. The effective tax rates of the Group were approximately 3.3%, 14.1%, 17.3%, 17.3% and 15.6% for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. The effective tax rate of the Group increased from 3.3% for the year ended 31 December 2016 to 14.1% for the year ended 31 December 2017 because Chengdu Qilu was awarded the tax exemption for the year of 2016 but was entitled to a preferential enterprise income tax rate of 12.5% in 2017. The effective tax rate of the Group further increased from 14.1% for the year ended 31 December 2017 to 17.3% for the year ended 31 December 2018 due to the increase in the taxable revenue generated by other companies of the Group, which were not entitled to a preferential enterprise income tax rate in 2018. The effective tax rate of the Group decreased from 17.3% for the four months ended 30 April 2018 to 15.6% for the four months ended 30 April 2019 due to a decrease in the profit of Liu Liuyou Technology which resulted from its increased promoting expenses.

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Deferred tax is recognized on temporary difference between the carrying amount of assets and liabilities in the History Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The amount for deferred tax assets were RMB0.1 million, RMB0.3 million, RMB0.9 million and RMB0.9 million as of 31 December 2016, 2017 and 2018, and 30 April 2019, respectively.

### Profit and total comprehensive income for the year

Our profit for the year was RMB31.7 million, RMB56.2 million, RMB76.0 million, RMB21.1 million and RMB27.3 million for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively.

### *Year-to-Year Comparison of Results of Operations*

The following table sets forth, for the periods indicated, certain income and expense items from our consolidated statements of comprehensive income and such items as a percentage of our total revenue:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
<b>Revenue</b> .....	<b>69,812</b>	<b>122,561</b>	<b>320,266</b>	<b>97,686</b>	<b>113,664</b>
Costs of sales and services .....	(9,421)	(20,120)	(160,762)	(52,290)	(55,647)
<b>Gross profit</b> .....	<b>60,391</b>	<b>102,441</b>	<b>159,504</b>	<b>45,396</b>	<b>58,017</b>
Other income .....	1,696	4,145	6,220	1,005	1,403
Other gains and losses .....	(619)	(2,230)	1,719	(190)	20
Listing expenses .....	–	(540)	(16,123)	(4,880)	(2,997)
Administrative expenses .....	(8,458)	(10,347)	(20,104)	(4,232)	(8,102)
Research and development expenses .....	(13,107)	(16,816)	(23,368)	(7,290)	(8,878)
Selling and distribution expenses ..	(6,993)	(11,593)	(16,820)	(4,447)	(8,878)
Share of results of associates .....	–	478	1,308	220	–
Finance costs .....	(109)	(109)	(285)	(68)	(101)
<b>Profit before taxation</b> .....	<b>32,801</b>	<b>65,429</b>	<b>92,051</b>	<b>25,514</b>	<b>32,860</b>
Taxation .....	(1,099)	(9,247)	(16,067)	(4,418)	(5,130)

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	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
<b>Profit and total comprehensive income for the year . . . . .</b>	<b>31,702</b>	<b>56,182</b>	<b>75,984</b>	<b>21,096</b>	<b>27,730</b>
Profit and total comprehensive income for the year attributable to:					
Owners of the Company . . . . .	31,702	53,168	71,913	18,940	27,441
Non-controlling interests . . . . .	–	3,014	4,071	2,156	289
	31,702	56,182	75,984	21,096	27,730
Earnings per share					
Basic and diluted (RMB) . . . . .	0.16	0.27	0.36	0.10	0.14

### Four months ended 30 April 2019 compared with four months ended 30 April 2018

#### *Revenue*

Our revenue increased from RMB97.7 million for the four months ended 30 April 2018 to RMB113.7 million for the four months ended 30 April 2019 for reasons stated below.

#### (i) Online traffic monetization

##### (a) Online advertising services

The revenue from the online advertising services increased by 54.4% from RMB42.2 million for the four months ended 30 April 2018 to RMB65.2 million for the four months ended 30 April 2019, primarily due to the increase in the revenue generated from mini-page service as a result of the increased number of customers of mini-page service.

The revenue from mobile devices banner advertising services increased from the four months ended 30 April 2018 to the four months ended 30 April 2019 primarily because we started to generate revenue from overseas markets since March 2018.

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(b) *Online game business*

Revenue from the online game business increased significantly from RMB12.6 million for the four months ended 30 April 2018 to RMB19.0 million for the four months ended 30 April 2019, primarily due to an increase in the number of paying players on our platform.

(ii) *Electronic Devices Sales*

Revenue from certified pre-owned and factory smartphones sales decreased significantly from RMB42.5 million for the four months ended 30 April 2018 to RMB6.8 million for the four months ended 30 April 2019, mainly due to (i) the allocation of resources to expand other electronic devices sales during the first four months of 2019 with the motives of building up a new product line and deriving higher overall profit margin. The gross profit margin of our other electronic devices sales was relatively higher as compared with that of certified pre-owned and factory smartphone sales in January 2019, and decreased subsequently due to the pricing adjustment of our suppliers of other electronic devices; and (ii) sales of certified pre-owned and factory smartphones decreased primarily because (a) we started to sell iPhone XS and iPhone XS MAX which are launched in September 2018 in April 2019, and these two popular models have not entered into the pre-owned smartphones sales market in large quantity before the end of March 2019; and (b) the number of iPhone 8 and iPhone X which were launched in September 2017 has decreased in the pre-owned smartphone sales market and became difficult to procure in the first quarter of 2019. We started to sell iPhone XS and iPhone XS MAX in April 2019, which led to the increase in the profit margin of our certified pre-owned and factory smartphone sales which was higher than that of the other electronic devices sale.

Revenue from smart accessory sales increased significantly from RMB0.3 million for the four months ended 30 April 2018 to RMB2.1 million for the four months ended 30 April 2019, primarily due to an increase in the revenue of smart hardware devices sales of Zhonghe Yilian.

Revenue from sales of other electronic devices was RMB20.5 million for the four months ended 30 April 2019. We did not generate revenue from other electronic devices sales for the four months ended 30 April 2018. We launched the sales of other electronic devices in November 2018 and generated revenue from this business line since then.

*Cost of sales and services*

(i) *Advertising and promoting*

Our advertising and promoting costs significantly increased from RMB9.6 million for the four months ended 30 April 2018 to RMB23.9 million for the four months ended 30 April 2019, primarily due to a significant increase in costs of advertising and promoting in the overseas markets.

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(ii) Server leasing

Our server leasing costs significantly increased from RMB1.5 million for the four months ended 30 April 2018 to RMB3.0 million for the four months ended 30 April 2019, mainly due to the increased use of leased servers and internet bandwidth resulted from the increase in the number of users.

(iii) Sales of certified pre-owned and factory smartphones

Our cost for sales of certified pre-owned and factory smartphones significantly decreased from RMB41.0 million for the four months ended 30 April 2018 to RMB6.7 million for the four months ended 30 April 2019, due to the decrease in the procurement cost of certified pre-owned and factory smartphone.

(iv) Sales of smart accessories

Our cost for sales of smart accessories significantly increased from RMB0.2 million for the four months ended 30 April 2018 to RMB2.0 million for the four months ended 30 April 2019, mainly due to the increased procurement cost of smart accessories resulted from the increased sales of smart accessories.

(v) Sales of other electronic devices

We established the business line of sales of other electronic devices in November 2018. As such, we did not incur cost for sales of other electronic devices for the four months ended 30 April 2018. For the four months ended 30 April 2019, we incurred RMB20.1 million of cost for sales of other electronic devices.

*Gross profit*

Our gross profit increased by 27.8% from RMB45.4 million for the four months ended 30 April 2018 to RMB58.0 million for the four months ended 30 April 2019.

*Other income*

Other income increased by 39.6% from RMB1.0 million for the four months ended 30 April 2018 to RMB1.4 million for the four months ended 30 April 2019 because of an increase in interest on bank deposits and financial products issued by bank of RMB0.6 million from the four months ended 30 April 2018 to the four months ended 30 April 2019, offset by a decrease in government grant of RMB0.2 million from the four months ended 30 April 2018 to the four months ended 30 April 2019. Such government grants represented special subsidies for the four months ended 30 April 2018 and tax return for the four months ended 30 April 2019. The special subsidies were no longer granted to us in 2019. The increase in the interest on bank deposits and financial products issued by banks represented the increased proceeds from the wealth management products we purchased and the increased bank deposits from the four months ended 30 April 2018 to the four months ended 30 April 2019.

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### *Other gain and losses*

We recorded other losses of RMB0.2 million for the four months ended 30 April 2018, and recorded other gains of RMB20,000 for the four months ended 30 April 2019. Other losses for the four months ended 30 April 2018 were mainly allowance for trade receivables; other gains for the four months ended 30 April 2019 were mainly due to changes in fair value on put option liability.

### *Listing expenses*

Our listing expenses decreased from RMB4.9 million for the four months ended 30 April 2018 to RMB3.0 million for the four months ended 30 April 2019.

### *Administrative expenses*

Our administrative expenses increased from RMB4.2 million for the four months ended 30 April 2018 to RMB8.1 million for the four months ended 30 April 2019. Administrative expenses increased mainly due to the increase in staff costs and other operating expenses. The increase in staff costs was primarily due to the increased number of our management staff and the increased average salary of our employees. The increase in other operating expenses was mainly due to the increase in travel expenses and business-related entertainment expenses.

### *Research and development expenses*

Our research and development expenses increased from RMB7.3 million for the four months ended 30 April 2018 to RMB8.8 million for the four months ended 30 April 2019. Research and development expenses increased mainly due to the increase in the number and the average salary of research and development staff.

### *Selling and distribution expenses*

Selling and distribution expenses increased from RMB4.4 million for the four months ended 30 April 2018 to RMB6.5 million for the four months ended 30 April 2019. Selling and distribution expenses increased primarily due to the increase in staff costs and other operating expenses. The increased staff costs mainly represented the costs of increased sales personnel. The increased other operating expenses primarily represented the travel expenses and business-related entertainment expenses of sales personnel.

### *Share of results of associates*

Share of results of associates amounted to RMB0.2 million for the four months ended 30 April 2018. We did not record any share of results of associates for the four months ended 30 April 2019, mainly because we have disposed of our associates in 2018.

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### *Taxation*

Taxation increased from RMB4.4 million for the four months ended 30 April 2018 to RMB5.1 million for the four months ended 30 April 2019. Taxation increased mainly due to the increase in taxable profits.

### *Profit and total comprehensive income for the period*

As a result of the foregoing, our profit and total comprehensive income for the period increased from RMB21.1 million for the four months ended 30 April 2018 to RMB27.7 million for the four months ended 30 April 2019.

### **Year ended 31 December 2018 compared with year ended 31 December 2017**

#### *Revenue*

Our revenue increased significantly from RMB122.6 million for the year ended 31 December 2017 to RMB320.3 million for the year ended 31 December 2018 for reasons stated below.

(i) Online traffic monetization

(a) Online advertising services

Revenue from the online advertising services increased by 78.8% from RMB97.7 million for the year ended 31 December 2017 to RMB174.6 million for the year ended 31 December 2018, primarily due to an increase in the revenues generated from our homepage directing service and mini-page service as a result of the increased number of Internet users we directed to our customers. The increase in number of Internet users directed by us was mainly due to the increase in MAUs for PC version of Ludashi Software during the period.

The revenue from PC banner advertising services increased significantly from the year ended 31 December 2017 to the year ended 31 December 2018 due to the increase in the banner advertisements casted through us.

The revenue from mobile devices banner advertising services increased significantly from the year ended 31 December 2017 to the year ended 31 December 2018 due to the launch of Dual Space and Easy Clean in the overseas markets.

(b) Online game business

Revenue from the online game business increased significantly from RMB22.6 million for the year ended 31 December 2017 to RMB42.9 million for the year ended 31 December 2018, primarily due to an increase in the number of paying players on our platform.



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(ii) Electronic Devices Sales

Revenue from certified pre-owned and factory smartphones increased significantly from RMB1.4 million for the year ended 31 December 2017 to RMB85.7 million for the year ended 31 December 2018, due to the launch of offline sales of certified pre-owned and factory smartphones in March 2018 relating to orders entered into in December 2017. For the years ended 31 December 2017 and 2018, we also generated revenue of RMB1.0 million and RMB2.3 million from sales of smart accessories, respectively. We launched the other electronic devices sales in November 2018, and generated revenue of RMB14.8 million for the year ended 31 December 2018.

*Cost of sales and services*

(i) Advertising and promoting

Our advertising and promoting costs significantly increased from RMB15.2 million for the year ended 31 December 2017 to RMB53.4 million for the year ended 31 December 2018, due to a significant increase in costs in relation to advertising and promoting for our online games and products for the overseas markets.

(ii) Server leasing

Our server leasing costs significantly increased from RMB2.8 million for the year ended 31 December 2017 to RMB7.7 million for the year ended 31 December 2018, due to the need for larger servers and better bandwidth to maintain larger user base for the PC version of Ludashi Software and online game business.

(iii) Sales of certified pre-owned and factory smartphones

We established the business line of sales of certified pre-owned and factory smartphones in August 2017. As such, we incurred cost for sales of certified pre-owned and factory smartphones of RMB1.4 million and RMB83.4 million for the years ended 31 December 2017 and 2018, respectively, mainly due to the launch of offline sales of certified pre-owned and factory smartphones in March 2018 relating to orders entered into in December 2017.

(iv) Sales of smart accessories

Our cost for sales of smart accessories significantly increased from RMB0.8 million for the year ended 31 December 2017 to RMB2.0 million for the year ended 31 December 2018, due to an increase in sales of smart accessories such as cables and batteries.

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(v) Sales of other electronic devices

We established the business line of sales of other electronic devices in November 2018. As such, we incurred cost for sales of other electronic devices of RMB14.3 million for the year ended 31 December 2018, mainly due to the incurrence of the procurement cost of other electronic devices.

*Gross profit*

Our gross profit increased by 55.7% from RMB102.4 million for the year ended 31 December 2017 to RMB159.5 million for the year ended 31 December 2018.

*Other income*

Other income increased by 50.1% from RMB4.1 million for the year ended 31 December 2017 and RMB6.2 million for the year ended 31 December 2018 because we recorded an increase in government grants of RMB1.1 million from the year ended 31 December 2017 to the year ended 31 December 2018 and an increase in interest on bank deposits and financial products issued by banks of RMB0.9 million from the year ended 31 December 2017 to the year ended 31 December 2018. Such government grants represented tax return for the year ended 31 December 2017 and special subsidies for the year ended 31 December 2018. Such interest on bank deposits and financial products issued by banks represented the amount we spend in purchasing wealth management products for the year ended 31 December 2017 and proceeds from the wealth management products we purchased in 2017 and our bank deposits for the year ended 31 December 2018.

*Other gains and losses*

We recorded other losses of RMB2.2 million for the year ended 31 December 2017, and recorded other gains of RMB1.7 million for the year ended 31 December 2018. Our other gains increased because our other gains increased due to the generation of gains on disposal of associates, Xiaofeiniiao Technology and Ju'a Network, gains on disposal of subsidiaries, Aidai Technology, Sudu Technology and Kuleng Technology and gains on changes in the fair value of put option liability.

*Listing expenses*

We initiated our listing plan in November 2017. Our listing expense increased significantly from RMB0.5 million for the year ended 31 December 2017 to RMB16.1 million for the year ended 31 December 2018.

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### *Administrative expenses*

Administrative expenses increased by 94.3% from RMB10.4 million for the year ended 31 December 2017 to RMB20.1 million for the year ended 31 December 2018. Administrative expenses increased due to increases in compensation for administrative staff, consulting fees and other operating expenses. Such increases are due to increased compensation for administrative staff primarily resulting from the increases in the number of administrative staff. Consulting fees increased due to the employment of additional consultants for daily operation. Other operating expenses increased due to increases in rental procurement of office supplies.

### *Research and development expenses*

Research and development expenses increased by 39.0% from RMB16.8 million for the year ended 31 December 2017 to RMB23.4 million for the year ended 31 December 2018. Research and development expenses increased due to an increase in the compensation for research and development staff. Such increase is due to an increase in the number of new research and development staff we recruited. Our research and development personnel headcount increased by 41.1% from 56 as of 31 December 2017 to 79 as of 31 December 2018.

### *Selling and distribution expenses*

Selling and distribution expenses increased significantly from RMB11.6 million for the year ended 31 December 2017 to RMB16.8 million for the year ended 31 December 2018. Selling and distribution expenses increased due to increases in compensation for sales staff. Compensation for sales staff increased due to the increased number of sales staff. Brand marketing expenses decreased due to the decrease in advertising on Weibo and WeChat. Other operating expenses increased due to amortization of office supplies used by sales staff.

### *Share of results of associates*

Share of results of associates increased significantly from RMB0.5 million for the year ended 31 December 2017 to RMB1.3 million for the year ended 31 December 2018 due to the profits generated by our associated company, Xiaofeiniu Technology.

### *Taxation*

Taxation increased from RMB9.2 million for the year ended 31 December 2017 to RMB16.1 million for the year ended 31 December 2018, due to the increase in our profit before taxation.

### *Profit and total comprehensive income for the period*

As a result of the foregoing, our profit and total comprehensive income for the period increased by 35.2% from RMB56.2 million for the year ended 31 December 2017 to RMB76.0 million for the year ended 31 December 2018.

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### Year ended 31 December 2017 compared with year ended 31 December 2016

#### *Revenue*

Our revenue increased by 75.6% from RMB69.8 million for the year ended 31 December 2016 to RMB122.6 million for the year ended 31 December 2017 for the reasons stated below.

(i) Online traffic monetization

(a) Online advertising services

Revenue from the online advertising services increased by 46.1% from RMB66.8 million for the year ended 31 December 2016 to RMB97.7 million for the year ended 31 December 2017, primarily due to an increase in revenues generated from mini-page service as we started cooperating with Shanghai Songheng since 2017.

The revenue from mini-page services increased significantly from the year ended 31 December 2016 to the year ended 31 December 2017 because we started the cooperation with Shanghai Songheng which had high demands for mini-page advertising.

The revenue from PC banner advertising services increased significantly from the year ended 31 December 2016 to the year ended 31 December 2017, due to the advertising spaces on Game Library which was launched in 2017.

The revenue from mobile devices banner advertising services increased significantly from the year ended 31 December 2016 to the year ended 31 December 2017 due to the increase in our MAUs.

(b) Online game business

Revenue from the online game business increased substantially from RMB2.6 million for the year ended 31 December 2016 to RMB22.6 million for the year ended 31 December 2017, primarily due to an increase in the number of games we operated on our platform.

(ii) Electronic Devices Sales

(a) Sales of certified pre-owned and factory smartphones

We did not establish the certified pre-owned and factory smartphone business line until 2017. We recorded our revenue of RMB1.4 million from sales of certified pre-owned and factory smartphones for the year ended 31 December 2017.

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(b) Sales of smart accessories

Revenue from sales of smart accessories increased significantly from RMB0.4 million for the year ended 31 December 2016 to RMB1.0 million for the year ended 31 December 2017, primarily due to an increase in sales volume of smart accessories.

*Cost of sales and services*

(i) Advertising and promoting

The cost of advertising and promoting increased by 89.6% from RMB8.0 million for the year ended 31 December 2016 to RMB15.2 million for the year ended 31 December 2017, due to increased advertising and promoting activities for our online games.

(ii) Server leasing

The cost of server leasing increased significantly from RMB1.0 million for the year ended 31 December 2016 to RMB2.8 million for the year ended 31 December 2017, due to the need for larger servers to maintain larger user base for Ludashi Software and accommodate the online user traffic coming with the establishment of online game business.

(iii) Sales of certified pre-owned and factory smartphones

We did not incur any cost of the sales of certified pre-owned and factory smartphones in 2016. We incurred cost of sales of certified pre-owned and factory smartphones was RMB1.4 million for the year ended 31 December 2017, due to the establishment of this business line in August 2017.

(iv) Sales of smart accessories

The cost for sales of smart accessories increased by 85.3% from RMB0.4 million for the year ended 31 December 2016 to RMB0.8 million for the year ended 31 December 2017, due to an increase in the sales volume of smart accessories.

*Gross profit*

As a result, our gross profit increased by 69.6% from RMB60.4 million for the year ended 31 December 2016 to RMB102.4 million for the year ended 31 December 2017.

*Other income*

Other income increased significantly from RMB1.7 million for the year ended 31 December 2016 to RMB4.1 million for the year ended 31 December 2017. Other income increased due to the overall increase in government grants and interest on bank deposits and financial products issued by banks. The increase in government grants was due to an increase

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in tax return from RMB0.2 million in 2016 to RMB1.1 million in 2017. The increase in interest on bank deposits and financial products issued by banks was due to the increase in the amount we spend in purchasing wealth management products.

### *Other gains and losses*

Our other losses increased substantially from RMB0.6 million for the year ended 31 December 2016 to RMB2.2 million for the year ended 31 December 2017. Our other losses increased primarily due to an increase in impairment loss on AFS investments of RMB2.0 million.

### *Listing expenses*

We did not incur any listing expenses in 2016. For the year ended 31 December 2017, we recorded listing expenses of RMB0.5 million.

### *Administrative expenses*

Administrative expenses increased by 21.9% from RMB8.5 million for the year ended 31 December 2016 to RMB10.4 million for the year ended 31 December 2017. Administrative expenses increased due to increases in consulting fees. Consulting fees increased due to employment of addition consultants for daily operation.

### *Research and development expenses*

Research and development expenses increased by 28.3% from RMB13.1 million for the year ended 31 December 2016 to RMB16.8 million for the year ended 31 December 2017. Research and development expenses increased due to an increase in the compensation for research and development staff. Such increase is due to an increase in the number of new staff we recruited. Our research and development personnel headcount increased by 51.4% from 37 as of 31 December 2016 to 56 as of 31 December 2017.

### *Selling and distribution expenses*

Selling and distribution expenses increased by 65.8% from RMB7.0 million for the year ended 31 December 2016 to RMB11.6 million for the year ended 31 December 2017. Selling and distribution expenses increased due to increases in compensation for sales staff and brand marketing expenses. Compensation for sales staff increased due to the increased number of sales staff. Brand marketing expenses increased due to the increased number of advertisements we casted for our *Ludashi* brand.

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### *Share of results of associates*

Two of our associated company, Xiaofeiniào Technology and Ju'a Network, did not generate profits for the year ended 31 December 2016. It recorded revenue of RMB0.5 million for the year ended 31 December 2017.

### *Taxation*

Taxation increased from RMB1.1 million for the year ended 31 December 2016 to RMB9.2 million for the year ended 31 December 2017, due to the increase in our profit before taxation.

### *Profit and total comprehensive income for the year*

As a result of the foregoing, our profit and total comprehensive income for the year increased by 77.2% from RMB31.7 million for the year ended 31 December 2016 to RMB56.2 million for the year ended 31 December 2017.

### *Liquidity and Capital Resources*

To date, we have financed our cash requirements through a combination of cash generated from operating activities, the proceeds from the Pre-IPO Investments, and the proceeds of capital contributions from our shareholders. In the future, we expect to continue relying on cash flows generated from operations, and other debt and equity financing, in addition to the proceeds from Global Offering, to fund our working capital needs and finance part of our business expansion.

### **Cash flow**

Cash flows generated from operating activities mainly represent the inflows of cash from our online traffic monetization and electronic devices sales business lines and amortization of intangible assets and the outflows of cash from interest income, increases in trade receivables, increases in other receivables, deposits and prepayments, increases in inventories, decrease in contract liabilities, and income tax paid, if any. Cash flows used in investing activities primarily represent the inflows of cash from proceeds from disposal of financial assets at fair value through profit or loss, capital expenditure for purchases of interest in an associate, purchase of financial assets at fair value through profit or loss and purchase of property, plant and equipment. Cash flows generated from financing activities primarily represent capital contribution from non-controlling interests of a subsidiary.



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The following table sets forth the selected cash flows information for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents					
at beginnings of year . . . . .	28,488	42,990	115,703	115,703	174,147
Net cash (used in) from					
operating activities . . . . .	28,849	52,559	41,439	(12,548)	29,230
Net cash (used in) from					
investing activities . . . . .	(13,448)	4,161	(1,228)	3,261	(19,928)
Net cash (used in) from					
financing activities . . . . .	(899)	15,993	18,233	(3,403)	(1,106)
Net increase/(decrease) in					
cash and cash					
equivalents . . . . .	14,502	72,713	58,444	(12,690)	8,196
Effect of foreign exchange					
rate changes . . . . .	-	-	-	-	(381)
Cash and cash equivalents					
at end of year . . . . .	<u>42,990</u>	<u>115,703</u>	<u>174,147</u>	<u>103,013</u>	<u>181,962</u>

### *Cash flows generated from operating activities*

Cash flows generated from operating activities are principally derived from the receipt of payments for our online advertising services, online game business and electronic devices sales. Cash used in operating activities is mainly used to pay for cost and expenses relating to the operation of our business, such as cost of advertising and promoting, staff compensation, brand marketing expenses and taxation.

Our net cash flows generated from operating activities were RMB29.2 million for the four months ended 30 April 2019. Our cash generated from operations consisted of cash flows generated from operating activities before working capital adjustments of RMB33.0 million and net negative changes in working capital of RMB3.8 million. Net positive working capital adjustment primarily consisted of decrease in trade receivables of RMB18.4 million, which was primarily due to the payment of trade receivables from certified pre-owned and factory smartphones sales and other electronic devices sales. Such negative changes were mainly offset by: (i) increase in other receivables, deposits and prepayments of RMB6.9 million, which was primarily due to the increase in staff loan and cash accumulation of online business; (ii) increase in inventories of RMB8.3 million mainly due to an increase in inventories of certified

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pre-owned and factory smartphones and other electronic devices; (iii) decrease in trade and other payables of RMB1.4 million, mainly due to an increase in trade payables which resulted from increased costs of advertising and promoting in the overseas markets.

Our net cash flows generated from operating activities were RMB41.4 million for the year ended 31 December 2018. Our cash generated from operations consisted of cash flows generated from operating activities before working capital adjustments of RMB89.7 million and net negative changes in working capital of RMB48.2 million. Net negative working capital adjustment primarily consisted of: increase in trade receivables of RMB45.5 million, which was primarily due to an increase in transactions under the certified pre-owned and factory smartphone sales and mini-page services. Such negative changes were mainly offset by increase in trade and other payables of RMB13.1 million, mainly due to an increase in overseas advertising cost payables and game advertising cost payables; and decrease in other receivables, deposits and prepayments of RMB1.2 million, mainly due to deferred cash consideration on disposal of subsidiaries, representing Sudu Technology and Kuleng Technology, and an associate, representing Ju'a Network, and prepaid listing expenses and deferred issue costs. For the purpose of establishing and streamlining the corporate structure of the Group for Listing, we disposed Sudu Technology, Kuleng Technology and Ju'a Network, whose respective principal businesses are different from and irrelevant to our principal business. For details, see "History, Reorganization and Corporate Structure – Reorganization – Disposals of minority interests in certain investee companies."

Our net cash flows generated from operating activities were RMB52.6 million for the year ended 31 December 2017. Our cash generated from operations consisted of cash flows generated from operating activities before working capital adjustments of RMB67.6 million and net negative changes in working capital of RMB15.0 million. Net Negative working capital adjustments primarily consisted of: (i) increase in trade receivables of RMB10.3 million, which was primarily due to an increase in amounts paid by 360 Technology, Qihu Technology, and Shanghai Songheng; and (ii) increase in other receivables, deposits and payments of RMB6.2 million which was primarily due to prepayment for certified pre-owned and factory smartphones. Such negative changes were primarily offset by the increase in trade and other payables of RMB6.6 million, which was primarily due to an increases in amounts we need to share with game developers and the increase of payroll payable driven by the increase in the number of new staff we recruit.

Our net cash flows generated from operating activities were RMB28.8 million for the year ended 31 December 2016. Our cash generated from operations consisted of cash flows generated from operating activities before working capital adjustments of RMB36.0 million and net negative changes in working capital of RMB7.1 million. Net negative working capital adjustments primarily consisted of: (i) increase in other receivables, deposits and prepayments of RMB4.0 million, which was primarily due to an increase in transactions under online game business; and (ii) increase in trade receivables of RMB4.7 million, due to an increase in transactions under our mini-page advertising service. Such negative changes were primarily

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offset by the increase in trade and other payables of RMB4.1 million, which was primarily due to the increases in amount we need to share with game developers and the payroll balance as an increase in the number of new staff we recruited.

### *Cash flows generated from investing activities*

Cash used in investing activities mainly consists of purchase of interest in associates, purchases of financial assets at fair value through profit or loss, and purchases of property, plant and equipment. Cash inflow from investing activities mainly represents proceeds from disposal of financial assets at fair value through profit or loss.

For the four months ended 30 April 2019, our net cash flows used in investing activities were RMB19.9 million. Our net cash outflows for investing activities mainly consisted of: (i) placement of non-pledged time bank deposit of RMB20.0 million, which represented investments in financial products issued by banks; (ii) purchase of property, plant and equipment of RMB0.6 million, which represented the decoration expenses for the office and the purchase of office supplies; and (iii) purchase of intangible assets of RMB0.1 million, which represented the purchase of management system. Such outflows were offset by repayment from a related party of RMB0.8 million, which represented the payment of the disposal of Aidai Technology.

For the year ended 31 December 2018, our net cash flows used in investing activities were RMB1.2 million. Our net cash outflows for investing activities mainly consisted of (i) placement of pledged bank deposit of RMB6.0 million, which represented a loan borrowed from China Merchants Bank Co., Ltd., Hong Kong Branch for the period from 5 November 2018 to 28 October 2019; (ii) purchase of property, plant and equipment of RMB3.6 million, which represented the decoration expenses for the newly rented office; (iii) purchase of interest in an associate of RMB5.0 million, which represents Ju'a Network; (iv) advance to related parties of RMB1.7 million, which represents Mr. He and Qilu Haochen; and (v) purchase of financial assets at fair value through profit or loss of RMB1.0 million, which represents the equity investment made by Aidai Technology. Such outflows were offset by proceeds from disposal of finance assets at fair value through profit and loss of RMB8.4 million, which represents disposal of non-guaranteed wealth management financial products issued by banks.

For the year ended 31 December 2017, our net cash flows from investing activities were RMB4.2 million. Our net cash outflows for investing activities mainly consisted of purchase of financial assets at fair value through profit or loss of RMB5.0 million, which primarily related to equity investment in Xiaofeiniiao Technology, Kuleng Technology, Sudu Technology and Aiyu Technology. Such outflows were offset by proceeds from disposal of financial assets at fair value through profit and loss of RMB10.0 million which represents disposal of non-guaranteed wealth management financial products issued by banks.

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For the year ended 31 December 2016, our net cash flows used in investing activities were RMB13.4 million. Our net cash outflows for investing activities consisted of purchase of financial assets at fair value through profit and loss of RMB36.0 million, which primarily related to non-guaranteed wealth management products issued by banks. Such outflows were offset by proceeds from disposal of financial assets at fair value through profit and loss of RMB23.0 million.

### *Cash flows generated from financing activities*

Our net cash flow mainly comprise listing expense paid as net cash outflow and proceeds from issuance of put option liability and capital contribution from noncontrolling interests of a subsidiary as net cash inflow.

For the four months ended 30 April 2019, our net cash flows used in financing activities were RMB1.1 million, mainly representing the repayment of lease liability, which was the depreciation of right-of-use assets.

For the year ended 31 December 2018, our net cash flows from financing activities was RMB18.2 million, representing proceeds from issuance of put option liability of RMB19.4 million in Lima High Tech, net of deferred issue costs paid of RMB4.7 million.

For the year ended 31 December 2017, our net cash flows generated from financing activities was RMB16.0 million, which were from capital contribution from non-controlling interests of a subsidiary, Shenzhen FTX Technology's acquiring 20% equity interest in Liu Liyou Technology.

For the year ended 31 December 2016, our net cash flows used in financing activities were RMB0.9 million, which represented repayment of lease liability, which was the depreciation of right-of-use assets.

### **Working capital**

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. Our current assets primarily consist of trade receivables, other receivables, deposit and prepayments, inventories, financial assets at fair value through profit and loss, and bank balances and cash. Our current liabilities primarily consist of trade and other payables, amounts due to related parties, contract liability and income tax payable. We manage our working capital by closely monitoring the levels of our trade payables and other payables as well as inventories. Our cash position consists primarily of bank balances and cash.

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As of 31 December 2016, 2017 and 2018, and 30 April 2019, we had cash and cash equivalents of RMB43.0 million, RMB115.7 million, RMB174.1 million and RMB182.0 million, respectively. Taking into account (i) our cash and cash equivalents on hand, (ii) cash generated from our future operations, (iii) and the proceeds from the Pre-IPO Investments of approximately RMB19.4 million as of the Latest Practicable Date, and (iv) the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital to meet our present and future financial requirements for at least 12 months from the date of this Prospectus.

The table below sets forth certain information on our financial position as of the dates indicated:

	As of 31 December			As of 30 April	As of 31 July
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)
<b>Current assets</b>					
Trade receivables . . . . .	8,285	18,703	63,671	45,288	76,724
Other receivables, deposits and prepayments . . . . .	5,023	11,691	19,050	26,492	37,033
Inventories . . . . .	329	274	1,326	9,582	7,274
Amounts due from related parties . . . . .	–	–	1,615	865	–
Tax recoverable . . . . .	1,288	745	803	968	752
Financial assets at fair value through profit and loss . . .	13,092	8,366	–	–	–
Pledged bank deposit . . . . .	–	–	6,000	6,000	6,000
Bank balances and cash . . .	42,990	115,703	174,147	201,962	197,614
	<u>71,007</u>	<u>155,482</u>	<u>266,612</u>	<u>291,157</u>	<u>325,397</u>
<b>Current liabilities</b>					
Trade and other payables . . .	6,804	13,302	26,160	24,923	27,693
Amounts due to related parties . . . . .	–	1,005	–	–	–
Borrowing . . . . .	–	–	5,918	5,918	5,918
Contract liabilities . . . . .	345	1,193	44	75	4,975
Income tax payable . . . . .	106	2,368	2,861	1,274	3,178
Leasing liability . . . . .	727	495	1,612	1,793	2,617
	<u>7,982</u>	<u>18,363</u>	<u>36,595</u>	<u>33,983</u>	<u>44,381</u>
<b>Net current assets . . . . .</b>	<b>63,025</b>	<b>137,119</b>	<b>230,017</b>	<b>257,174</b>	<b>281,016</b>

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We had net current assets of RMB63.0 million, RMB137.1 million, RMB230.0 million, RMB257.2 million and RMB281.0 million as of 31 December 2016, 2017 and 2018, and 30 April 2019 and 31 July 2019, respectively.

As of the Latest Practicable Date, we did not have any material adverse change in our net current assets position.

### Discussion of certain items from the statements of financial position

#### *Bank balances and cash*

Our bank balances and cash consisted of cash and short-term deposits held by us with an original maturity of three months or less.

Our bank balances and cash increased from RMB43.0 million as of 31 December 2016 to RMB115.7 million as of 31 December 2017, and further from RMB174.1 million as of 31 December 2018 to RMB202.0 million as of 30 April 2019.

The reason for all the increases in bank balances and cash during Track Record Period is an increase in cash received from game players and customers.

#### *AFS investments*

Our AFS investments represent equity securities issued by Zhonghe Lianchuang. Our AFS investment are recognized at fair value and subsequently measured at cost less impairment. The following table sets forth a breakdown of our AFS investments as of the dated indicated:

	As of 31 December			As of 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investments . . .	2,000	–	–	–
<b>Total</b> . . . . .	<b>2,000</b>	<b>–</b>	<b>–</b>	<b>–</b>

Our AFS investments in equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC representing equity interest in Zhonghe Lianchuang. For the determination of those investments, we take into accounts factors such as their risk rates, their own business performance, and the effects they may have on our own businesses. As the result of the unsatisfactory performance of Zhonghe Lianchuang, the private entity we invested, we had fully prepared impairment for such investments in AFS financial assets in the first half year of 2017 and disposed such investments in August 2018.

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### *FVTPL investments*

Our investments in FVTPL represent investments in financial products issued by banks without predetermined or guaranteed return or principals protected, including investment portfolios of treasury bonds, trust plan, reverse repos and other debt assets. Such financial products were mainly issued by one of the state-owned banks and a well-known commercial bank. We used our idle funds to invest FVTPL, in order to prevent currency depreciation. We primarily invested in short-term products with high liquidity and low risk to maximize the returns of unused funds.

We formulate investment management policies in line with our business operations and developments. As to the internal control policy, we generally evaluate the risks of the financial product before making the investment, including acceptable risks, expected returns, market risks and credit risks. After the evaluation, all investments shall be strictly reviewed and approved by our management. All evaluation and approval records shall be reserved for management's and business assessments. In addition, our financial department monitors the performance of such investments on a daily basis, constantly follows the government policies regarding such financial products, and immediately redeems the financial product if additional funds are needed for our business operations.

### *Amounts due to related parties*

The amounts due to related parties represent non-trade related, unsecured, non-interest bearing and repayable on demand. The following table sets forth the information of our amounts due to related parties as of the dates indicated:

<u>Related parties</u>	<u>Relationship</u>	<u>As of 31 December</u>			<u>As of</u>
		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>30 April</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Tianjin Xiaofeiniu Technology Company Limited* (天津小飛鳥科技有限公司) . . . . .	Controlled by Mr. Tian	–	459	–	–
Mr. Zhang Xiaozhen (張曉真) . . . . .	Non-controlling interest holder	–	546	–	–
<b>Total</b> . . . . .		<u>–</u>	<u>1,005</u>	<u>–</u>	<u>–</u>

As of 31 December 2016, 2018 and 30 April 2019, we did not have any amounts due to related parties.



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As of 31 December 2017, we paid Xiaofeiniu Technology at the amount of RMB0.5 million for the service fee that we collected on behalf of Xiaofeiniu Technology. Mr. Zhang Xiaozhen (張曉真) paid the payment for goods on behalf of us at the amount of RMB0.5 million.

For more details about our related party transactions, see Note 23 to the Accountant's Report included in Appendix I to this Prospectus.

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

### *Amounts due from related parties*

The amounts due from related parties represent non-trade related, unsecured, non-interest bearing and repayable on demand. The following table sets forth the information of our amounts due from related parties as of the dates indicated:

<u>Related parties</u>	<u>Relationship</u>	<u>As of 31 December</u>			<u>As of</u>
		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>30 April</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Tian Ye (田野) . . . . .	Shareholder of the Company	–	–	550	550
Mr. Hu Weibin (戶維斌) . . . . .	Shareholder of Zhonghe Yilian	–	–	1,000	300
Chengdu Qilu Haochen Enterprise Management Consulting Company Limited . . . . .	Shareholder of the Company	–	–	15	15
Xiaofeiniu . . . . .	Controlled by Mr. Tian Ye	–	–	50	–
		<u>–</u>	<u>–</u>	<u>1,615</u>	<u>865</u>

Our Directors confirm that the amounts due from related parties will be fully settled upon the Listing.

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### *Trade receivables*

Trade receivables represent outstanding amounts due from our customers for the purchase of our products or services. The following table sets forth our trade receivables as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
– related parties .....	4,956	16,774	24,356	18,320
– third parties .....	3,504	2,019	39,934	27,427
Less: allowance for doubtful debts .....	(175)	(90)	(619)	(459)
<b>Total</b> .....	<b><u>8,285</u></b>	<b><u>18,703</u></b>	<b><u>63,671</u></b>	<b><u>45,288</u></b>

Our trade receivables increased from RMB8.3 million as of 31 December 2016 to RMB18.7 million as of 31 December 2017, primarily due to increases in trade receivables from mini-page services provided to Shanghai Songheng, who became a related party in 2017.

Our trade receivables increased substantially from RMB18.7 million as of 31 December 2017 to RMB63.7 million as of 31 December 2018, primarily due to increases in trade receivables from sales of certified pre-owned and factory smartphones and mini-page services.

Our trade receivables decreased from RMB63.7 million as of 31 December 2018 to RMB45.3 million as of 30 April 2019, mainly due to the payment of the trade receivables in certified pre-owned and factory smartphones sales and other electronic devices sales and the decreased trade receivables from online advertising.

The following table sets forth an aging analysis of our trade receivables, based on the invoice date and net of allowance of doubtful debts, as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0-90 days .....	7,846	18,267	53,080	39,688
91-180 days .....	241	232	8,960	5,039
>180 days .....	198	204	1,631	561
<b>Total</b> .....	<b><u>8,285</u></b>	<b><u>18,703</u></b>	<b><u>63,671</u></b>	<b><u>45,288</u></b>

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We make allowances for impairment of trade receivables based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of impairment of trade receivables requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed.

The following table sets forth the number of turnover days for our trade receivables for the periods indicated:

	<b>For the year ended 31 December</b>			<b>For the four months ended 30 April</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>
	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>
Trade receivables turnover days <sup>(1)</sup> . . . . .	32	41	47	44	58

*Note:*

- (1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables divided by revenue for the same period and multiplied by the number of days in that period, being 365 days for a full-year period.

Our trade receivables turnover days increased from 32 days for the year ended 31 December 2016 to 41 days for the year ended 31 December 2017 mainly due to increase of the balance of receivables from mini page customers.

Our trade receivables turnover days increased from 41 days for the year ended 31 December 2017 to 47 days for the year ended 31 December 2018 because the substantial increase of sales from pre-owned and factory smartphones and mini-page services.

Our trade receivables turnover days increased from 44 days for the four months ended 30 April 2018 to 58 days for the four months ended 30 April 2019 mainly due to the substantial increase in sales of mini-page services to Independent Third Parties.

As of 31 July 2019, RMB34.5 million, or approximately 76.1%, of our trade receivables outstanding as of 30 April 2019 were settled.

### *Inventories*

Our inventories remained at the same level of RMB0.3 million as of 31 December 2016 and 2017, due to the stable inventories of electronic devices.

Our inventories increased significantly from RMB0.3 million as of 31 December 2017 to RMB1.3 million as of 31 December 2018, due to increases in inventory balances of certified pre-owned and factory smartphones driven by their increased unit price and quantities.

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Our inventories increased significantly from RMB1.3 million as of 31 December 2018 to RMB9.6 million as of 30 April 2019, due to the increase in inventory balances of certified pre-owned and factory smartphones and other electronic devices.

As of 31 July 2019, RMB9.3 million, or approximately 97.3%, of our inventories outstanding as of 30 April 2019 were consumed or sold.

### *Trade and other payables*

Trade and other payables represent outstanding amounts due on staff reimbursement, non-operating payables, payroll payables and tax payables other than EIT, primarily comprising trade payables, other payables, and payroll payables.

The following table sets forth our trade and other payables as of the dates indicated:

	As of 31 December			As of 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables				
– related parties .....	–	626	346	617
– third parties .....	1,790	3,363	8,241	8,518
Other payables .....	1,375	3,792	6,545	5,401
Accrued listing expenses/share issue costs .....	–	–	4,534	5,584
Payroll payable .....	2,760	4,353	5,808	4,700
Other tax payable .....	879	1,168	686	103
<b>Total .....</b>	<b>6,804</b>	<b>13,302</b>	<b>26,160</b>	<b>24,923</b>

Our trade and other payables increased by 95.5% from RMB6.8 million as of 31 December 2016 to RMB13.3 million as of 31 December 2017. Our trade payables increased significantly from RMB1.8 million as of 31 December 2016 to RMB4.0 million as of 31 December 2017 mainly due to increases in amounts payable for advertising and promoting and server leasing. Our other payables significantly increased from RMB1.4 million as of 31 December 2016 to RMB3.8 million as of 31 December 2017 mainly due to increases in revenues we shared with game developers and/or distributors. Our payroll payables increased by 57.7% from RMB2.8 million as of 31 December 2016 to RMB4.4 million as of 31 December 2017 due to an increase in the number of staff recruited. Our other tax payables increased by 33.0% from RMB0.9 million as of 31 December 2016 to RMB1.2 million as of 31 December 2017 due to VAT and its additional charges driven by increases in revenues.

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Our trade and other payables increased significantly from RMB13.3 million as of 31 December 2017 to RMB26.2 million as of 31 December 2018. Our trade payables increased significantly from RMB4.0 million as of 31 December 2017 to RMB8.6 million as of 31 December 2018 due to increases in amounts payable for advertising and promoting for Dual Space and Simulator Master. Our other payables increased from RMB3.8 million as of 31 December 2017 to RMB6.5 million as of 31 December 2018 due to an increase in the online game revenues payable to game developers. We recorded accrued listing expenses as of 31 December 2018 due to listing expenses payable to our listing consulting professionals. Our payroll payables increased by 33.4% from RMB4.4 million as of 31 December 2017 to RMB5.8 million as of 31 December 2018 due to an increase in the number of staff recruited. Our other tax payables decreased by 41.3% from RMB1.2 million as of 31 December 2017 to RMB0.7 million as of 31 December 2018 because we paid the tax accrued for the year ended 31 December 2018.

Our trade and other payables decreased slightly from RMB26.2 million as of 31 December 2018 to RMB24.9 million as of 30 April 2019. Our other payables decreased from RMB6.5 million as of 31 December 2018 to RMB5.4 million as of 30 April 2019 due to a decrease in the online game revenues payable to game developers. The accrued listing expenses increased from RMB4.5 million as of 31 December 2018 to RMB5.6 million as of 30 April 2019 due to the increase in listing expenses payable to our listing consulting professionals. Our payroll payables decreased from RMB5.8 million as of 31 December 2018 to RMB4.7 million as of 30 April 2019 due to payment of year-end bonus. Our other tax payables decreased from RMB0.7 million as of 31 December 2018 to RMB0.1 million as of 30 April 2019 because we paid the tax accrued for the year ended 31 December 2018 in the first season of 2019.

The following table sets forth the number of turnover days for our trade payables for the periods indicated:

	<b>For the year ended 31 December</b>			<b>For the four months ended 30 April</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>
	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>
Trade payables turnover days <sup>(1)</sup> . . . . .	45	52	14	24	19

*Note:*

- (1) Trade payables turnover days for a period equals the average of the opening and closing trade payables divided by cost of sales for the same period and multiplied by the number of days in that period, being 365 days for a full-year period.

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Our trade payables turnover days increased from 45 days for the year ended 31 December 2016 to 52 days for the year ended 31 December 2017 due to longer credit terms issued to us by the suppliers of advertising and promotion entered into cooperation with us at the end of 2017.

Our trade payables turnover days decreased from 52 days for the year ended 31 December 2017 to 14 days for the year ended 31 December 2018 mainly due to prepayment made by us for the procurement of pre-owned and factory smartphones.

Our trade payables turnover days decreased from 24 days for the four months ended 30 April 2018 to 19 days for the four months ended 30 April 2019 mainly due to the increased advertisement and promotion costs in the overseas markets.

As of 31 July 2019, RMB9.0 million, or approximately 98.9%, of our trade payables outstanding as of 30 April 2019 were settled.

### *Other receivables, deposits and prepayments*

Our other receivables, deposits and prepayments represent non-operating receivables, prepayments, interest receivable for wealth management products issued by banks, and non-guaranteed wealth management products.

The following table sets forth our other receivables, deposits and prepayments as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables . . . . .	363	690	1,629	4,145
Deductible value-added tax . . . . .	–	–	–	1,929
Deferred cash consideration on disposal of subsidiaries . . . . .	–	–	2,000	2,000
Deferred cash consideration on disposal of an associate . . . . .	–	–	1,500	1,500
Prepayments and deferred expense . . . . .	397	6,612	3,348	2,908
Prepaid listing expenses . . . . .	–	–	1,992	1,855
Deferred issue costs . . . . .	–	–	5,351	5,604
Interest receivables . . . . .	408	1,017	1,680	2,411
Online payment platform . . . . .	3,855	3,372	1,550	4,140
<b>Total . . . . .</b>	<b>5,023</b>	<b>11,691</b>	<b>19,050</b>	<b>26,492</b>

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Our other receivables, deposits and prepayments increased significantly from RMB5.0 million as of 31 December 2016 to RMB11.7 million as of 31 December 2017. Our other receivables remained stable at RMB0.4 million as of 31 December 2016 and RMB0.7 million as of 31 December 2017. Our prepayments and deferred expense significantly increased from RMB0.4 million as of 31 December 2016 to RMB6.6 million as of 31 December 2017 due to increases in amounts prepaid for game developers and pre-owned and factory smartphones we procured. Our interest receivables increased significantly from RMB0.4 million as of 31 December 2016 to RMB1.0 million as of 31 December 2017 due to an increase in the number of wealth management products we purchased. Our online payment business decreased by 12.5% from RMB3.9 million as of 31 December 2016 to RMB3.4 million as of 31 December 2017 because we withdrew cash from third-party payment platforms in 2017.

Our other receivables, deposits and prepayments increased significantly from RMB11.7 million as of 31 December 2017 to RMB19.0 million as of 31 December 2018. Our other receivables increased significantly from RMB0.7 million as of 31 December 2017 to RMB1.6 million as of 31 December 2018 mainly due to an increase in balances on online payment platforms. We incurred deferred cash consideration on disposal of subsidiaries of RMB2.0 million as of 31 December 2018, representing Sudu Technology and Kuleng Technology. We incurred deferred cash consideration on disposal of an associate of RMB1.5 million as of 31 December 2018, representing Ju'a Network. Our prepayments and deferred expense decreased from RMB6.6 million as of 31 December 2017 to RMB3.3 million as of 31 December 2018 due to decreases in amounts prepaid for certified pre-owned and factory smartphones and prepaid social security insurance. We incurred prepaid listing expenses of RMB2.0 million as of 31 December 2018, representing listing expenses we prepaid to our listing consulting professionals. We incurred deferred issue costs of RMB5.4 million as of 31 December 2018, representing prepaid capitalized listing fees. Our interest receivables increased by 65.2% from RMB1.0 million as of 31 December 2017 to RMB1.7 million as of 31 December 2018 due to amounts received for interest income on wealth management products issued by banks. Our online payment platform decreased by 54.0% from RMB3.4 million as of 31 December 2017 to RMB1.6 million as of 31 December 2018 due to our cash withdrawn from those online payment platforms.

Our other receivables, deposits and prepayments increased from RMB19.1 million as of 31 December 2018 to RMB26.5 million as of 30 April 2019. Our other receivables increased significantly from RMB1.6 million as of 31 December 2018 to RMB4.1 million as of 30 April 2019 mainly due to an increase in receivables generated from certified pre-owned and factory smartphones sales. We incurred deductible value-added tax of RMB1.9 million as of 30 April 2019. Our prepayments and deferred expense decreased from RMB3.3 million as of 31 December 2018 to RMB2.9 million as of 30 April 2019 primarily due to decreases in amounts prepaid for certified pre-owned and factory smartphones sales and online advertising service. Our interest receivables increased from RMB1.7 million as of 31 December 2018 to RMB2.4 million as of 30 April 2019 due to interests received from financial products issued by banks. Our online payment platform increased from RMB1.6 million as of 31 December 2018 to RMB4.1 million as of 30 April 2019 due to our cash accumulation from online business.



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### *Put option liability*

Our put option liability represents the pre-IPO investment by Lima High Tech in August 2018.

The following table sets forth the movement of the put option liability as of the date indicated:

	<b>Put option liability</b>
	<u>RMB'000</u>
At 31 December 2016 and 2017 .....	–
Issuance of the Put Option .....	19,375
Changes in fair value recognized in profit or loss .....	<u>(61)</u>
At 31 December 2018 .....	<u>19,314</u>
Changes in fair value recognized in profit or loss .....	(415)
At 30 April 2019 .....	<u>18,899</u>

We issued put option liability to Lima High Tech in 22 August 2018. For details of put option liability, please see Note 26 to the Accountants' Report included in Appendix I to this Prospectus. Pursuant to the agreement entered between Lima High Tech and us in 24 July 2018, as amended by a supplemental agreement dated 1 August 2018, we issued 7,110 shares with liquidation preference and redemption rights to Lima High Tech at US\$399, equivalent to RMB2,725, per share, for total net cash proceeds of approximately US\$2,837,000, equivalent to RMB19,375,000. Key terms of the agreement are summarized as follows:

- (i) Lima High Tech is granted an option to demand us to repurchase its shares if there is no successful initial public offering within 24 months after the completion of the investment, regardless of any subjective and objective reasons;
- (ii) In the event of any liquidation, Lima High Tech shall be entitled to receive, prior and in preference to any distribution of the proceeds of such liquidation event to the holders of ordinary shares. All the remaining proceeds available for distribution to Shareholders shall be distributed pro rata among the holders of ordinary shares;
- (iii) In the event that we bring in new investors by issuing additional shares, excluding the employee incentive plan permitted by the investor, before the completion of successful initial public offering without the written consent by the investor, the share issuance price paid by new investors shall be not lower than the price in this transaction. Otherwise, the investor has the right to adjust the investment consideration of this transaction based on the weighted average method; and
- (iv) any special rights granted to Lima High Tech under the agreement will be terminated upon successful initial public offering.

## FINANCIAL INFORMATION

The Directors generally consider the following factors to evaluate the reasonableness and accuracy of the valuation of the put option liability: (i) the valuation report issued by qualified independent appraisers; (ii) the appropriateness of the valuation model; (iii) the reasonableness of cash flow forecast; and (iv) several key assumptions, such as probability of the completion of the Global Offering, and the discount and growth rates of estimated revenue, profit and cash flow. The Reporting Accountants have performed the procedures regarding the valuation of the put option liability to address respective requirements under the relevant auditing standards. Taking into consideration of the results of the procedures with regard to the valuation of the put option liability together with all other audit procedures, subject to further subsequent events review procedures to be carried out up to the date of the Accountants' Report of our Group, the Reporting Accountants expect to issue an unqualified opinion on the financial information of our Group for the Track Record Period as a whole. The Sponsor has conducted relevant due diligence work, including but not limited to (i) discussion with the Company about the basis and assumptions underlying the cash flow adopted for the valuation; (ii) reviewing the valuation report issued by independent appraisers; (iii) discussion with the independent appraisers regarding the basis and assumptions adopted for the valuation; and (iv) discussion with the Directors and the Reporting Accountants about the basis for the accounting treatment in respect of the put option liability and the work done in complying with the relevant requirements. The Directors and the Sponsor are satisfied with the valuation of the put option liability with reference to relevant regulations, auditing standards and valuation standards.

### Key financial ratios

The following table sets forth our key financial ratios for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
Total revenue					
growth (%) . . . . .	140.2	75.6	161.3	–	16.4
Revenue growth for online traffic					
monetization (%) . . . . .	141.3	73.3	80.9	–	53.6
Revenue growth for electronic devices					
sales (%) . . . . .	36.0	467.9	4,336.0	–	(31.3)
Gross margin for online traffic					
monetization <sup>(1)</sup> (%) . . . . .	87.0	85.0	71.9	79.8	68.0
Gross margin for electronic devices					
sales <sup>(1)(2)</sup> (%) . . . . .	(1.7)	7.5	3.0	3.8	2.4
Trade receivables turnover days <sup>(3)</sup> . . . . .	32	41	47	44	58
Trade payables turnover days <sup>(4)</sup> . . . . .	45	52	14	24	19

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*Notes:*

- (1) Gross margin equals gross profit/(loss) from the indicated business line divided by revenue from the indicated business line for the period and multiplied by 100%.
- (2) Include sales of certified pre-owned and factory smartphones and smart accessories. We commenced sales of certified pre-owned and factory smartphones in 2017.
- (3) Trade receivables turnover days equals the average of the opening and closing trade receivables of the indicated period divided by cost for such period and multiplied by the number of days in such period, being 365 days for a full-year period.
- (4) Trade payables turnover days equals the average of the opening and closing trade payables of the indicated period divided by the revenue for such period and multiplied by the number of days in such period, being 365 days for a full-year period.

*Total Revenue growth*

We experienced a significant decrease in total revenue growth from the year ended 31 December 2016 to 2017 due to an overall increase in the revenues from all business lines in 2016, and a significant increase from the year ended 31 December 2017 to 2018 due to the commencement of the offline sales of certified pre-owned and factory smartphones and the revenue contribution made by products for the overseas markets. We experienced an increase in total revenue growth from the four months ended 30 April 2018 to the four months ended 30 April 2019 due to the increase in the revenues generated from overseas markets and mini-page service.

*Revenue growth for online traffic monetization*

We experienced a significant decrease in revenue growth for online traffic monetization from the year ended 31 December 2016 to 2017. We also experienced a significant increase in revenue growth for online traffic monetization from the four months ended 30 April 2018 to the four months ended 30 April 2019. For details of the reasons for such fluctuations, please refer to “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Year-to-Year Comparison of Results of Operations.”

*Revenue growth for electronic devices sales*

We experienced significant increases in revenue growth for electronic devices sales from the year ended 31 December 2016 to 2017 and from the year ended 31 December 2017 to 2018. We experienced decrease in revenue growth for electronic devices sales from the four months ended 30 April 2018 to the four months ended 30 April 2019. For details of the reasons for such fluctuations, please refer to “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Year-to-Year Comparison of Results of Operations.”

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### *Gross margin for online traffic monetization*

We experienced a decrease in gross margin of online traffic monetization during the Track Record Period. For the years ended 31 December 2016 and 2017, the decrease in gross margin of online traffic monetization was mainly due to the increase in online traffic purchases. The decrease in gross margin of online traffic monetization from the year ended 31 December 2017 to the year ended 31 December 2018 was mainly due to an increase in online traffic purchase on products for the overseas markets. The decrease in gross margin of online traffic monetization was mainly because we started to incur cost of advertisement and promotion for this business line in the overseas markets since March 2018.

### *Gross margin for electronic devices sales*

We experienced significant increases in gross margin for electronic devices sales from the year ended 2016 to 2017 due to the fluctuation of selling prices and the cost of the smart accessories we sold at the early stage of this business line. We experienced a significant decrease in gross margin for electronic devices sales from the year ended 31 December 2017 to 2018 due to the development of certified pre-owned and factory smartphones sales in August 2017. The gross margin of electronic devices for the year ended 31 December 2017 mainly represented that of our smart accessories business line. The gross margin for the business line of sales of certified pre-owned and factory smartphones is much lower than that for the business line of sales of smart accessories. As such, the gross margin for the sales of electronic devices for the year ended 31 December 2018 was substantially lower than that for the same period in 2017. We experienced a decrease in gross margin for electronic devices sales from the four months ended 30 April 2018 to the four months ended 30 April 2019 mainly due to the lower gross margin of other electronic devices sales as compared with certified pre-owned and factory smartphone sales and the significantly increased revenue from other electronic devices.

### *Trade receivables turnover days*

We experienced significant increases in trade receivables turnover days from 2017 to 2018 and from the four months ended 30 April 2018 to the four months ended 30 April 2019. For the details of reason for such a fluctuation, please see “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Discussion of Certain Items from the Statements of Financial Position – Trade Receivables.”

### *Trade payables turnover days*

We experienced decreases in trade payables turnover days from 2017 to 2018 and from the four months ended 30 April 2018 to the four months ended 30 April 2019. For the details of reason for such a fluctuation, please see “Financial Information – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Discussion of Certain Items from the Statements of Financial Position – Trade payables.”

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### Capital expenditures

The following table sets forth our capital expenditures for the periods indicated:

	For the year ended 31 December			For the four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property and equipment . . . . .	(448)	(339)	(3,648)	(105)	(566)
Purchase of intangible assets . . . . .	—	—	—	—	(112)
<b>Total . . . . .</b>	<b><u>(448)</u></b>	<b><u>(339)</u></b>	<b><u>(3,648)</u></b>	<b><u>(105)</u></b>	<b><u>(678)</u></b>

Our historical capital expenditures primarily included expenditures for purchases of property and equipment such as servers and computers and intangible assets such as trademarks, franchises, and U8 Financial Software. We funded our capital expenditure requirements during the Track Record Period mainly from daily operation and receivables from sales and services we provide.

Our capital expenditures amounted to RMB0.4 million, RMB0.3 million, RMB3.6 million, RMB0.1 million and RMB0.6 million for the years ended 31 December 2016 and 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively. The decrease by RMB0.1 million in our total capital expenditures from the years ended 31 December 2016 to 31 December 2017 was primarily due to the decrease in PCs and other office supplies we purchased. The increase of RMB3.3 million in our total capital expenditures from the year ended 31 December 2017 to the year ended 31 December 2018 was primarily due to the increase in our purchase of property and equipment of RMB3 million as a result of new office fixtures in Chengdu City. The increase by RMB0.5 million in our total capital expenditures from the four months ended 30 April 2018 to the four months ended 30 April 2019 was mainly due to the amortization of new office fixtures in 2019.

### *Indebtedness*

As of 31 July 2019, which is the latest practicable date for this indebtedness statement, we had one short-term loan with a balance of approximately RMB5.9 million. As of 31 July 2019, the short-term loan was secured by a pledged bank deposit held by the Group and was unguaranteed.

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As of 31 July 2019, we recognized an amount of approximately RMB19.2 million as a financial liability at fair value through profit or loss in relation to the put option liability. The put option liability was unsecured and unguaranteed.

As of 31 July 2019, we recognized an amount of approximately RMB5.2 million of lease liabilities which was secured by rental deposits and was unguaranteed. Except as aforesaid and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, we did not have, as of 31 July 2019, any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, other recognized lease liabilities, guarantees or other material contingent liabilities.

As of the Latest Practicable Date, we have no unutilized banking facilities.

### *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to a variety of market risks, mainly interest rate risk, credit risk and liquidity risk.

#### **Interest rate risk**

We are exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

No sensitivity analysis was prepared for variable-rate interest bearing bank balances as the bank interest rate on current saving account is relative stable over the Track Record Period.

#### **Credit risk**

We are exposed to credit risk in relation to our bank balances and cash, trade and other receivable, AFS financial assets, and financial assets at FVTPL. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets. To manage this risk arising from bank balances and cash, trade and other receivable, AFS financial assets, and financial assets at FVTPL. There has been no recent history of default in relation to these financial institutions. We have policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. We are not expose to significant credit risk arising from sales of smart hardware as advance payment are generally required from most of our customers. For advertising customers, which are mainly advertising agencies, the credit quality of each customer is assessed, which takes into account its financial position, pas experience and other factors.

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For other receivables, our management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

### **Liquidity risk**

Due to the dynamic nature of our underlying businesses, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents to meet our liquidity requirements. During the Track Record Period, we had primarily funded our cash requirements principally from capital contribution from shareholders and daily operation.

For the analysis of our non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date.

### ***Off-balance Sheet Arrangements***

As of the Latest Practicable Date, we have not entered into any off-balance sheet arrangements.

## **DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rule 13.13 to 13.19 of the Listing Rules.

## **LISTING EXPENSES**

The total estimated listing expenses (including underwriting commission) in connection with the Global Offering amount to RMB50.9 million based on the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. We did not incur any listing expenses for the year ended 31 December 2016. For the year ended 31 December 2017, we accrued listing expenses amounting to RMB0.5 million, which has been charged to the profit and loss. For the year ended 31 December 2018, we incurred listing expenses amounting to RMB16.1 million, which has been charged to the profit and loss. We estimate that the listing expenses to be incurred and charged to the profit and loss in the financial period after 30 April 2019 will be RMB12.7 million.

## **UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the Global Offering on the net tangible assets of our Group as of 30 April 2019 as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of



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its hypothetical nature, it may not provide a true picture of our net tangible assets had the Global Offering been completed as of 30 April 2019 or at any future date. It is prepared based on our consolidated net assets as of 30 April 2019 as set forth in the Accountant's Report in Appendix I to this Prospectus, and adjusted as described below. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 April 2019. Our unaudited pro forma adjusted net tangible assets does not form part of the Accountant's Report in Appendix I to this Prospectus.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 April 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 April 2019	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 April 2019 per Share	
	<i>RMB'000<sup>(1)</sup></i>	<i>RMB'000<sup>(2)</sup></i>	<i>RMB'000</i>	<i>RMB<sup>(3)</sup></i>	<i>HK\$<sup>(4)</sup></i>
Based on a minimum offer price of HK\$2.30 per Share . . . . .	229,457	91,878	321,335	1.24	1.37
Based on a maximum offer price of HK\$3.00 per Share . . . . .	229,457	128,727	358,184	1.38	1.53

*Notes:*

- (1) The amount is based on the audited consolidated net assets of the Group attributable to the owners of the Company as of 30 April 2019 of RMB232,252,000, extracted from the Accountants' Report of the Group set out in Appendix I to this Prospectus and adjusted for intangible assets of approximately RMB2,795,000. The audited consolidated net assets of the Group attributable to the owners of the Company as of 30 April 2019 has included the carrying amount of Put Option (as defined in Note 3 below) of RMB18,899,000 which is designated as financial liability at fair value through profit or loss in the consolidated statements of financial position of the Group as of 30 April 2019.
- (2) The estimated net proceeds from the Global Offering are based on 60,000,000 Shares at the offer price of lower limit and upper limit of HK\$2.30 and HK\$3.00 per Share, respectively, after deduction of estimated related fees and expenses (excluding approximately RMB19.66 million listing expenses which have already been accounted for prior to 30 April 2019) and do not take into account any Share that may be issued pursuant to the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share has been arrived on the basis of a total of 260,000,000 Shares in issue immediately following completion of the Global Offering and Capitalization Issue, which include 1,441,961 Shares with the liquidation preference and redemption rights (the "Put Option") granted to an Independent Third Party, Lima High Tech Limited ("Lima"). It does not take into account any Share which may be issued upon exercise of the Over-allotment Option.

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- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share, stated in Renminbi are converted into Hong Kong Dollar at an exchange rate of RMB0.9028 to HK\$1, the rate prevailing on 16 September 2019 with reference to the rate published by the People's Bank of China. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or any other rates or at all.
- (5) As disclosed in the Note 29 to Historical Financial Information of the Accountants' Report set out in Appendix I to this Prospectus, the Company issued 7,110 shares (before the effect of Capitalization Issue) of the Company with liquidation preference and the Put Option to Lima, at US\$399 (equivalent to RMB2,725) per share for a total net cash proceeds of approximately US\$2,837,000 (equivalent to RMB19,375,000) in August 2018. The liquidation preference and the Put Option granted to Lima will be terminated upon listing. For the purpose of calculating the above unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 April 2019 per share, the audited consolidated net assets of the Group attributable to the owners of the Company as of 30 April 2019 has included the carrying amount of Put Option of RMB18,899,000 which was designated as a financial liability at fair value through profit or loss in the consolidated statements of financial position of the Company as of 30 April 2019.

Had the carrying amount of Put Option been transferred to equity upon termination of liquidation preference and the Put Option as of 30 April 2019, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 April 2019 would have been increased by approximately RMB18,899,000, which represents the carrying value of the Put Option as of 30 April 2019. Assuming the termination of liquidation preference and the Put Option and with the estimated net proceeds from the Global Offering as assumed in note 2 above, based on the minimum and maximum Offer Price of HK\$2.30 and HK\$3.00 per Share, respectively, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of 30 April 2019 would have been RMB340,234,000 and RMB377,083,000, respectively, and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of 30 April 2019 per Share would be RMB1.31 (approximately HK\$1.45) per Share and RMB1.45 (approximately HK\$1.61) per Share, respectively. The computation of such unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of 30 April 2019 per share is arrived on the basis of a total of 260,000,000 Shares in issue immediately following completion of Global Offering and Capitalization Issue.

- (6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 April 2019 to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2019.

### DIVIDENDS

Our Group did not declare any dividends during the Track Record Period. Our Group does not currently have a formal dividend policy or a fixed dividend payout ratio. After completion of the Global Offering, our shareholders will be entitled to receive any dividends that we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of Shareholders.

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### **DISTRIBUTABLE RESERVES**

As of 30 April 2019, we had reserves of RMB189.3 million available for distribution to our shareholders. However, we did not have any plan to distribute such reserves as of the Latest Practicable Date.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that, since 30 April 2019 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects and no event had occurred that would materially and adversely affect the financial information in the Accountants' Report included as Appendix I to this Prospectus.

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## CORNERSTONE INVESTORS

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### THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with five cornerstone investors (the “**Cornerstone Investors**” and each a “**Cornerstone Investor**”) who have agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased for an aggregate amount of HK\$57,000,000 at the Offer Price (exclusive of the brokerage, the SFC transaction levy and the Stock Exchange trading fee) (the “**Cornerstone Placing**”).

Assuming the Offer Price of HK\$2.30, being the low-end of the indicative Offer Price range set out in the Prospectus, the total number of Shares to be subscribed by the Cornerstone Investors would be 24,782,000 Shares, representing approximately 41.3% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 35.9% of the Offer Shares (assuming the Over-allotment is exercised in full), and approximately 9.5% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) and approximately 9.2% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment is exercised in full).

Assuming the Offer Price of HK\$2.65 being the mid-point of the indicative Offer Price range set out in the Prospectus, the total number of Shares to be subscribed by the Cornerstone Investors would be 21,509,000 Shares, representing approximately 35.8% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 31.2% of the Offer Shares (assuming the Over-allotment is exercised in full), and approximately 8.3% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) and approximately 8.0% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment is exercised in full).

Assuming the Offer Price of HK\$3.00, being the high-end of the indicative Offer Price range set out in the Prospectus, the total number of Shares to be subscribed by the Cornerstone Investors would be 19,000,000 Shares, representing approximately 31.7% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 27.5% of the Offer Shares (assuming the Over-allotment is exercised in full), and approximately 7.3% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) and approximately 7.1% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment is exercised in full).

The Cornerstone Placing will form part of the International Offering. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, each of the Cornerstone Investors is an independent third party, is not our connected person, is independent of each other, our Group, its connected person(s) and respective associate(s) and is not an existing shareholder or close associate of our Group. The Shares to be subscribed for by the Cornerstone Investor will be counted towards the public float of our Company and will rank *pari passu* with the Shares then in issue and to be listed on the Stock Exchange. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, nor will any of them become a substantial shareholder

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## CORNERSTONE INVESTORS

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or connected person of our Company, and will not further subscribe any Offer Shares in the Global Offering. None of the Cornerstone Investors has any preferential rights compared with other public shareholders pursuant to the cornerstone investment agreements. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed “Structure of the Global Offering” in this Prospectus.

Details of allocation to the Cornerstone Investors will be disclosed in the announcement of allotment results of our Company to be published on or about Wednesday, 9 October 2019.

### THE CORNERSTONE INVESTORS

We set out below a brief description of each of the Cornerstone Investors:

#### *Hong Kong Green Dynasty International Co. Limited (香港大朝國際有限公司)*

Our Company, Guosen Securities (HK) Capital Co., Ltd., Macquarie Capital Limited and CCB International Capital Limited have entered into a cornerstone investment agreement on 16 September 2019 with Hong Kong Green Dynasty International Co. Limited (香港大朝國際有限公司) (“**Green Dynasty**”), pursuant to which Green Dynasty agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of HK\$10 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price.

Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Green Dynasty would subscribe for would be 4,347,000 Shares, representing approximately 7.2% of the total number of the Offer Shares and 1.7% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Green Dynasty would subscribe for would be 3,773,000 Shares, representing approximately 6.3% of the total number of the Offer Shares and 1.5% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that Green Dynasty would subscribe for would be 3,333,000 Shares, representing approximately 5.6% of the total number of the Offer Shares and 1.3% of our total shares in issue immediately following completion of the Global Offering.

Assuming that the Over-allotment Option is exercised in full, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Green Dynasty would subscribe for would be 4,347,000 Shares, representing approximately 6.3% of the total number of the Offer Shares and 1.6% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Green Dynasty would subscribe for would be 3,773,000 Shares, representing approximately 5.5% of the total number of the Offer Shares and 1.4% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total

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## CORNERSTONE INVESTORS

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number of Shares that Green Dynasty would subscribe for would be 3,333,000 Shares, representing approximately 4.8% of the total number of the Offer Shares and 1.2% of our total shares in issue immediately following completion of the Global Offering.

The number of Shares to be subscribed by Green Dynasty should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Green Dynasty is a limited company incorporated in Hong Kong on 14 June 2017. It is principally engaged in equity investment in the stock markets of major financial centres around the world focusing on big consumption, big health and telecommunication, media and technology (TMT) industries. Green Dynasty has previously invested in the international placings of the initial public offerings of a number of Hong Kong Main Board listed companies such as A-Living Services Co., Ltd. (stock code: 3319), Haidilao International Holding Ltd. (stock code: 6862) and 7Road Holdings Limited (stock code: 797). Green Dynasty is controlled by Mr. Wu Zhanming (吳瞻明) (“**Mr. Wu**”), who is a PRC national and a professional investor. Each of Green Dynasty and its shareholders including Mr. Wu is an Independent Third Party.

### *Mobvista International Technology Limited (匯聚國際技術有限公司)*

Our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited have entered into a cornerstone investment agreement on 16 September 2019 with Mobvista International Technology Limited (匯聚國際技術有限公司) (“**MIT HK**”), pursuant to which MIT HK agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of HK\$10 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price.

Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that MIT HK would subscribe for would be 4,347,000 Shares, representing approximately 7.2% of the total number of the Offer Shares and 1.7% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that MIT HK would subscribe for would be 3,773,000 Shares, representing approximately 6.3% of the total number of the Offer Shares and 1.5% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that MIT HK would subscribe for would be 3,333,000 Shares, representing approximately 5.6% of the total number of the Offer Shares and 1.3% of our total shares in issue immediately following completion of the Global Offering.

Assuming that the Over-allotment Option is exercised in full, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that MIT HK would subscribe for would be 4,347,000 Shares, representing approximately 6.3% of the total number of the Offer Shares and 1.6% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that MIT HK would subscribe for would be 3,773,000 Shares, representing approximately 5.5% of the total number of the Offer Shares and 1.4% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total



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## CORNERSTONE INVESTORS

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number of Shares that MIT HK would subscribe for would be 3,333,000 Shares, representing approximately 4.8% of the total number of the Offer Shares and 1.2% of our total shares in issue immediately following completion of the Global Offering.

The number of Shares to be subscribed by MIT HK should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

MIT HK is a limited company incorporated in Hong Kong on 15 December 2014. It is an indirect wholly-owned subsidiary of Mobvista Inc. (together with its subsidiaries, the “**Mobvista Group**”), a company incorporated in the Cayman Islands whose shares are listed on the Main Board of the Stock Exchange (stock code: 1860). Mobvista Group is principally engaged in the provision of mobile advertising and mobile analytics services to the app developers globally, which help app developers better acquire users, monetize apps and understand the performance of apps and behavior of users on its mobile advertising platform and mobile analytics SaaS platform. Mobvista Inc. has a market capitalization of approximately HK\$5.8 billion as at the close of business on 20 September 2019, and recorded revenue and net profit of approximately US\$434.7 million and US\$21.9 million for the year ended 31 December 2018 respectively.

### *Ms. Qian Haiyan*

Our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited have entered into a cornerstone investment agreement on 16 September 2019 with Ms. Qian Haiyan (錢海燕) (“**Ms. Qian**”), pursuant to which Ms. Qian agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of HK\$7 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price.

Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Qian would subscribe for would be 3,043,000 Shares, representing approximately 5.1% of the total number of the Offer Shares and 1.2% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Qian would subscribe for would be 2,641,000 Shares, representing approximately 4.4% of the total number of the Offer Shares and 1.0% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Qian would subscribe for would be 2,333,000 Shares, representing approximately 3.9% of the total number of the Offer Shares and 0.9% of our total shares in issue immediately following completion of the Global Offering.

Assuming that the Over-allotment Option is exercised in full, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Qian would subscribe for would be 3,043,000 Shares, representing approximately 4.4% of the total number of the Offer Shares and 1.1% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Qian would subscribe for would be 2,641,000 Shares, representing approximately 3.8% of the total number of the Offer Shares and 1.0% of our total shares in



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## CORNERSTONE INVESTORS

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issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Qian would subscribe for would be 2,333,000 Shares, representing approximately 3.4% of the total number of the Offer Shares and 0.9% of our total shares in issue immediately following completion of the Global Offering.

The number of Shares to be subscribed by Ms. Qian should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Ms. Qian is a PRC national and a dentist domiciled and practising in a hospital in Changzhou, Jiangsu Province, the PRC with over 15 years of experience in the medical and orthodontic industry. Ms. Qian is also an investor with over 10 years of investment experience focusing on investments in the Hong Kong stock market. Ms. Qian's husband is participating in the PRC property market. Ms. Qian is an Independent Third Party.

### *Mr. Chen Xian*

Our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited have entered into a cornerstone investment agreement on 18 September 2019 with Mr. Chen Xian (陳賢) (“**Mr. Chen**”), pursuant to which Mr. Chen agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of HK\$15 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price.

Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Mr. Chen would subscribe for would be 6,521,000 Shares, representing approximately 10.9% of the total number of the Offer Shares and 2.5% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Mr. Chen would subscribe for would be 5,660,000 Shares, representing approximately 9.4% of the total number of the Offer Shares and 2.2% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that Mr. Chen would subscribe for would be 5,000,000 Shares, representing approximately 8.3% of the total number of the Offer Shares and 1.9% of our total shares in issue immediately following completion of the Global Offering.

Assuming that the Over-allotment Option is exercised in full, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Mr. Chen would subscribe for would be 6,521,000 Shares, representing approximately 9.5% of the total number of the Offer Shares and 2.4% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Mr. Chen would subscribe for would be 5,660,000 Shares, representing approximately 8.2% of the total number of the Offer Shares and 2.1% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that Mr. Chen would subscribe for would be 5,000,000 Shares, representing approximately 7.2% of the total number of the Offer Shares and 1.9% of our total shares in issue immediately following completion of the Global Offering.

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## CORNERSTONE INVESTORS

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The number of Shares to be subscribed by Mr. Chen should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Mr. Chen is a PRC national born in Wenzhou, Zhejiang Province, the PRC and based in Beijing, the PRC, and is experienced in private equity and funds investment focusing on high-technology and Internet sectors. Mr. Chen has over seven years of working experience in financial institutions, and is currently the legal representative of Tianchong Capital Management Co., Ltd.\* (天蟲資本管理有限公司), which is a PRC professional private equity investment fund company based in Hangzhou, Zhejiang Province, the PRC. Mr. Chen has previous investment experience in a number of A-share listed companies with investment focus on industries including petrochemical, new energy and high-tech businesses. Mr. Chen is an Independent Third Party.

### *Ms. Wu Meirong*

Our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited have entered into a cornerstone investment agreement on 18 September 2019 with Ms. Wu Meirong (吳美蓉) (“**Ms. Wu**”), pursuant to which Ms. Wu agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of HK\$15 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price.

Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Wu would subscribe for would be 6,521,000 Shares, representing approximately 10.9% of the total number of the Offer Shares and 2.5% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Wu would subscribe for would be 5,660,000 Shares, representing approximately 9.4% of the total number of the Offer Shares and 2.2% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Wu would subscribe for would be 5,000,000 Shares, representing approximately 8.3% of the total number of the Offer Shares and 1.9% of our total shares in issue immediately following completion of the Global Offering.

Assuming that the Over-allotment Option is exercised in full, at the Offer Price of HK\$2.30, being the low-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Wu would subscribe for would be 6,521,000 Shares, representing approximately 9.5% of the total number of the Offer Shares and 2.4% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$2.65, being the mid-point of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Wu would subscribe for would be 5,660,000 Shares, representing approximately 8.2% of the total number of the Offer Shares and 2.1% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$3.00, being the high-end of the Offer Price range set out in the Prospectus, the total number of Shares that Ms. Wu would subscribe for would be 5,000,000 Shares, representing approximately 7.2% of the total number of the Offer Shares and 1.9% of our total shares in issue immediately following completion of the Global Offering.

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## CORNERSTONE INVESTORS

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The number of Shares to be subscribed by Ms. Wu should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Ms. Wu is a PRC national domiciled in Shenzhen, the PRC and has over 10 years of experience in equity investment in the PRC. Ms. Wu is one of the ultimate controlling persons of Yipinhong Pharmaceutical Co., Ltd, a company principally engaged in the research and development, manufacturing and sales of pharmaceutical products, whose shares are listed and traded on Shenzhen Stock Exchange (stock code: 300723). Ms. Wu, together with her husband, also controls a PRC private venture capital company focusing on investment in medical equipment, pharmaceutical and Internet technology businesses. Ms. Wu is an Independent Third Party.

### CONDITIONS PRECEDENT

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) which in turn is conditional on, among others, the Listing Committee of the Stock Exchange having granted the Listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked;
- (ii) neither of Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated;
- (iii) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the closing of the Cornerstone Placing and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of the closing of the Cornerstone Placing; and
- (iv) the respective representations, warranties and confirmations of the Cornerstone Investor and the Company in the cornerstone investment agreement are accurate and true and not misleading and that there is no material breach of the cornerstone investment agreement on the part of the Cornerstone Investor or the Company.

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## CORNERSTONE INVESTORS

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### RESTRICTIONS ON THE INVESTMENTS BY THE CORNERSTONE INVESTORS

Set forth below are the restrictions on the investments by each of the Cornerstone Investors:

#### *Green Dynasty*

Green Dynasty has agreed that, without the prior written consent of our Company, Guosen Securities (HK) Capital Co., Ltd., Macquarie Capital Limited and CCB International Capital Limited, it will not at any time during the period of six months following the Listing Date (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (as defined in the cornerstone investment agreement), either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares to be subscribed pursuant to the cornerstone investment agreement (the “**Green Dynasty Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Green Dynasty Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Green Dynasty Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; and (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above.

#### *MIT HK*

MIT HK has agreed that, without the prior written consent of our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, she will not at any time during the period of six months following the Listing Date (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (as defined in the cornerstone investment agreement), either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares to be subscribed pursuant to the cornerstone investment agreement (the “**MIT HK Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the MIT HK Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the MIT HK Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; and (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above.

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## CORNERSTONE INVESTORS

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### *Ms. Qian*

Ms. Qian has agreed that, without the prior written consent of our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, she will not at any time during the period of six months following the Listing Date (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (as defined in the respective cornerstone investment agreement), either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares to be subscribed pursuant to the respective cornerstone investment agreement (the “**Ms. Qian Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Ms. Qian Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Ms. Qian Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; and (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above.

### *Mr. Chen*

Mr. Chen has agreed that, without the prior written consent of our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, he will not at any time during the period of six months following the Listing Date (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (as defined in the respective cornerstone investment agreement), either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares to be subscribed pursuant to the respective cornerstone investment agreement (the “**Mr. Chen Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Mr. Chen Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Mr. Chen Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; and (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above.

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## CORNERSTONE INVESTORS

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### *Ms. Wu*

Ms. Wu has agreed that, without the prior written consent of our Company, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, she will not at any time during the period of six months following the Listing Date (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (as defined in the respective cornerstone investment agreement), either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares to be subscribed pursuant to the respective cornerstone investment agreement (the “**Ms. Wu Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Ms. Wu Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Ms. Wu Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; and (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS AND STRATEGIES

Our business objective is to become a trustable hardware expert and leading Internet company. To achieve such objectives, we intend to implement our business strategies. For further details of our business objectives and strategies, see “Business – Our Business Strategies” in this Prospectus.

### USE OF PROCEEDS

If the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, we estimate that we will receive net proceeds of approximately HK\$102.6 million from the Global Offering, after deducting the underwriting, commissions and other estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK\$2.65 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. We intend to use such net proceeds from the Global Offering for the purposes and in the amounts set forth below:

- approximately 30%, or approximately HK\$30.8 million, to be used to enhance our research and development capability, including employ more professional experts, expand our research and development team and acquire technical intellectual property rights. Our main product is hardware and system benchmarking and monitoring software, which requires high-end and advanced technology. With such business nature, we have devoted the majority of our resources and personnel to technology research and development, which is one of the key drivers for supporting our business. We spent RMB13.1 million, RMB16.8 million, RMB23.4 million, RMB7.3 million and RMB8.8 million on research and development for the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2018 and 2019, respectively, accounting for 18.8%, 13.7%, 7.3%, 7.6% and 7.8% of the total revenue for the respective periods. Following this business strategy along the years of development, research and development has been our top priority and the most important basis for our future business. We plan to (i) improve quality of our software and products by improving our hardware and system benchmarking and monitoring abilities and diversify our products to enlarge our coverage range to any hardware and system operating under Android system; (ii) establish electronic devices laboratories, such as optical laboratories, acoustical laboratories, and VR technology laboratories; (iii) purchase professional experiment equipment and testing facilities for our laboratories; (iv) provide statistical support for businesses in other fields, such as big-data publishing and establishing authoritative data platforms; (v) develop tailored products for overseas markets; and (vi) acquire benchmarking-related technologies, such as 3D graphic engine development technology, big-data analysis technology, AI technologies, such as applications with image recognition function and deep learning and machine learning technologies.



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## FUTURE PLANS AND USE OF PROCEEDS

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We plan to develop AI technologies to explore different business lines and improve the competitiveness of our future products. According to the forecasts by many recent technology development trends, AI hardware application is expected to become mainstream technology. Despite the traditional application of AI hardware technologies in mobile phone, AI hardware technologies can be widely applied in audio equipment, video equipment, surveillance equipment, home media center, cloud and all fast-responding IoT, which are covered by the 5G network. Based on the understanding and analysis of the future development of AI technologies, we plan to develop diversified AI-related hardware and system benchmarking and monitoring services and AI applications according to the respective features of different products. We plan to establish our research and development team focusing on the research of neural network model, in order to build a supporting system of AI technologies. In other words, having a supporting system of AI technologies helps us to master an independent ability of research and development from the standpoint of technical principles. We plan to employ several AI technology engineers, in particular, the algorithm engineers, and purchase relevant experimental facilities and subjects of AI technologies. For image recognition technology, we plan to (i) purchase the service of big-data base to build our own image data base; and (ii) develop the comprehensive logical algorithm based on our image data base. Leveraging on our existing hardware and system benchmarking and monitoring technologies, we plan to apply our image recognition technology in testing the image recognition performance of electronic devices and image recognition function of Apps. In the meanwhile, we also plan to timely upgrade our image recognition technology to keep pace with the high-speed development of computer hardware and software. We plan to employ 20 windows and android systems developers, 3 PHP engineers and 8 testing engineers with at least three years' working experience and bachelor degree. We plan to allocate the research and development budget to each of our business lines in the following way: (a) improve our products by expanding our research and development team and enhancing our core technologies at the amount of HK\$12.4 million; (b) further monetize our online traffic by establishing our tailored advertising management system, maintaining and upgrading our existing game platform and developing our own online games at the amount of HK\$12.4 million; and (c) develop and maintain the certified pre-owned and factory smartphones e-commerce platform at the amount of HK\$6.0 million. We plan to spend in research and development at the amount of HK\$1.4 million, HK\$7.6 million, HK\$7.6 million, HK\$7.6 million and HK\$6.6 million for the years ending 31 December 2019, 2020, 2021, 2022 and 2023, respectively;

## FUTURE PLANS AND USE OF PROCEEDS

The breakdown of the allocation of the research and development budget is demonstrated as follows:

Areas	For the year ending 31 December						Total	%
	2019	2020	2021	2022	2023	Total		
	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>		
(i) improve quality of our software and products by improving our hardware and system benchmarking and monitoring abilities and diversify our products to enlarge our coverage to any hardware and system operating under Android system . . . . .	0.3	1.5	1.5	1.5	1.3	6.1	20%	
(ii) establish electronic devices laboratories, such as optical laboratories, acoustical laboratories, and VR technology laboratories . . .	0.3	1.5	1.5	1.5	1.3	6.1	20%	
(iii) purchase professional experiment equipment and testing facilities for our laboratories . . . . .	0.1	0.8	0.8	0.8	0.7	3.2	10%	
(iv) provide statistical support for businesses in other fields, such as big-data publishing and establishing authoritative data platforms . . . . .	0.1	0.8	0.8	0.8	0.7	3.2	10%	
(v) develop tailored products for overseas markets . . . . .	0.3	1.5	1.5	1.5	1.3	6.1	20%	
(vi) acquire benchmarking-related technologies, such as 3D graphic engine development technology, big-data analysis technology, AI technologies, applications with image recognition function and deep learning and machine learning technologies . . . . .	0.3	1.5	1.5	1.5	1.3	6.1	20%	

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## FUTURE PLANS AND USE OF PROCEEDS

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- approximately 20%, or approximately HK\$20.5 million, to be used to advertise and promote Ludashi Software and related software and products on the third parties' electronic platforms, and continue to carry out our existing marketing plans. In the past, we have established a well-recognized brand image as a hardware expert among savvy users by developing a series of additional functions of Ludashi Software and extended utility software. Such a brand image, to a significant extent, relied on word-of-mouth among our satisfied loyal users with great potential for future progress. Besides, we also adopt the most common promotion method in the Internet industry, namely advertising on other platforms. We enhanced our brand awareness in the market by setting hyperlinks, leasing advertisement space on third-party software or websites or purchasing third-parties' recommendation, which incurred a considerable amount of expenses during the Track Record Period. Competitive as the Internet market is, in order to gain continuous exposure, we need to keep this intensive advertising investment and meanwhile employ additional advertising and promoting methods as disclosed in this Prospectus. We plan to: (i) launch online and offline promotion, such as advertising on Weibo personal homepages of KOLs and Internet media, and other online advertising channels; (ii) hold press conferences for digital products; (iii) promote online and offline advertising globally, such as paper media advertising, We-Media and physical commercial landmarks, such as the outer walls of outstanding or remarkable constructions in business centers of different cities and subway stations; and (iv) promote Dual Space and Easy Clean in overseas markets. We plan to spend in advertising and promoting at the amount of HK\$0.9 million, HK\$5.1 million, HK\$5.1 million, HK\$5.1 million and HK\$4.3 million for the years ending 31 December 2019, 2020, 2021, 2022 and 2023, respectively;

Although we have already established a well-recognized hardware expert image, we still plan to employ intensive advertising due to the following reasons: (i) the penetration rate of hardware and system benchmarking and monitoring software user was only 11.7% in 2017, indicating great potential for continuous growth. Ludashi Software, as an important market player, also enjoys great growth potential; (ii) we had a high user concentration on savvy users. As part of our brand development strategies, we plan to promote our products, such as Game Library, Dual Space and Easy Clean, and improve their popularity among ordinary users; (iii) *Ludashi* is a domestic established and well-recognized hardware expert brand. We need to improve the reputation of our products, such as Dual Space and Easy Clean, in selected overseas markets, which will require a considerable amount of funds; (iv) we advertise our certified pre-owned and factory smartphones and build our e-commerce platform for this business line, because with the rising reputation of our certified pre-owned and factory smartphones endorsed by the logos of *Ludashi* or *Xiao Lu Hao Huo* among ultimate end customers, we could improve *Ludashi's* reputation among those customers, who may become potential users of Ludashi Software; and (v) we also need to advertise our online game platform which would help improve the reputation of Ludashi Software in turn by increasing users' stickiness to our products. The ways to increase users' stickiness of our products and

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## FUTURE PLANS AND USE OF PROCEEDS

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improve reputation of the Ludashi Software are as follows: (a) we advertise Ludashi Software on Game Library. The more players there are on Game Library, the more users who may be attracted to Ludashi Software; (b) the temperature monitoring software, which works with Game Library, monitors the temperature and operation of users' PCs. It helps to retain users attracted by Game Library; and (c) game players usually have higher expectation on the hardware of their PCs and may need our core technology, hardware and system benchmarking and monitoring, to test their hardware.

- approximately 20%, or approximately HK\$20.5 million, to be used to enhance our own certified pre-owned and factory smartphones e-commerce platform (<https://www.xiaoluyouxuan.com>) and offline sales channel, *Xiao Lu Hao Huo*. During the Track Record Period, we spent most of our resources on procurement, freight, packaging and warehousing while building our pre-owned smartphone platform. We will continue to enhance this relatively new business line by taking the following strategies: (i) expand our existing sales and daily operation team for certified pre-owned smartphone sales and spent approximately HK\$6.1 million; (ii) exploit cooperative channels with offline business entity customers by designating sales representatives responsible for communicating with the offline retail stores to be established in the future and entering into agreements with fixed sales volume agreed upon by both parties and the related discounts with those offline retail stores and spent approximately HK\$4.4 million. Those sales representatives would visit pre-owned smartphones retail stores in major cities in the PRC, sell our certified pre-owned smartphones to them and try to establish long-term cooperative relationship with them. Those sales representatives would instruct the retail stores interested in cooperating to decorate their stores with *Ludashi* or *Xiao Lu Hao Huo* logos, regularly visit those stores and collect information, such as sales volume, selling prices and consumer preferences, in order to timely adjust our marketing strategies; (iii) advertise on App platforms for mobile devices and spent approximately HK\$1.6 million; (iv) advertise on billing boards in some particular regions with large offline platforms and spent approximately HK\$3.5 million; (v) advertise on TV media and spent approximately HK\$2.8 million; and (vi) carry out promoting activities among our users, especially our targeted users, students who may have needs for pre-owned smartphones because of their limited budgets, and spent approximately HK\$2.1 million. We plan to recruit 40 sales staff for certified pre-owned smartphones business line and deploy some of them to major cities in the PRC in order to: (i) race to take over the emerging offline pre-owned smartphone market and (ii) keep up with the rapid development and expansion of our offline certified pre-owned smartphones business line to cover more than 25 provinces by the year of 2019. Among the 40 sales staff we plan to recruit, there will be: (i) one sales member for one province, in total 30 sales personnel in more than 25 provinces in China, in charge of managing all sales areas, communicating with the retail stores, getting to know the market and timely responding to the market demands, in order to closely work with those retail stores on site and establish cooperative relationship with additional ones, considering that our sales team had been cooperating with

## FUTURE PLANS AND USE OF PROCEEDS

those retail restores remotely during the Track Record Period, and (ii) 10 marketing personnel, five among whom are responsible for formulating and executing marketing and sales activities and policies, and following up the execution, and the other five among whom are responsible for advertisement and promotion through different channels and monitoring the effects of our advertising and promoting policies. We plan to spend in certified pre-owned and factory smartphones e-commerce platform at the amount of HK\$0.9 million, HK\$5.1 million, HK\$5.1 million, HK\$5.1 million and HK\$4.3 million for the years ending 31 December 2019, 2020, 2021, 2022 and 2023, respectively;

The breakdown of the allocation of the certified pre-owned and factory smartphones e-commerce platform budget is demonstrated as follows:

Areas	For the year ending 31 December						Total
	2019	2020	2021	2022	2023	Total	
	<i>HK\$'</i>	<i>HK\$'</i>	<i>HK\$'</i>	<i>HK\$'</i>	<i>HK\$'</i>	<i>HK\$'</i>	%
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	%
(i) expand our existing sales and daily operation team . .	0.3	1.5	1.5	1.5	1.3	6.1	30.0
(ii) exploit cooperative channels with offline business entity customers . .	0.2	1.1	1.1	1.1	0.9	4.4	21.0
(iii) advertise on App platforms for mobile devices . . . . .	0.1	0.4	0.4	0.4	0.3	1.6	7.0
(iv) advertise on billing boards in some particular regions with large offline platforms . . . . .	0.1	0.9	0.9	0.9	0.7	3.5	17.5
(v) advertise on TV media . . .	0.1	0.7	0.7	0.7	0.6	2.8	14.0
(vi) carry out promoting activities among our users .	0.1	0.5	0.5	0.5	0.5	2.1	10.5

## FUTURE PLANS AND USE OF PROCEEDS

The breakdown of the amount of net proceeds allocated for exploiting cooperative channels with offline business entity customers is demonstrated as follows:

<b>Matters</b>	<b>For the year ending 31 December</b>						<b>Total</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>	
	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	<i>HK\$'</i> <i>million</i>	
Retail Store Management							
Expenses .....	0.1	0.3	0.3	0.3	0.3	1.3	30
Retail Store Rebating .....	0.1	0.3	0.3	0.3	0.3	1.3	30
Maintenance and After-sales							
Teams .....	–	0.2	0.2	0.2	0.2	0.8	20
Product Examining and							
Testing Team .....	–	0.3	0.3	0.3	0.1	1.0	20

- approximately 20%, or approximately HK\$20.5 million, to be used to make additional strategic investments and acquisitions in cash alone or in combination with equity. In 2015, we started investing in smart accessories with products such as smartphone charging cables, chargers and change-over plugs. In 2017, we established the business line of certified pre-owned and factory smartphones and further expanded this business line in 2018. In the future, in order to integrate and optimize our business structure, we plan to carry on the existing strategy and focus on the development of technology research and development and certified pre-owned smartphones in aspects of sales, use, maintenance and recycling. The entire series of strategy may raise needs for more investment in related fields and acquisitions of other entities. We plan to continue to invest in or acquire businesses that are complementary to our business and able to enhance our leading role in hardware and system benchmarking and monitoring industry, such as: (i) laboratories with high technical thresholds; (ii) businesses that possess key and mature cutting-edge technologies such VR, big-data analytics and other technologies related to our business; (iii) businesses with proven monetization models in Internet services, including but not limited to advertising, e-commerce and internet value-added services, that synergize with our plans to continue monetizing our user base; (iv) companies that operate Apps or social communities with meaningful user bases; and (v) companies that own quality intellectual property related to our business, which can enrich our products. We plan to spend in strategic investments and acquisitions at the amount of HK\$0.9 million, HK\$5.1 million, HK\$5.1 million, HK\$5.1 million and HK\$4.3 million for the years ending 31 December 2019, 2020, 2021, 2022 and 2023. We have not identified any target companies or businesses for acquisition as of the Latest Practicable Date; and

## FUTURE PLANS AND USE OF PROCEEDS

- approximately 10%, or approximately HK\$10.3 million, for our working capital and general corporate purposes. The working capital in the past was composed of cost for daily operation, such as cost of advertising and promoting, cost of electronic devices, employee remuneration, administrative expenses, selling and distribution expenses and taxation. The foregoing costs and expenses will also increase in line with the scale of the expansion of all business lines and operation in the future. We plan to invest in strategic investments and acquisitions at the amount of HK\$0.7 million, HK\$3.4 million, HK\$3.4 million and HK\$2.8 million for the years ending 31 December 2019, 2020, 2021 and 2022, respectively.

The timeline of the net proceeds allocation is demonstrated as follows:

Areas	Subdivision Areas	For the year ending 31 December						Total	%
		2019	2020	2021	2022	2023	Total		
		HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million		
Research and									
Development . . . . .	(i) Labor Cost	0.7	3.8	3.8	3.8	3.3			
	(ii) Fixed assets	0.7	3.8	3.8	3.8	3.3	30.8	30	
Advertising and									
Promoting . . . . .		0.9	5.1	5.1	5.1	4.3	20.5	20	
Certified pre-owned and factory smartphones e-commerce platform . . . . .	(i) Labor Cost	0.3	1.5	1.5	1.5	1.3			
	(ii) Advertising and Promoting	0.6	3.6	3.6	3.6	3.0	20.5	20	
Strategic investment and acquisition . . . .		0.9	5.1	5.1	5.1	4.3	20.5	20	
Working capital . . . . .		0.7	3.4	3.4	2.8	–	10.3	10	
<b>Total . . . . .</b>							<b>102.6</b>	<b>100</b>	



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## FUTURE PLANS AND USE OF PROCEEDS

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The breakdown of our employees recruitment and allocation plans is demonstrated as follows:

Areas	Number of Existing Employees as of the Latest Practicable Date	Development Needs for the Expansion	Types of Employees to be Employed	Number of Employees to be Employed	Minimum Years of Experience to be Qualified	Responsible Areas
Ludashi Software . .	13	A past and future key product, in need of the most employees	Developers	7	5	Optimizing benchmarking, researching and developing abilities
			Developers	5	3-5	Benchmarking laboratories
			Android system developers for mobile version of Ludashi Software	2	3-5	Developing new functions for mobile version of Ludashi Software
Simulator Master . . .	7	To optimize the product functions and performance, and improve users' experience	Developers for Client Ends	1	5	Optimizing the client end
			Windows Infrastructure Developers	3	5	Maintaining and optimizing the infrastructure system
Overseas Markets Products . .	6	To develop new products and accelerate the updating and optimizing of the products	Android System Developers	1	3-5	Maintaining and updating the existing products and developing new products
			Product Developers	1	3-5	New functions improvement and product operation
Servers . . . . .	13	To keep up with the increase of the users and customers of the Group's products and services	PHP Engineers	3	3	Background system establishing, developing and server maintenance

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## FUTURE PLANS AND USE OF PROCEEDS

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<u>Areas</u>	<u>Number of Existing Employees as of the Latest Practicable Date</u>	<u>Development Needs for the Expansion</u>	<u>Types of Employees to be Employed</u>	<u>Number of Employees to be Employed</u>	<u>Minimum Years of Experience to be Qualified</u>	<u>Responsible Areas</u>
Quality Assurance .	16	To meet the testing need coming with product development	Developers	8	3	Examining and testing the new functions and new products

If the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, we estimate that the additional net proceeds from the offering of these additional Shares will be approximately HK\$23.3 million, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK\$2.65 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus. We intend to apply such additional net proceeds to the purposes stated above in the same proportions.

If the Offer Price is determined at HK\$3.00 per Offer Share, being the high-end of the indicative Offer Price range stated in this Prospectus and assuming no exercise of the Over-allotment Option and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, we will receive additional net proceeds of approximately HK\$20.6 million. If the Offer Price is fixed at HK\$2.30 per Offer Share, being the low-end of the indicative Offer Price range stated in this Prospectus and assuming no exercise of the Over-allotment Option and without taking into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme, the net proceeds we receive will be reduced by approximately HK\$20.6 million. If the Offer Price is set above the mid-point of the indicative Offer Price range, we intend to apply to the purposes stated above in the same proportions. If the Offer Price is set below the mid-point of the indicative Offer Price range, we intend to reduce the allocation of the net proceeds to the purposes stated above on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately applied to the purposes stated above, and to the extent permitted by applicable laws and regulations, we intend to deposit the proceeds into accounts with licensed financial institutions. We will make a formal announcement in the event that there is any change in our use of net proceeds from the purposes stated above or in our allocation of the net proceeds in the proportions stated above.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

Guosen Securities (HK) Capital Co., Ltd.  
Macquarie Capital Limited  
CCB International Capital Limited  
Guotai Junan Securities (Hong Kong) Limited

### UNDERWRITING

This Prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 6,000,000 Hong Kong Offer Shares and the International Offering of initially 54,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option in the case of the International Offering.

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### *Hong Kong Public Offering*

##### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this Prospectus and the Application Forms relating thereto.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares to be offered under the Global Offering as mentioned in this Prospectus, and certain other conditions set forth in the Hong Kong Underwriting Agreement (including the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company agreeing upon the Offer Price) being satisfied (or, as the case may be, waived), the Hong Kong Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares in aggregate, now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this Prospectus, the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

### **Grounds for termination**

The Hong Kong Underwriting Agreement is subject to termination by written notice from the Joint Global Coordinators (on behalf of the other Hong Kong Underwriters), at any time prior to 8:00 a.m. on the Listing Date if:

- (i) there develops, occurs, exists or comes into force:
  - (a) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs (whether or not covered by insurance), fire, explosion, flooding, earthquake, epidemics, pandemics, outbreaks of infections, diseases, civil commotion, riots, economic sanction, public disorder, social or political crisis, acts of war, acts of God or acts of terrorism (whether or not responsibility has been claimed), accident or interruption or delay in transportation) in or affecting the Cayman Islands, the BVI, Hong Kong, the PRC, Singapore, the United States, the United Kingdom, any member of the European Union, Japan, or any jurisdiction relevant to our Company (each a “**Relevant Jurisdiction**” and collectively, the “**Relevant Jurisdictions**”); or
  - (b) any change, or any development involving a prospective change or development or any event or series of events resulting in or representing a change or development or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, the interbank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a revaluation of the Renminbi or Hong Kong dollars against any foreign currencies respectively) in or affecting any of the Relevant Jurisdiction or elsewhere; or
  - (c) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the American Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or (B) a general moratorium on commercial banking activities in New York, London, Tokyo, Singapore, Hong Kong or China, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or

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## UNDERWRITING

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- (d) any new law, regulation or any change, development or announcement or publication involving a prospective change in existing law or regulation, or any change, development or announcement or publication involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (e) the imposition of economic sanctions, or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdiction; or
- (f) any change or development involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar against any foreign currency) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (g) any litigation, legal action or claim being announced, threatened or instigated against any member of our Group or our Controlling Shareholders or any Director; or
- (h) a Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from directorship or taking part in the management of a company; or
- (i) the commencement by any governmental authority or any governmental, law enforcement agency, regulatory or political body or organization of any action against a Director or any member of our Group or an announcement by any governmental, law enforcement agency, regulatory or political body or organization that it intends to take any such action; or
- (j) the issue or requirement to issue by our Company of a supplemental or amendment to this Prospectus, Application Forms, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the Shares pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange or the SFC, in circumstances where the matter to be disclosed could, in the opinion of the Joint Global Coordinators, adversely affect the marketing for or implementation of the Global Offering; or
- (k) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity and which demand has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or

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## UNDERWRITING

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- (l) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or
- (m) any new interpretation of laws or regulations or any new law or regulation or any change or development involving a change in the interpretation of laws or regulations that affects, or is likely to affect the existing operation of any member of our Group; or
- (n) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (o) the commencement by any governmental authority or any governmental, law enforcement agency, regulatory or political body or organization of any action against a Director or any member of our Group or an announcement by any governmental, law enforcement agency, regulatory or political body or organization that it intends to take any such action,

and which, in any such case and (a) in the reasonable opinion of the Company (in respect of an event under paragraph (i)(h)) or (b) in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) (in respect of any other event under this paragraph (i)):

- (A) is or will be or may be or is likely to be material and adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Group as a whole; or
- (B) has or will have or is likely to have a material and adverse effect on the success of the Global Offering and/or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering and/or make it impracticable or inadvisable for any part of this Agreement, the Hong Kong Public Offering and/or the Global Offering to be performed or implemented as envisaged; or
- (C) makes or will or is likely to make it inadvisable or inexpedient or impracticable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus or the disclosure package and the final offering circular; or

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## UNDERWRITING

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- (ii) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:
- (a) that any statement contained in the Prospectus, the Application Forms, the formal notice or any notice, announcements, the post hearing information packs of our Company (“**PHIPs**”), advertisements, communications or other documents issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading in any material respect, or that any forecasts, estimates, expressions of opinion, intention or expectation expressed in the Prospectus, the Application Forms, the formal notice or any notice, announcements, PHIPs, advertisements, communications or other documents issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) are not fair and honest and based on reasonable assumptions, by reference to the facts and circumstances then subsisting; or
  - (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, constitute a misstatement or omission from any of Prospectus, the Application Forms, PHIPs and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering or the Global Offering (including any supplement or amendment thereto); or
  - (c) any of the representations, warranties and undertakings given by our Company and Dashi Technology Holdings, Mr. Tian and Mr. He (together “**the Warrantors**”) in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue in any material respect or misleading or having been breached; or
  - (d) any event, act or omission which gives or is likely to give rise to any liability of our Company or any of the Warrantors pursuant to the indemnities given by our Company or the Warrantors under the Hong Kong Underwriting Agreement; or
  - (e) any material adverse change, or any development likely to result in any prospective adverse change or development in the assets and liabilities, condition, business, financial or otherwise, or in the earnings, business, operations, trading position or prospects of any member of our Group; or
  - (f) any breach of, or any event or circumstance rendering untrue, incorrect, incomplete or misleading in any respect, any of the obligations or undertakings of our Company or the Warrantors in either the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or



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## UNDERWRITING

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- (g) admission is refused or not granted on or before the Listing Date, or if granted, the admission is subsequently withdrawn, qualified (other than by customary conditions), revoked or withheld; or
- (h) our Company withdraws this Prospectus (and any other documents used in connection with the contemplated subscription and sale of the Shares) or the Global Offering; or
- (i) any experts named in this Prospectus (other than the Sole Sponsor) has withdrawn its consent to being named in or the issue of any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement) with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be); or
- (j) any change or prospective change or development or a materialization of, any of the risks set out in the section headed “Risk Factors” in this Prospectus; or
- (k) non-compliance of the Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws or regulation by our Company; or
- (l) the chairman or chief executive officer of our Company vacating his or her office; or
- (m) a contravention by any member of our Group or any Director of the Listing Rules or a material contravention by any member of our Group or any Director of applicable laws; or
- (n) a prohibition on the Company for whatever reason from offering, allotting or selling the Offer Shares (including any additional Shares to be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (o) a significant portion of the orders in the book-building process at the time of the International Underwriting Agreement is entered into have been withdrawn, terminated, cancelled or otherwise not fulfilled.

### **Undertakings to the Stock Exchange pursuant to the Listing Rules**

#### *Undertakings by Our Company*

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued by our Company or form the subject of any agreement

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## UNDERWRITING

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to such issue (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances provided under Rule 10.08 of the Listing Rules and pursuant to the Global Offering.

### *Undertakings by our Controlling Shareholders*

By virtue of Rule 10.07 of the Listing Rules, each of our Controlling Shareholders, being Mr. Tian, Dashi Technology Holdings, True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou, has undertaken to the Stock Exchange, our Company, the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) that, except pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement (where applicable), it/he will not and will procure that the relevant registered Shareholder(s) will not:

- (i) in the period commencing from the date by reference to which disclosure of its/his shareholdings in our Company is made in this Prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown to be the beneficial owner in this Prospectus; and
- (ii) in the period of six months commencing on the date on which the period referred to in paragraph (i) above expires (the “**Subsequent Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares to such extent that, immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined under the Listing Rules) of our Company, or together with the other Controlling Shareholders, would cease to be a group of controlling shareholders (as defined under the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders, being Mr. Tian, Dashi Technology Holdings, True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou, has undertaken to the Stock Exchange and to our Company that within the period commencing from the date by reference to which disclosure for their shareholders in our Company is made in this Prospectus and ending on the date which is 12 months from the Listing Date, it/he will:

- (i) when it/he pledges or charges any Shares legally and/or beneficially owned by it/him in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and

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- (ii) when it/he receives indications, either verbal or written, from the pledgee or charge of any Shares that any of the pledge or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou further, on a voluntary basis, irrevocably and unconditionally undertake to the Stock Exchange, the Company, the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) that, except pursuant to the Over-allotment Option or the Stock Borrowing Agreement, they shall not and shall procure that the relevant registered Shareholders shall not in the Subsequent Six-Month Period, dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown to be the beneficial owner in the Prospectus.

Our Company will inform the Stock Exchange in writing as soon as we have been informed of matters referred in above by any of our Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### *Undertakings by our Company*

Our Company has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and Hong Kong Underwriters, that except pursuant to the Global Offering or the Share Option Scheme, our Company will not, and will procure that other members of our Group will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the “**First Six-Month Period**”):

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of our Company or other members of our Group or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of such share capital or securities or any interest therein, as applicable, or any interest in any

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## UNDERWRITING

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of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or

- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to do any of the foregoing or publicly announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, and in the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

### *Undertakings by Mr. Tian and Dashi Technology Holdings*

Save and except for the lending of Shares by Dashi Technology Holdings pursuant to the Stock Borrowing Agreement, each of Mr. Tian and Dashi Technology Holdings has further undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor:

- (i) it will not, and will procure that none of its Associates will, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of 12 months from the Listing Date (the “**Lock-up Period**”), (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now owned or hereinafter acquired, owned directly or indirectly by Mr. Tian and Dashi Technology Holdings (including holding as a custodian) or with respect to which Mr. Tian and Dashi Technology Holdings have beneficial ownership (collectively the “**Lock-up Shares**”) (the foregoing restriction is expressly agreed to preclude Mr. Tian and Dashi Technology Holdings from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than Mr. Tian or Dashi Technology Holdings. Such

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## UNDERWRITING

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prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any such capital or securities or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, or any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above, or (d) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above, whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise; and

- (ii) until the expiry of the Lock-up Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company.

Each of Mr. Tian and Dashi Technology Holdings has agreed with and undertaken to the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters that, except pursuant to the lending of Shares by Dashi Technology Holdings pursuant to the Stock Borrowing Agreement, it will not, and will procure that none of its Associates will, in the period of 12-months from the end date of the Lock-up Period, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, those securities of our Company in respect of which they are shown by the Prospectus to be the beneficial owners, which in aggregate exceeds 3.5% of the total issued share capital of our Company.

### **Indemnity**

We and the Warrantors have agreed to indemnify, amongst others, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters for certain losses which they may suffer, including, amongst others, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach or alleged breach by our Company of the Hong Kong Underwriting Agreement, as the case may be.

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## UNDERWRITING

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### **Hong Kong Underwriters' Interests in our Company**

Except for their respective obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### ***The International Offering***

#### **International Underwriting Agreement**

In connection with the International Offering, it is expected that we and the Warrantors will enter into the International Underwriting Agreement with the Joint Global Coordinators and the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters would severally and not jointly agree to purchase, or procure purchasers to purchase, the Offer Shares being offered pursuant to the International Offering (subject to, amongst others, any reallocation between the International Offering and the Hong Kong Public Offering). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

#### **Over-allotment Option**

We expect to grant to Guosen Securities (HK) Capital Co., Ltd. (for itself and on behalf of the other Joint Global Coordinators) the Over-allotment Option, which will be exercisable from the Listing Date until up to (and including) the date which is the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 9,000,000 Shares, representing no more than 15% of the initial Offer Shares, at the Offer Price under the International Offering, to cover over-allocations in the International Offering, if any.

#### ***Commissions and Expenses***

The International Underwriters will receive a gross underwriting commission equal to 2.5% of the aggregate Offer Price of all the International Offer Shares, out of which they will pay sub-underwriting commissions, if any. For any unsubscribed Offer Shares in the Hong Kong Public Offering reallocated to the International Offering, we will pay the underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. In addition, we

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may pay, at our sole discretion, the International Underwriters an incentive fee of a certain percentage of the aggregate Offer Price of all the International Offer and any Shares reallocated from the Hong Kong Public Offering to the International Offering.

Assuming the Over-allotment Option is not exercised, the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are currently estimated to amount in aggregate to approximately HK\$56.4 million (assuming an Offer Price of HK\$2.65 per Offer Share, being the mid-point of the indicative Offering Price range stated in this Prospectus), are payable and borne by our Company.

### MINIMUM PUBLIC FLOAT

Our Directors and the Joint Global Coordinators will ensure that there will be a minimum of 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

### INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

### ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.



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## UNDERWRITING

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In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (i) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (ii) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Guosen Securities is the Sole Sponsor. Guosen Securities, Macquarie Capital Limited and CCB International Capital Limited are the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers.

The Global Offering comprises (subject to reallocation and the Over-allotment Option):

- (i) the Hong Kong Public Offering of 6,000,000 Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the paragraph headed “– The Hong Kong Public Offering” in this section below; and
- (ii) the International Offering of initially 54,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S of the U.S. Securities Act as described under the paragraph headed “– The International Offering” in this section below.

Up to 9,000,000 additional Shares may be offered pursuant to the exercise of the Over-allotment Option as set forth in the paragraph headed “– The International Offering – Over-allotment Option” in this section below.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the U.S. Securities Act. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation as described in the paragraph headed “– The Hong Kong Public Offering – Reallocation” in this section below.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE HONG KONG PUBLIC OFFERING

#### *Number of Hong Kong Offer Initially Offered*

We are initially offering 6,000,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth in the paragraph headed “– Conditions of the Global Offering” in this section below.

#### *Allocation*

The allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account of any reallocation) is to be divided into two pools for allocation purposes: Pool A and Pool B. Each of Pool A and Pool B will comprise 3,000,000 Offer Shares. The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B but not from both pools. Multiple applications or suspected multiple applications and any application for more than 3,000,000 Hong Kong Offer Shares (being 50% of the 6,000,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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### *Reallocation*

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of the Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of the Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents: (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; and (iii) 100 times or more of the total number of the Offer Shares initially available under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 18,000,000 Offer Shares (in the case of (i)), 24,000,000 Offer Shares (in the case of (ii)) and 30,000,000 Offer Shares (in the case of (iii)), representing 30%, 40% and 50% of the total number of the Offer Shares initially available under the Global Offering, respectively.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of the Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Global Coordinators may reallocate the Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Global Coordinators.

In the event of reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering in the circumstances where (a) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed by less than 15 times, or (b) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed, then up to 6,000,000 Offer Shares may be reallocated from the International Offering to the Hong Kong Public Offering, so that the total number of the Offer Shares available for subscription under the Hong Kong Public Offering will increase up to 12,000,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Global Offering, and the Offer Price shall be fixed at HK\$2.30 per Offer Share (being the low-end of the indicative Offer Price range stated in this Prospectus) in accordance with Guidance Letter HKEx-GL91-18.

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## STRUCTURE OF THE GLOBAL OFFERING

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### *Applications*

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.00 per Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “– Pricing and Allocation” in this section below, is less than the maximum price of HK\$3.00 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For details, see “How to Apply for the Hong Kong Offer Shares.”

## THE INTERNATIONAL OFFERING

### *Number of International Offer Shares Initially Offered*

Subject to reallocation as described in this section and the exercise of the Over-allotment Option, the International Offering will consist of an initial offering of 54,000,000 Shares outside the United States in offshore transactions in reliance on Regulation S of the U.S. Securities Act, representing 90% of the total number of Offer Shares initially available under the Global Offering subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised.

### *Allocation*

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “– Pricing and Allocation” in this section below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock

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## STRUCTURE OF THE GLOBAL OFFERING

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Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the International Underwriters) may require any investor who has been offered International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

### ***Reallocation***

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “– The Hong Kong Public Offering – Reallocation” in this section, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering to the International Offering.

### ***Over-allotment Option***

We expect to grant to Guosen Securities (HK) Capital Co., Ltd. (for itself and on behalf of the other Joint Global Coordinators) the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 9,000,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover, over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the Offer Shares will represent 25.65% of our Company’s issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, we will make an announcement in due course.

### ***Stock Borrowing Agreement***

Guosen Securities (HK) Capital Co., Ltd., as the Stabilizing Manager, or any person acting for it may choose to borrow Shares from Dashi Technology Holdings under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercise of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with Dashi Technology Holdings will only be effected by the Stabilizing Manager for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering;

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## STRUCTURE OF THE GLOBAL OFFERING

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- the maximum number of Shares borrowed from Dashi Technology Holdings under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Dashi Technology Holdings or its nominees on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the date on which the Over-allotment Option is exercised in full and the relevant over-allocation shares have been allocated, and (iii) such earlier time as the parties may from this to time agree in writing;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to Dashi Technology Holdings by the Stabilizing Manager or its authorized agents in relation to such stock borrowing arrangement.

### STABILIZATION

Stabilization is a practice used by Underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to reduce and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager, or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. Should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager or any person acting for it.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, includes (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i)



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## STRUCTURE OF THE GLOBAL OFFERING

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or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any the Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, or any person acting for it, will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, or any person acting for it, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilization period.

### ***Over-allocation***

Following any over-allocation of Shares in connection with the Global Offering, the Joint Global Coordinators, or any person acting for it may cover such over-allocation by using the Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market, and/or exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong on stabilization. The number of Shares which can be over-allocated will not exceed the number

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## STRUCTURE OF THE GLOBAL OFFERING

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of Shares which may be allotted and issued pursuant to the exercise in full of the Over-allotment Option, being 9,000,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering.

### PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different price or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Wednesday, 2 October 2019 and in any event no later than Thursday, 3 October 2019.

The Offer Price will not be more than HK\$3.00 per Offer Share and is expected to be not less than HK\$2.30 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus.

#### *Reduction in Offer Price Range and/or Number of Offer Shares*

Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause them to be published on the website of our Company ([www.ludashi.com](http://www.ludashi.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as

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## STRUCTURE OF THE GLOBAL OFFERING

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currently set forth in this Prospectus, and any other financial information which may change as a result of any such reduction. As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price range, we will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change, where appropriate, extend the period under which the Hong Kong Public Offering was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications.

In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), will under no circumstances be set outside the Offer Price range stated in this Prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Joint Global Coordinators.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be subsequently withdrawn if the number of Offer Shares and/or the indicative Offer Price range is so reduced.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Wednesday, 9 October 2019 on the website of our Company ([www.ludashi.com](http://www.ludashi.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

### **Announcement of offer price and basis of allocation**

The final Offer Price, the level of indications of interest in the Global Offering, the results of allocations and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Wednesday, 9 October 2019 on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [www.ludashi.com](http://www.ludashi.com).

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## STRUCTURE OF THE GLOBAL OFFERING

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### HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in “Underwriting.”

### CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

- (i) the Listing Committee granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- (ii) the Offer Price having been agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

**If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Thursday, 3 October 2019, the Global Offering will not proceed and lapse.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst others, the other offering becoming unconditional and not having been terminated in accordance with its terms.

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## STRUCTURE OF THE GLOBAL OFFERING

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If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will as soon as possible publish or cause to be published a notice of the lapse of the Hong Kong Public Offering on the website of our Company ([www.ludashi.com](http://www.ludashi.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). In such eventuality, all application monies will be returned, without interest, on the terms set forth in the paragraph headed “How to Apply for the Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies.” In the meantime, all application monies will be held in a separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended.

Share certificates issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of listing of, and permission to deal in the Shares (including (i) the Offer Shares; and (ii) any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

No part of our Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 10 October 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 10 October 2019. The Shares will be traded on the Main Board of the Stock Exchange in board lots of 1,000 Shares each. The stock code of the Shares will be 3601.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

*To apply for Hong Kong Offer Shares, you may:*

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at its discretion and on any conditions it think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

*Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:*

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### *Which Application Channel to Use*

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### *Where to Collect the Application Forms*

You can collect a **WHITE** Application Form and a Prospectus during normal business hours from 9:00 am on Thursday, 26 September 2019 until 12:00 noon on Wednesday, 2 October 2019 from:

- (i) the following office of the Hong Kong Underwriters:

<b>Guosen Securities (HK) Capital Co., Ltd.</b>	42/F Two International Finance Centre No. 8 Finance Street Central Hong Kong
<b>Macquarie Capital Limited</b>	Level 18 One International Finance Centre 1 Harbour View Street Central Hong Kong
<b>CCB International Capital Limited</b>	12/F, CCB Tower 3 Connaught Road Central Central Hong Kong
<b>Guotai Junan Securities (Hong Kong) Limited</b>	28/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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(ii) any of the following branches of the receiving bank:

**CMB Wing Lung Bank Limited**

<u>Branch</u>	<u>Address</u>
Head Office .....	45 Des Voeux Road Central
Johnston Road Branch .....	118 Johnston Road
Prince Edward Branch .....	17 Lai Chi Kok Road

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 am on Thursday, 26 September 2019 until 12:00 noon on Wednesday, 2 October 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

***Time for Lodging Application Forms***

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**CMB WING LUNG (NOMINEES) LIMITED – 360 LUDASHI PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Thursday, 26 September 2019 – 9:00 a.m. to 5:00 p.m.

Friday, 27 September 2019 – 9:00 a.m. to 5:00 p.m.

Saturday, 28 September 2019 – 9:00 a.m. to 1:00 p.m.

Monday, 30 September 2019 – 9:00 a.m. to 5:00 p.m.

Wednesday, 2 October 2019 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 am to 12:00 noon on Wednesday, 2 October 2019, the last application day or such later time as described in "– 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

#### **4. TERMS AND CONDITIONS OF AN APPLICATION**

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this Prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this Prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “– 14. Dispatch/Collection of Share Certificates and Refund Monies – Personal Collection” section in this Prospectus to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### *Additional Instructions for YELLOW Application Form*

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

### *General*

Individuals who meet the criteria in the “– 2. Who Can Apply” section, may apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### *Time for Submitting Applications under the HK eIPO White Form Service*

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 26 September 2019 until 11:30 a.m. on Wednesday, 2 October 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 2 October 2019 or such later time under the “– 10. Effect of Bad Weather on the Opening of the Application Lists” section.

### *No Multiple Applications*

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### *Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### *General*

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center, 1/F, One & Two Exchange Square,  
8 Connaught Place, Central, Hong Kong

and complete an input request form.

You can also collect a Prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Share Registrar.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### *Giving Electronic Application Instructions to HKSCC via CCASS*

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and are not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- confirm that you have received and/or read a copy of this Prospectus and have relied only on the information and representations in this Prospectus in causing the application to be made, save as set out in any supplement to this Prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### *Effect of Giving Electronic Application Instructions to HKSCC via CCASS*

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

### *Minimum Purchase Amount and Permitted Numbers*

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### *Time for Inputting Electronic Application Instructions<sup>(1)</sup>*

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 26 September 2019 – 9:00 a.m. to 8:30 p.m.

Friday, 27 September 2019 – 8:00 a.m. to 8:30 p.m.

Monday, 30 September 2019 – 8:00 a.m. to 8:30 p.m.

Wednesday, 2 October 2019 – 8:00 a.m. to 12:00 noon

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(1) These times are subject to changes as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 26 September 2019 until 12:00 noon on Wednesday, 2 October 2019 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 2 October 2019, the last application day or such later time as described in “– 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### *No Multiple Applications*

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### *Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance*

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### *Personal Data*

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 2 October 2019.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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For further details on the Offer Price, please refer to “Structure of the Global Offering – Pricing and Allocation.”

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 2 October 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 2 October 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 9 October 2019 on our Company’s website at [www.ludashi.com](http://www.ludashi.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.ludashi.com](http://www.ludashi.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Wednesday, 9 October 2019;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) and [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 9 October 2019 to 12:00 midnight on Tuesday, 15 October 2019;
- by telephone enquiry line by calling +852 3691-8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 9 October 2019 to Monday, 14 October 2019 (on a Business Day excluding Saturday and Sunday); and

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 9 October 2019 to Friday, 11 October 2019 at all the receiving banks' designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

*(i) If your application is revoked:*

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this Prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

*(ii) If our Company or its agents exercise their discretion to reject your application:*

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

*(iii) If the allotment of Hong Kong Offer Shares is void:*

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing date of the application lists; or
- that longer period within three weeks of the closing date of the application lists.

*(iv) If:*

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Underwriting Arrangements and Expenses – Hong Kong Public Offering” or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 9 October 2019.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application. If you apply by a **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Wednesday, 9 October 2019. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 10 October 2019 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### *Personal Collection*

#### **(i) If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 9 October 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form on or before Wednesday, 9 October 2019 by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 9 October 2019 by ordinary post and at your own risk.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### **(ii) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 9 October 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 9 October 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "– 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 9 October 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) If you apply through the HK eIPO White Form service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 9 October 2019 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, 9 October 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

### **(iv) If you apply via electronic application instructions to HKSCC**

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 9 October 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “– 11. Publication of Results” above on Wednesday, 9 October 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 9 October 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 9 October 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 9 October 2019.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-77 received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this Prospectus.*

**Deloitte.****德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF 360 LUDASHI HOLDINGS LIMITED AND GUOSEN SECURITIES (HK) CAPITAL COMPANY LIMITED*****Introduction***

We report on the historical financial information of 360 Ludashi Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-77 which comprises the consolidated statements of financial position of the Group as at December 31, 2016, 2017 and 2018 and April 30, 2019, the statements of financial position of the Company as at December 31, 2018 and April 30, 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years then ended December 31, 2018 and the four months ended April 30, 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-77 forms an integral part of this report, which has been prepared for inclusion in the Prospectus of the Company dated September 26, 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

***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 Note 1 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 (the "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 the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 of the Company, 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 Group's financial position as at December 31, 2016, 2017 and 2018 and April 30, 2019, and the Company's financial position at December 31, 2018 and April 30, 2019, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

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

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the four months ended April 30, 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with 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 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 Note 1 to the Historical Financial Information.

*Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*

**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

**Dividends**

We refer to Note 12 to the Historical Financial Information which states that no dividends have been declared by the Company and its subsidiaries in respect of the Track Record Period.

**Historical financial statements for the Company**

No financial statements have been prepared for the Company since its date of incorporation.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
September 26, 2019

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP***Preparation of Historical Financial Information*

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

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

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

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	Year ended December 31,			Four months ended April 30,	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenue .....	5	69,812	122,561	320,266	97,686	113,664
Costs of sales and services .....		(9,421)	(20,120)	(160,762)	(52,290)	(55,647)
Gross profit .....		60,391	102,441	159,504	45,396	58,017
Other income .....	6	1,696	4,145	6,220	1,005	1,403
Other gains and losses .....	7	(619)	(2,230)	1,719	(190)	20
Listing expenses .....		–	(540)	(16,123)	(4,880)	(2,997)
Selling and distribution expenses .....		(6,993)	(11,593)	(16,820)	(4,447)	(6,502)
Administrative expenses .....		(8,458)	(10,347)	(20,104)	(4,232)	(8,102)
Research and development expenses .....		(13,107)	(16,816)	(23,368)	(7,290)	(8,878)
Share of results of associates .....		–	478	1,308	220	–
Finance costs .....	8	(109)	(109)	(285)	(68)	(101)
Profit before taxation .....		32,801	65,429	92,051	25,514	32,860
Taxation .....	9	(1,099)	(9,247)	(16,067)	(4,418)	(5,130)
Profit and total comprehensive income for the year/period .....	10	31,702	56,182	75,984	21,096	27,730
Profit and total comprehensive income for the year/period attributable to:						
Owners of the Company .....		31,702	53,168	71,913	18,940	27,441
Non-controlling interests .....		–	3,014	4,071	2,156	289
		31,702	56,182	75,984	21,096	27,730
Earnings per share						
Basic and diluted (in RMB cents) .....	13	15.96	26.77	36.12	9.54	13.72

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	At December 31,			At April 30,
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Intangible assets	14	5,030	4,024	3,018	2,795
Property, plant and equipment	15	2,291	2,257	6,728	6,802
Available-for-sale investment	16	2,000	–	–	–
Interest in an associate	18	–	978	–	–
Deferred tax assets	19	85	344	937	897
		<u>9,406</u>	<u>7,603</u>	<u>10,683</u>	<u>10,494</u>
<b>Current assets</b>					
Trade receivables	20	8,285	18,703	63,671	45,288
Other receivables, deposits and prepayments	21	5,023	11,691	19,050	26,492
Inventories	22	329	274	1,326	9,582
Amounts due from related parties	25	–	–	1,615	865
Tax recoverable		1,288	745	803	968
Financial assets at fair value through profit or loss	17	13,092	8,366	–	–
Pledged bank deposit	27	–	–	6,000	6,000
Bank balances and cash	23	42,990	115,703	174,147	201,962
		<u>71,007</u>	<u>155,482</u>	<u>266,612</u>	<u>291,157</u>
<b>Current liabilities</b>					
Trade and other payables	24	6,804	13,302	26,160	24,923
Amounts due to related parties	25	–	1,005	–	–
Borrowing	27	–	–	5,918	5,918
Contract liabilities	26	345	1,193	44	75
Income tax payable		106	2,368	2,861	1,274
Lease liabilities	31	727	495	1,612	1,793
		<u>7,982</u>	<u>18,363</u>	<u>36,595</u>	<u>33,983</u>
<b>Net current assets</b>		<u>63,025</u>	<u>137,119</u>	<u>230,017</u>	<u>257,174</u>
<b>Total assets less current liabilities</b>		<u>72,431</u>	<u>144,722</u>	<u>240,700</u>	<u>267,668</u>
<b>Capital and reserves</b>					
Paid-in capital/share capital	28	8,500	8,500	9	9
Reserves	28	63,343	125,691	204,802	232,243
Equity attributable to owners of the Company		71,843	134,191	204,811	232,252
Non-controlling interests	28	–	9,834	15,198	15,487
		<u>71,843</u>	<u>144,025</u>	<u>220,009</u>	<u>247,739</u>
<b>Non-current liabilities</b>					
Put option liability	29	–	–	19,314	18,899
Lease liabilities	31	588	697	1,377	1,030
		<u>588</u>	<u>697</u>	<u>20,691</u>	<u>19,929</u>
		<u>72,431</u>	<u>144,722</u>	<u>240,700</u>	<u>267,668</u>

## THE COMPANY'S STATEMENT OF FINANCIAL POSITION

		At December 31, <u>2018</u>	At April 30, <u>2019</u>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Investment in a subsidiary . . . . .		—	—
		—	—
<b>Current assets</b>			
Other receivables, deposits and prepayments . . .	21	5,377	5,604
Bank balances and cash . . . . .	23	19,479	19,219
		24,856	24,823
<b>Current liabilities</b>			
Amounts due to subsidiaries . . . . .	25	21,473	24,724
<b>Net current assets</b> . . . . .		3,383	99
<b>Total assets less current liabilities</b> . . . . .		3,383	99
<b>Capital and reserves</b>			
Share capital . . . . .	28	9	9
Reserves . . . . .	28	(15,940)	(18,809)
		(15,931)	(18,800)
<b>Non-current liabilities</b>			
Put option liability . . . . .	29	19,314	18,899
		3,383	99

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Paid-in capital/ share capital	Share premium reserve	Share option reserve	Statutory surplus reserve	Other reserve	Accumulated profits	Subtotal	Non- controlling interests	Total
	RMB'000 (Note iv)	RMB'000 (Note iii)	RMB'000	RMB'000 (Note i)	RMB'000	RMB'000	RMB'000	RMB'000 (Note ii)	RMB'000
At January 1, 2016 .....	8,500	18,811	1,367	977	-	9,131	38,786	-	38,786
Profit and total comprehensive income for the year .....	-	-	-	-	-	31,702	31,702	-	31,702
Deemed contribution from shareholder .....	-	786	-	-	-	-	786	-	786
Recognition of equity- settled share-based payment .....	-	-	569	-	-	-	569	-	569
Exercise of share option ...	-	1,936	(1,936)	-	-	-	-	-	-
Transfer .....	-	-	-	2,888	-	(2,888)	-	-	-
At December 31, 2016 ....	8,500	21,533	-	3,865	-	37,945	71,843	-	71,843
Profit and total comprehensive income for the year .....	-	-	-	-	-	53,168	53,168	3,014	56,182
Capital contribution from non-controlling interests of a subsidiary .....	-	9,180	-	-	-	-	9,180	6,820	16,000
Transfer .....	-	-	-	1,135	-	(1,135)	-	-	-
At December 31, 2017 ....	8,500	30,713	-	5,000	-	89,978	134,191	9,834	144,025



	Attributable to owners of the Company								
	Paid-in capital/ share capital	Share premium reserve	Share option reserve	Statutory surplus reserve	Other reserve	Accumulated profits	Subtotal	Non- controlling interests	Total
	RMB'000 (Note iv)	RMB'000 (Note iii)	RMB'000	RMB'000 (Note i)	RMB'000	RMB'000	RMB'000	RMB'000 (Note ii)	RMB'000
Profit and total comprehensive income for the year .....	-	-	-	-	-	71,913	71,913	4,071	75,984
Arising from reorganisation (Note v) .....	(8,500)	8,500	-	-	-	-	-	-	-
Issue of shares (Note vi) ...	9	-	-	-	(9)	-	-	-	-
Capital contribution from Chengdu Qilu to a subsidiary .....	-	(1,293)	-	-	-	-	(1,293)	1,293	-
At December 31, 2018 ....	<u>9</u>	<u>37,920</u>	<u>-</u>	<u>5,000</u>	<u>(9)</u>	<u>161,891</u>	<u>204,811</u>	<u>15,198</u>	<u>220,009</u>
Profit and total comprehensive income for the period .....	-	-	-	-	-	27,441	27,441	289	27,730
At April 30, 2019 .....	<u>9</u>	<u>37,920</u>	<u>-</u>	<u>5,000</u>	<u>(9)</u>	<u>189,332</u>	<u>232,252</u>	<u>15,487</u>	<u>247,739</u>
(Unaudited)									
At January 1, 2018 .....	<u>8,500</u>	<u>30,713</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>89,978</u>	<u>134,191</u>	<u>9,834</u>	<u>144,025</u>
Profit and total comprehensive income for the period .....	-	-	-	-	-	18,940	18,940	2,156	21,096
At April 30, 2018 .....	<u>8,500</u>	<u>30,713</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>108,918</u>	<u>153,131</u>	<u>11,990</u>	<u>165,121</u>

## Notes:

- (i) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to set aside 10% of their profit after tax as per statutory financial statements determined under the PRC laws and regulations for the statutory surplus reserve fund until the reserve reach 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity owners of the subsidiaries. The statutory surplus reserve can be used to make up previous years' losses, expand the existing operations or convert into additional capital of the respective subsidiaries.
- (ii) The non-controlling interests comprise of those equity interests in the Tianjin Liu Liyou Technology Co., Ltd ("Liu Liyou Technology"), Tianjin Xiaolu Second-Hand Technology Co., Ltd ("Xiaolu Second-Hand"), Tianjin Lubang Technology Co., Ltd ("Lubang Technology") and Shenzhen Zhilu Wulianwang Technology Co., Ltd ("Zhilu Technology") held by parties other than the Company.
- (iii) Amounts mainly represent the capital injection from the shareholders, which exceeded the principal amounts of the paid-in capital committed at initial recognition and service provided by the shareholder for free.

- (iv) The paid-in capital as at December 31, 2016 and 2017 presented the paid-in capital of Chengdu Qilu as stipulated in Note 1 to the Historical Financial Information.
- (v) Amount represents the paid-in capital of Chengdu Qilu upon the Company became the holding company of Chengdu Anyixun Technology Co., Ltd (“Anyixun”) and its subsidiaries (including Chengdu Qilu and its subsidiaries) effective from the date of the Structured Contracts as stipulated in Note 1 to the Historical Financial Information.
- (vi) On February 7, 2018, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorized share capital of HK\$380,000 divided into 38,000,000 shares with par value of HK\$0.01 each. Upon its incorporation, one share was allotted and issued to the initial subscriber, which was transferred to Mr. Tian Ye on the same day. In August 2018, the share capital was increased to RMB9,000 comprising of 999,999 shares of HK\$0.01 each and 7,110 shares of HK\$0.01 each were then issued to its shareholders, of which RMB9,000 (in equivalent to HK\$10,071) was debited to other reserve.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Operating activities</b>					
Profit before taxation	32,801	65,429	92,051	25,514	32,860
Adjustments for:					
Depreciation of property, plant and equipment	975	1,153	2,086	390	1,017
Share of results of associates	-	(478)	(1,308)	(220)	-
Amortisation of intangible assets	1,006	1,006	1,006	335	335
Gain on disposal of associates	-	-	(642)	-	-
Gain on disposal of subsidiaries	-	-	(1,687)	-	-
Finance cost	109	109	285	68	101
Impairment loss recognised (reversed) in respect of trade receivables and inventories	635	74	557	235	(160)
Interest income	(921)	(1,721)	(2,656)	(719)	(1,293)
Impairment loss on available-for-sale investments	-	2,000	-	-	-
Loss on disposal of property, plant and equipment	-	-	43	-	-
Gain on changes in fair value on put option liability	-	-	(61)	-	(415)
Unrealised exchange loss	-	-	-	-	554
Share-based payment expense	569	-	-	-	-
Service fee deemed contribution from shareholder	786	-	-	-	-
Operating cash flow before movement in working capital	35,960	67,572	89,674	25,603	32,999
<i>Movements in working capital:</i>					
(Increase) decrease in trade receivables	(4,652)	(10,334)	(45,497)	(32,861)	18,383
(Increase) decrease in other receivables, deposits and prepayments	(4,017)	(6,177)	1,231	(2,468)	(6,924)
Increase in amounts due from related parties	-	-	(600)	-	-
Increase in inventories	(156)	(104)	(1,080)	(1,214)	(8,256)
Increase (decrease) in trade and other payables	4,063	6,616	13,092	6,022	(1,373)
Increase (decrease) in contract liabilities	3	848	(1,149)	(1,101)	31
Cash generated from (used in) operating activities	31,201	58,421	55,671	(6,019)	34,860
Interest received	442	839	1,993	841	1,293
Interest paid	-	-	-	-	(81)
Income tax paid	(2,794)	(6,701)	(16,225)	(7,370)	(6,842)
<b>Net cash from (used in) operating activities</b>	<b>28,849</b>	<b>52,559</b>	<b>41,439</b>	<b>(12,548)</b>	<b>29,230</b>

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Investing activities</b>					
Dividends received from an associate .....	-	-	2,327	-	-
Proceeds from disposal of an interest in an associate .....	-	-	3,500	-	-
Proceeds from disposal of financial assets at fair value through profit or loss .....	23,000	10,000	8,366	8,366	-
Proceeds from disposal of property, plant and equipment .....	-	-	8	-	-
Purchase of property, plant and equipment .....	(448)	(339)	(3,648)	(105)	(566)
Purchase of intangible assets .....	-	-	-	-	(112)
Purchase of interest in an associate .....	-	(500)	(5,000)	(5,000)	-
Purchase of financial assets at fair value through profit or loss .....	(36,000)	(5,000)	(1,000)	-	-
Advances to related parties .....	-	-	(1,685)	-	-
Repayment from a related party .....	-	-	1,670	-	750
Net cash inflow on disposal of subsidiaries .....	-	-	234	-	-
Placement of non-pledged time bank deposits ...	-	-	-	-	(20,000)
Placement of pledged bank deposit .....	-	-	(6,000)	-	-
<b>Net cash (used in) from investing Activities .....</b>	<b>(13,448)</b>	<b>4,161</b>	<b>(1,228)</b>	<b>3,261</b>	<b>(19,928)</b>
<b>Financing activities</b>					
Advance from (repayment to) related parties .....	-	1,005	(1,005)	(1,005)	-
New bank loan raised .....	-	-	5,918	-	-
Repayments of lease liabilities .....	(899)	(1,012)	(1,383)	(641)	(748)
Proceeds from issuance of put option liability .....	-	-	19,375	-	-
Deferred issue costs paid .....	-	-	(4,672)	(1,757)	(358)
Capital contribution from non-controlling interests of a subsidiary .....	-	16,000	-	-	-
<b>Net cash (used in) from financing activities .....</b>	<b>(899)</b>	<b>15,993</b>	<b>18,233</b>	<b>(3,403)</b>	<b>(1,106)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>14,502</b>	<b>72,713</b>	<b>58,444</b>	<b>(12,690)</b>	<b>8,196</b>
<b>Cash and cash equivalents at beginning of the year/period .....</b>	<b>28,488</b>	<b>42,990</b>	<b>115,703</b>	<b>115,703</b>	<b>174,147</b>
<b>Effect of foreign exchange rate changes .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(381)</b>
<b>Cash and cash equivalents at end of the year/period, represented by .....</b>	<b>42,990</b>	<b>115,703</b>	<b>174,147</b>	<b>103,013</b>	<b>181,962</b>
Bank balances and cash .....	42,990	115,703	174,147	103,013	201,962
Less: a time deposit with maturity of more than three months .....	-	-	-	-	(20,000)
	42,990	115,703	174,147	103,013	181,962

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

**1. GENERAL INFORMATION, GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on February 7, 2018 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares with par value of HK\$0.01. On the same date, one share of the Company was issued and allotted to the incorporator at par value. The addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” to the Prospectus.

The Company is an investment holding company. The subsidiaries of the Company, as set out in Note 38, are mainly engaged in online advertising services, online game business, sales of certified pre-owned and factory smartphones and certified pre-owned and factory other electronic devices as well as smart accessories (collectively the “Listing Business”) in the PRC.

Prior to the incorporation of the Company and the completion of the reorganisation, the main operating activities of the Listing Business were carried out by Chengdu Qilu and its subsidiaries, including Anyixun 成都安易迅科技有限公司, Liu Liuyou Technology 天津六六遊科技有限公司, Xiaolu Second-Hand 天津小魯二手科技有限公司 and Lubang Technology 天津魯邦科技有限公司 (collectively known as the “Operating Entities”) which were established in the PRC. The Company and its subsidiaries comprising the Group are under the control of 360 Technology Inc. and Mr. Tian Ye (the “Controlling Shareholders”).

In preparation for the proposed listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”), as explained in the Corporate Reorganisation under the section History, Reorganisation and Corporate Structure of the Prospectus, the companies comprising the Group underwent a group reorganisation (collectively referred to as the “Group Reorganisation”) as below:

- (1) In February 2018, the Company incorporated its wholly owned subsidiaries, including 360 Ludashi Consulting Limited (“Ludashi Consulting”) and 360 Ludashi Technology Limited (“Ludashi Hong Kong”).
- (2) In May 2018, Anyixun acquired 82.86% equity of Xiaolu Second-hand from Chengdu Qilu.
- (3) In July 2018, Ludashi Hong Kong acquired 100% equity of Anyixun, making Anyixun a wholly foreign-owned enterprise.

Due to the restrictions imposed by relevant laws and regulatory regime of PRC on foreign ownership of companies engaged in the business carried out by Chengdu Qilu and its subsidiaries (the “Structured Entities”), the Company has entered into, via Anyixun, various agreements with Chengdu Qilu (the “Structured Contracts”), which, effective from August 31, 2018, enable Anyixun and the Company to:

- exercise effective financial and operational control over the Structured Entities;
- exercise equity holders’ voting rights of the Structured Entities;
- receive substantially all of the economic interest returns generated by the Structured Entities in consideration for the business support, technical and management consultancy services provided by Anyixun;
- obtain an irrevocable and exclusive right to purchase all or part of the interests in Chengdu Qilu and/or any assets that are held by the Structured Entities at the lowest purchase price permitted under PRC laws and regulations and exercise such right from time to time in the event that PRC laws and regulations permitted;
- prevent the Structured Entities to sell, assign, transfer, or otherwise dispose of or create encumbrance over their interest in the equity and/or the assets of the Structured Entities without prior consent of Anyixun; and
- prevent the Structured Entities to make any distributions to their equity holders without prior consent of Anyixun.

The Company does not have any equity interest in the Structured Entities. However, the Structured Contracts enable the Company to have the power over the Structured Entities, rights to variable returns from its involvement with the Structured Entities and the ability to affect those returns through its power over the Structured Entities. Consequently, the Company regards the Structured Entities as indirect subsidiaries.

The Company became the holding company of the companies now comprising the Group on August 31, 2018. As the Group Reorganisation only involved inserting new holding companies and has not resulted in any change of economic substance, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment of the relevant companies now comprising the Group where this is a shorter period and the Company had always been the holding company of the Group. The consolidated statements of financial position of the Group as at December 31, 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure were in existence at those dates.

The following financial statements balances and amounts of the Structured Entities were included in the Historical Financial Information:

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue . . . . .	64,101	113,090	130,146	50,285	19,825
Profit before taxation . . . . .	29,079	60,636	62,064	23,628	205
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	At December 31,			At April 30,	
	2016	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000	
Non-current assets . . . . .	9,356	6,231	3,579	4,109	
Current assets . . . . .	66,924	143,156	200,550	202,438	
Current liabilities . . . . .	7,730	15,190	13,438	15,908	
Non-current liabilities . . . . .	588	279	527	425	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conform with HKFRSs issued by the HKICPA.

## 2. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied accounting policies which conform with the HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and the related Interpretations ("HK(IFRIC)s") issued by the HKICPA that are effective for the financial year beginning on January 1, 2019 throughout the Track Record Period except that the Group adopted HKFRS 9 "Financial Instruments" since January 1, 2018 and applied HKAS 39 "Financial Instruments: Recognition and Measurement" for the two years ended December 31, 2017. Specifically, the Group has adopted HKFRS 15 "Revenue from Contracts with Customers" and HKFRS 16 "Leases" on a consistent basis throughout the Track Record Period. The accounting policies for financial instruments under HKFRS 9, revenue recognition under HKFRS 15 and leases under HKFRS 16 are set out in Note 3 below.

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 at the date of initial application, January 1, 2018 and HKAS 39 "Financial Instruments: Recognition and measurement" in prior years before adoption of HKFRS 9.

	<b>Original measurement category under HKAS 39</b>	<b>New measurement category under HKFRS 9</b>	<b>Carrying amount under HKAS 39</b>	<b>Fair value remeasurement under HKFRS 9</b>	<b>Additional loss allowance recognised under HKFRS 9</b>	<b>New carrying amount under HKFRS 9</b>
			<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1. Unlisted investment in financial products issued by banks without principal protected (Note 17)	Financial assets designated at fair value through profit or loss ("FVTPL")	Financial assets at FVTPL	8,366	–	–	8,366
2. Trade receivables (Note 20)	Loans and receivables	Financial assets at amortised cost	18,703	–	–	18,703
3. Other receivables (Note 36)	Loans and receivables	Financial assets at amortised cost	5,079	–	–	5,079
4. Cash and cash equivalents (Note 23)	Loans and receivables	Financial assets at amortised cost	115,703	–	–	115,703
5. Trade and other payables (Note 36)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	7,781	–	–	7,781
6. Amounts due to related parties (Note 25)	Financial liabilities at amortised cost	Financial liabilities at amortised cost	1,005	–	–	1,005

*Note:*

There were no financial liabilities which the Group had previously designated as at FVTPL or measured at amortised cost under HKAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of HKFRS 9.

*New and amendments to HKFRSs in issue but not yet effective*

At the date of this report, the Group has not early applied the following new and amendments to HKFRSs and HKASs that have been issued but are not yet effective:

HKFRS 17 . . . . .	Insurance Contracts <sup>2</sup>
Amendments to HKFRS 3 . . . . .	Definition of a Business <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28 . . . . .	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>1</sup>
Amendments to HKAS 1 and HKAS 8 . . . . .	Definition of Material <sup>4</sup>



- <sup>1</sup> Effective for annual periods beginning on or after a date to be determined
- <sup>2</sup> Effective for annual periods beginning on or after January 1, 2021
- <sup>3</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2020

The directors of the Company consider that the application of the new and amendments to HKFRSs and HKASs is unlikely to have a material impact on the Group's financial statements in the foreseeable future.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

#### *Basis of consolidation*

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries (including the Structured Entities). Control is achieved when a company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

#### *Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant component of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interest according to the Group's and the non-controlling interests' proportionate share.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of the subsidiary and non-controlling interest (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

*Interests in associates*

An associate is an entity over which the Group has 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 results and assets and liabilities of associates are incorporated in the Historical Financial Information using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates are initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An interest in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the interest in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

At the end of each reporting period, the management of the Group reviews the carrying amounts of its interests in associates to determine whether there is any indication that the interests in associates have suffered an impairment loss. If any such indication exists, the carrying amount of each of the investments in associates is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's Historical Financial Information only to the extent of interests in the associate that are not related to the Group.

*Revenue recognition*

Revenue is recognised to depict the transfer of promised services or goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services or goods underlying the particular performance obligation is transferred to the customers.

Control of the services may be transferred over time or at a point in time. Control of the services is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress toward complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group has elected to use the practical expedient to not disclose information about its unsatisfied performance obligation as of the end of the reporting period for those performance obligation that is a part of a contract that has an original expected duration of one year or less.

The Group recognise revenue from the following major sources:

**(a) Service income**

Service income includes online advertising service and online game business. Such revenues are recognised over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

**(b) Sales income**

Sales income includes the sales of certified pre-owned and factory smartphone, certified pre-owned and factory other electronic devices and smart accessories. Such revenues are recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location.

***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

*Leasing***The Group as lessee***Short-term leases*

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

*Right-of-use assets*

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the lease terms.

The Group presents right-of-use assets within “property, plant and equipment” item as that within which the corresponding underlying assets would be presented if they were owned.

*Refundable rental deposits*

Refundable rental deposits paid are accounted for under HKAS 39/HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

#### *Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

#### *Borrowing costs*

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### *Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that receivable as compensation for expenses of losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### *Retirement benefit costs*

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

#### *Short-term employee benefits*

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefits in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

#### *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in an associate, except where the 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### ***Property, plant and equipment***

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.



***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

***Internally-generated intangible assets – research and development expenditure***

Expenditures on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on the development projects are capitalised as an internally-generated intangible asset if, and only if, all the recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the intangible asset so that it will be available for use or sell; (2) management intends to complete the intangible asset and use or sell it; (3) there is an ability to use or sell the intangible asset; (4) it can be demonstrated how the intangible asset will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and (6) the expenditure attributable to the intangible asset during its development can be reliably measured. The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

***Impairment of tangible assets and intangible assets***

At the end of reporting period, the management of the Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

***Inventories***

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

*Equity-settled share-based payment transactions*

Equity-settled share-based payment transactions to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 30.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimated, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share option is exercised, the amount previously recognised in share option reserve will be transferred to share premium reserve.

*Financial instruments (before the adoption of HKFRS 9 as at January 1, 2018)*

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

**Financial assets**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Financial assets are classified into loans and receivables, financial assets at FVTPL and available-for-sale financial assets. The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets at FVTPL.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset and is included in the “other income” line item.

*Available-for-sale financial assets*

Available-for-sale (“AFS”) financial assets are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flow discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Financial liabilities*

Financial liabilities (including trade and other payables and amounts due to related parties) are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payment (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

**Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Group continues to recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

*Financial instruments (under HKFRS 9)*

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

**Financial assets**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically

- (a) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI"), are subsequently measured at amortised cost;
- (b) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI; and
- (c) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies, in other comprehensive income ("OCI"); and
- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

#### *Debt instruments at amortised cost*

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group's business models for managing its financial instruments reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

*Financial assets at FVTPL*

Financial assets at FVTPL are:

- (a) assets with contractual cash flows that are not SPPI; or/and
- (b) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- (c) assets designated at FVTPL using the fair value option.

The investments in certain financial products issued by banks and equity investments are classified as at FVTPL. Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as FVTPL. Financial assets at FVTPL are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 36.

*Impairment of financial assets*

The Group recognises loss allowances for expected credit losses ("ECLs") on the following financial instruments that are not measured at FVTPL:

- (a) Trade receivables; and
- (b) other financial assets at amortised cost.

ECLs are required to be measured through a loss allowance at an amount equal to:

- (a) 12-month ECL, i.e. lifetime ECL that results from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- (b) full lifetime ECL, i.e. lifetime ECL that results from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, credit-impaired debtors are assessed individually and not credit-impaired debtors are assessed collectively based on provision matrix. The Group has determined probability-weighted estimate of the credit risk based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Loss allowances for other financial assets at amortised cost mainly comprise of bank balances, pledged bank deposit, other receivables and amounts due from related parties, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of financial instruments that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

For bank balances, pledged bank deposit, other receivables and amounts due from related parties, the management of the Group makes periodic collective as well as individual assessment on the recoverability of these financial assets based on historical settlement records and past experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

#### *Credit-impaired financial assets*

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- (a) significant financial difficulty of the borrower or issuer;
- (b) a breach of contract such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- (d) the disappearance of an active market for a security because of financial difficulties; or
- (e) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event and instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A debt instrument is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.



*Definition of default*

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default ("PD") which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default for internal credit risk management purpose as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- (a) when there is a breach of financial covenants by the counterparty; or
- (b) information developed internally or obtained from external sources indicates that debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Significant increase in credit risk*

The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations, namely the online advertising and online game industry and certified pre-owned and factory smartphones sales.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all in the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instrument are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount and reduces the carrying amount of the financial assets in the statement of financial position with exception of trade receivables, where the carrying amount is reduced through a loss allowance account.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss.

#### **Financial liabilities and equity**

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definition of a financial liability and an equity investment.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

##### *Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

The financial liabilities at FVTPL are measured at fair value upon initial recognition, any changes in fair value arising on remeasurement are recognised in the profit or loss.

##### *Financial liabilities at amortised cost*

Financial liabilities, including trade and other payables, amounts due to related parties and borrowing, are initially measured at cost. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, 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.

***Critical accounting judgments***

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

**Judgments in determining the performance obligations and timing of satisfaction of performance obligations**

The revenue recognition basis to each of the Group's revenue stream is set out in Note 3. The recognition of each of the Group's revenue stream requires judgement by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgement, the directors of the Company consider the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

Revenue from provision of online advertising service mainly includes provision of homepage directing service, mini-page service and banner advertising service. For provision of homepage directing service and mini-page service, the Group considers the performance obligation is satisfied at a point in time at which the service is provided. For banner advertising service, revenue are recognised over time by reference to time passage of service provided, when the customers simultaneously receive and consume the benefits from the Group's performance. The progress towards complete satisfaction of a performance obligation is measured based on output method.

Revenue from provision of online game business includes providing the right to access the online game platform to its customers. For the revenue from online game business, the nature of the Group's performance obligation is considered to be providing a right to access the Group's intellectual property (online game platform), the Group accounts the grant of right to access the online game platform as a performance obligation satisfied over time when the customers simultaneously receive and consume the benefits from the Group's performance. The progress towards complete satisfaction of a performance obligation is measured based on output method.

Revenue from sales of smart accessories, certified pre-owned and factory smartphones and certified pre-owned and factory other electronic devices is recognised when customer acceptance has obtained which is the point of time when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products, which also represented the point of time when goods delivered.

**Judgments in principle versus agent considerations**

The recognition of each of the Group's revenue stream requires judgement by the directors of the Company in determining the nature of its promise is a performance obligation to provide the specific good or service itself or to arrange for those good or service to be provided by other parties. The Group determines whether it is a principle or agent for specified good or service promised to customers consider the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular that the Group controls the specified good or service before it is transferred to the customer, and is therefore a principal. Indicators that an entity controls the specified good or service before it is transferred to the customer and is therefore a principal include, but are not limited to, the following:

- the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service;

- the entity has inventory risk before the specified good or service has been transferred to a customer; and
- the entity has discretion in establishing the price for the specified good or service.

#### **Contractual Arrangements**

The Group conducts a substantial portion of the business through the Structured Entities in the PRC due to regulatory restrictions on internet value-added services in PRC. The Group does not have any equity interests in the Structured Entities. The management of the Group assessed whether or not the Group has control over the Structured Entities based on whether the Group has the power over the Structured Entities, has rights to variable returns from its involvement with the Structured Entities and has the ability to affect those returns through its power over the Structured Entities. After assessment, the management of the Group concluded that the Group has control over the Structured Entities as a result of the Contractual Arrangements and other measures and accordingly, the Group has consolidated the financial information of the Structured Entities in the Historical Financial Information during the Track Record Period.

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Structured Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Structured Entities. The management of the Group, based on the advice of its legal counsel, considers that the Contractual Arrangements among Anyixun, the Structured Entities and their respective legal equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

#### ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months from the end of each reporting period.

#### **Fair value measurements and valuation process**

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of the directors authorised the financial department headed up by the Chief Financial Officer of the Group to determine the appropriate valuation techniques and inputs for fair value.

In estimating the fair value of an asset or liability, the Group uses market-observable data to the extent it is available. Where the Level 1 inputs are not available, the Group establish the appropriate valuation result with reference to Level 2 inputs of recent transaction price.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note 36.

#### **Allowances for impairment of trade receivables**

Before the adoption of HKFRS 9, the Group makes allowances for impairment of trade receivables based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of impairment of trade receivables requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables and allowance for credit losses in the year in which such estimate is changed.

As at December 31, 2016 and 2017, the carrying amounts of trade receivables amounted to RMB8,285,000 (net of loss allowance of RMB175,000) and RMB18,703,000 (net of loss allowance of RMB90,000), respectively.

Since the adoption of HKFRS 9 on January 1, 2018, management estimates the amount of loss allowance for ECL on debt instruments (including trade receivables) that are measured at amortised cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

As at January 1, 2018, December 31, 2018 and April 30, 2019, the carrying amounts of trade receivables measured at amortised cost amounted to RMB18,703,000 (net of loss allowance of RMB90,000), RMB63,671,000 (net of loss allowance of RMB619,000) and RMB45,288,000 (net of loss allowance of RMB459,000), respectively.

#### Useful lives of items of intangible assets

In determining the useful lives of items of intangible assets, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset and legal or similar limits on the use of the asset. The estimation of the useful lives of items of intangible assets is based on the actual useful lives of intangible assets of similar nature and functions and also with reference to the market practice of the similar business. Useful lives is reviewed at the end of each reporting period based on changes in circumstances. As at December 31, 2016, 2017 and 2018 and April 30, 2019, the carrying amounts of intangible assets are RMB5,030,000, RMB4,024,000, RMB3,018,000 and RMB2,795,000, respectively.

### 5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of online advertising services, online game business, sales of smart accessories, certified pre-owned and factory smartphones and certified pre-owned and factory other electronic devices in the PRC.

Revenue represents services and sales income comprising the business mentioned above.

#### Segment information

The Group's chief operating decision maker ("CODM") has been identified as the chief executive officer who reviews revenue analysis by service lines when making decisions about allocating resources and assessing performance of the Group.

As there is no other discrete financial information available for assessment of performance of different service lines, no segment information is presented.

The revenues attributable to the Group's service lines for the Track Record Period are as follows:

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Online advertising services . . . . .	66,840	97,668	174,595	42,244	65,233
Online game business . . . . .	2,564	22,576	42,889	12,600	19,013
Smart accessories sales . . . . .	408	956	2,317	293	2,133
Certified pre-owned and factory smartphones sales . . . . .	–	1,361	85,689	42,549	6,822
Certified pre-owned and factory other electronic devices sales . . . . .	–	–	14,776	–	20,463
<b>Total . . . . .</b>	<b>69,812</b>	<b>122,561</b>	<b>320,266</b>	<b>97,686</b>	<b>113,664</b>

#### Geographical information

During the Track Record Period, the Group principally operated in PRC and its revenue was generated in the PRC and overseas. All of its non-current assets were located in the PRC.

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Mainland China . . . . .	69,812	122,561	293,927	92,443	101,151
Overseas . . . . .	–	–	26,339	5,243	12,513
<b>Total . . . . .</b>	<b>69,812</b>	<b>122,561</b>	<b>320,266</b>	<b>97,686</b>	<b>113,664</b>

*Timing of revenue recognition*

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
A point in time . . . . .	58,596	99,214	277,377	85,086	94,651
Over time . . . . .	11,216	23,347	42,889	12,600	19,013
<b>Total . . . . .</b>	<b>69,812</b>	<b>122,561</b>	<b>320,266</b>	<b>97,686</b>	<b>113,664</b>

Revenue relating to the online game business and certain banner advertising service are recognised over time. The transaction price of these services are recognised as a contract liability at the time of the initial sales transaction and are released on a straight line basis over the period of services.

The Group applies the practical expedient of not disclosing the information about its remaining performance obligation when the performance obligation is part of a contract that has an original expected duration of one year or less.

*Major customers*

Revenue from customers during the Track Record Period contributing over 10% of the total revenue of the Group are as follows:

Service lines	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Customer A** . . . . . Online advertising	46,829	*	*	*	*
Customer B** . . . . . Online advertising	9,001	41,538	*	*	*
Customer C** . . . . . Online advertising	*	45,375	61,010	16,469	20,613
Customer D . . . . . Certified pre-owned and factory smartphones sales	*	*	40,201	33,015	*

\* Revenue from those major customers was less than 10% of the total revenue in the relevant year/period presented.

\*\* Those customers are related parties of the Group.



## 6. OTHER INCOME

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Government grants . . . . .	775	2,424	3,564	286	110
Interest on bank deposits and financial products issued by banks . . . . .	921	1,721	2,656	719	1,293
	<u>1,696</u>	<u>4,145</u>	<u>6,220</u>	<u>1,005</u>	<u>1,403</u>

## 7. OTHER GAINS AND LOSSES

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
(Allowance) reversal of allowance for trade receivables . . . . .	(134)	85	(529)	(235)	160
Allowance for inventories . . . . .	(501)	(159)	(28)	–	–
Impairment loss on AFS investments . . . . .	–	(2,000)	–	–	–
Loss on disposal of property, plant and equipment . . . . .	–	–	(43)	–	–
Gain on changes in fair value on put option liability . . . . .	–	–	61	–	415
Gain on disposal of associates . . . . .	–	–	642	–	–
Gain on disposal of subsidiaries . . . . .	–	–	1,687	–	–
Net foreign exchange loss . . . . .	–	–	–	–	(554)
Others . . . . .	16	(156)	(71)	45	(1)
	<u>(619)</u>	<u>(2,230)</u>	<u>1,719</u>	<u>(190)</u>	<u>20</u>

## 8. FINANCE COSTS

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Interest on loans . . . . .	–	–	81	–	44
Interest on lease liabilities . . . . .	109	109	204	68	57
	109	109	285	68	101

## 9. TAXATION

Pursuant to the Registration Form for Enterprise Income Tax Preference Items certified by Chengdu Hi-Tech Industrial Development Zone State Administration of Taxation, Chengdu Qilu and Anyixun have been satisfied the conditions for software enterprise's tax preference. As such, Chengdu Qilu was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2015. Anyixun was subject to three years of 50% tax deduction with effect from 2018.

Pursuant to the PRC EIT Law and the respective regulations, the other main companies of the Group except for Chengdu Qilu and Anyixun as detailed above established in the PRC are subject to PRC EIT at a rate of 25% on its taxable income.

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Tax expense comprises:					
Current tax – PRC EIT . . . . .	1,184	9,506	16,660	4,447	5,090
Deferred tax ( <i>Note 19</i> ) . . . . .	(85)	(259)	(593)	(29)	40
Total . . . . .	1,099	9,247	16,067	4,418	5,130

The taxation for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before taxation . . . .	32,801	65,429	92,051	25,514	32,860
Tax at applicable tax rate of 25% . . . . .	8,200	16,357	23,013	6,379	8,215
Tax effect of share of results of associates . . . .	–	(119)	(327)	(55)	–
Tax effect of income not taxable for tax purpose . . .	–	–	15	–	104
Tax effect of expenses not deductible for income tax purpose . . . . .	383	64	1,580	267	218
Tax effect of tax losses not recognised . . . . .	–	377	1,782	810	1,128
Tax effect attributable to tax concession . . . . .	(7,484)	(7,432)	(9,996)	(2,983)	(4,535)
Taxation for the year/period . . . . .	1,099	9,247	16,067	4,418	5,130

#### 10. PROFIT FOR THE YEAR/PERIOD

Profit for the Track Record Period has been arrived at after charging:

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Directors' and chief executive's remuneration (Note 11) . . . . .	2,221	1,680	1,966	584	676
Other staff costs					
– Salaries and other benefits . . . . .	13,063	19,491	32,812	8,708	14,279
– Retirement benefit schemes . . . . .	1,359	1,883	3,210	890	1,293
Total staff costs . . . . .	16,643	23,054	37,988	10,182	16,248
Depreciation of property, plant and equipment (included in “administrative expenses, selling and distribution expenses and research and development expenses”)	975	1,153	2,086	390	1,017
Amortisation of intangible assets (included in “administrative expenses”) . . . . .	1,006	1,006	1,006	335	335
Auditor's remuneration . . .	56	314	260	86	86

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

*Directors' and chief executive's emoluments*

The Company was incorporated on February 7, 2018. Mr. Tian Ye and Mr. He Shiwei were appointed as executive directors on February 7, 2018 and August 26, 2018, respectively. Mr. Sun Chunfeng was appointed as non-executive director on August 26, 2018. During the Track Record Period, executive directors and chief executive officer of the Company received remuneration from the subsidiaries now comprising the Group for services in connection with the management of affairs of the Group prior to becoming the directors and chief executive officer of the Company. The details were disclosed as below:

**Year ended December 31, 2016**

	<b>Salaries and allowances</b>	<b>Retirement benefit scheme contributions</b>	<b>Equity-settled share-based payments expenses</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive director and chief executive officer				
Mr. Tian Ye .....	991	47	569	1,607
Executive director				
Mr. He Shiwei .....	585	29	–	614
Non-executive director				
Mr. Sun Chunfeng .....	–	–	–	–
	<u>1,576</u>	<u>76</u>	<u>569</u>	<u>2,221</u>

**Year ended December 31, 2017**

	<b>Salaries and allowances</b>	<b>Retirement benefit scheme contributions</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive director and chief executive officer			
Mr. Tian Ye .....	990	46	1,036
Executive director			
Mr. He Shiwei .....	621	23	644
Non-executive director			
Mr. Sun Chunfeng .....	–	–	–
	<u>1,611</u>	<u>69</u>	<u>1,680</u>

## Year ended December 31, 2018

	Salaries and allowances	Retirement benefit scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive director and chief executive officer			
Mr. Tian Ye .....	1,117	48	1,165
Executive director			
Mr. He Shiwei .....	769	32	801
Non-executive director			
Mr. Sun Chunfeng .....	—	—	—
	<u>1,886</u>	<u>80</u>	<u>1,966</u>

## Four months ended April 30, 2018 (unaudited)

	Salaries and allowances	Retirement benefit scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive director and chief executive officer			
Mr. Tian Ye .....	342	12	354
Executive director			
Mr. He Shiwei .....	222	8	230
Non-executive director			
Mr. Sun Chunfeng .....	—	—	—
	<u>564</u>	<u>20</u>	<u>584</u>

## Four months ended April 30, 2019

	Salaries and allowances	Retirement benefit scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive director and chief executive officer			
Mr. Tian Ye .....	364	19	383
Executive director			
Mr. He Shiwei .....	279	14	293
Non-executive director			
Mr. Sun Chunfeng .....	—	—	—
	<u>643</u>	<u>33</u>	<u>676</u>

No emoluments were paid or payable to the non-executive director namely Mr. Sun Chunfeng during the Track Record Period.

Mr. Li Yang, Mr. Wang Xinyu and Mr. Zhang Ziyu were appointed as independent non-executive directors of the Company on June 5, 2019.

There were no arrangement under which a director or the chief executive of the Company waived or agreed to waive any emolument during the Track Record Period.

*Employees' remuneration*

The five highest paid individuals of the Group included Mr. Tian Ye and Mr. He Shiwei, executive directors of the Company during the Track Record Period, whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals during the Track Record Period are as follows:

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and allowances . . .	1,190	1,401	1,529	509	926
Retirement benefit scheme contributions . . . . .	99	121	149	48	46
Total . . . . .	<u>1,289</u>	<u>1,522</u>	<u>1,678</u>	<u>557</u>	<u>972</u>

The five highest paid individuals other than the directors of the Company were within the following bands:

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
				(unaudited)	
Remuneration bands					
Nil to Hong Kong dollar ("HK\$") 1,000,000 . . . . .	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Track Record Period, no remuneration was paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

**12. DIVIDENDS**

No dividends have been paid or proposed by Chengdu Qilu during the Track Record Period, nor after the Track Record Period. No dividends have been proposed or declared by the Company since its incorporation.

## 13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company) . . . . .	31,702	53,168	71,913	18,940	27,441
<b>Number of ordinary shares</b>					
Shares	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
				(unaudited)	
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share . . . . .	198,588	198,588	199,099	198,588	200,000

The calculation of the basic earnings per share for the Track Record Period is based on the consolidated profit attributable to owners of the Company and the weighted average number of ordinary shares after retrospective adjustment and on the assumption that the Reorganisation and Capitalisation Issue as described in the Paragraph headed "Share Capital" to the Prospectus had been in effective on January 1, 2016.

The computation of diluted earnings per share for the year ended December 31, 2018 and for the four months ended April 30, 2019 does not assume the removal of the special rights (details as set out in Note 29) attached on the Company's shares granted to Lima High Tech Limited (the "Removal") since the Removal would result in an increase in earnings per share.



## 14. INTANGIBLE ASSETS

	<u>Software</u>	<u>Domain name</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
COST			
At January 1, 2016 and December 31, 2016, 2017, and 2018 .....	7,000	42	7,042
Additions .....	37	75	112
At April 30, 2019 .....	7,037	117	7,154
AMORTISATION			
At January 1, 2016 .....	(1,000)	(6)	(1,006)
Provided for the year .....	(1,000)	(6)	(1,006)
At December 31, 2016 .....	(2,000)	(12)	(2,012)
Provided for the year .....	(1,000)	(6)	(1,006)
At December 31, 2017 .....	(3,000)	(18)	(3,018)
Provided for the year .....	(1,000)	(6)	(1,006)
At December 31, 2018 .....	(4,000)	(24)	(4,024)
Provided for the year .....	(333)	(2)	(335)
At April 30, 2019 .....	(4,333)	(26)	(4,359)
CARRYING VALUES			
At April 30, 2019 .....	<u>2,704</u>	<u>91</u>	<u>2,795</u>
At December 31, 2018 .....	<u>3,000</u>	<u>18</u>	<u>3,018</u>
At December 31, 2017 .....	<u>4,000</u>	<u>24</u>	<u>4,024</u>
At December 31, 2016 .....	<u>5,000</u>	<u>30</u>	<u>5,030</u>

The intangible assets are amortised on a straight-line basis over 7 years.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Motor vehicles	Electronic equipment	Leasehold improvement	Right-of-use assets – office premises	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
COST						
At January 1, 2016	280	–	105	–	1,481	1,866
Additions	7	325	116	–	–	448
Inception of leases	–	–	–	–	1,143*	1,143
At December 31, 2016	287	325	221	–	2,624	3,457
Additions	16	–	323	–	–	339
Inception of leases	–	–	–	–	780*	780
At December 31, 2017	303	325	544	–	3,404	4,576
Additions	398	–	799	2,451	–	3,648
Inception of leases	–	–	–	–	2,976*	2,976
Expiration of leases	–	–	–	–	(1,303)	(1,303)
Disposal of subsidiaries (Note 33)	–	–	(20)	–	–	(20)
Disposal	(3)	–	(56)	–	–	(59)
At December 31, 2018	698	325	1,267	2,451	5,077	9,818
Additions	2	–	106	458	–	566
Inception of leases	–	–	–	–	525*	525
At April 30, 2019	700	325	1,373	2,909	5,602	10,909
DEPRECIATION						
At January 1, 2016	(1)	–	(13)	–	(177)	(191)
Provided for the year	(90)	(36)	(47)	–	(802)	(975)
At December 31, 2016	(91)	(36)	(60)	–	(979)	(1,166)
Provided for the year	(95)	(62)	(106)	–	(890)	(1,153)
At December 31, 2017	(186)	(98)	(166)	–	(1,869)	(2,319)
Provided for the year	(118)	(62)	(257)	(260)	(1,389)	(2,086)
Disposal of subsidiaries (Note 33)	–	–	4	–	–	4
Eliminated on disposals	1	–	7	–	–	8
Expiration of leases	–	–	–	–	1,303	1,303
At December 31, 2018	(303)	(160)	(412)	(260)	(1,955)	(3,090)
Provided for the period	(28)	(20)	(126)	(245)	(598)	(1,017)
At April 30, 2019	(331)	(180)	(538)	(505)	(2,553)	(4,107)
CARRYING VALUES						
At April 30, 2019	369	145	835	2,404	3,049	6,802
At December 31, 2018	395	165	855	2,191	3,122	6,728

	Furniture and fixtures	Motor vehicles	Electronic equipment	Leasehold improvement	Right-of-use assets – office premises	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At December 31, 2017 .....	117	227	378	–	1,535	2,257
At December 31, 2016 .....	196	289	161	–	1,645	2,291

\* For the year ended December 31, 2016, 2017, 2018 and the four months ended April 30, 2019, right-of-use assets for office premises was arisen due to initial recognition of lease liabilities at the commencement date of the lease amounted to RMB1,143,000, RMB780,000, RMB2,976,000 and RMB525,000, respectively.

The above items of property, plant and equipment are depreciated on a straight-line basis over the following useful lives after taking into account the residual values:

Furniture and fixtures .....	5 years
Motor vehicles .....	5 years
Electronic equipment .....	3 years
Leasehold improvements .....	3 years
Right-of-use assets – office premises .....	Over the lease terms

#### 16. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment comprises:

	At December 31,	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investment ( <i>Note</i> ) .....	2,000	–
	2,000	–

*Note:* The unlisted equity investment represented investment in unlisted equity securities issued by a private entity incorporated in the PRC. It is measured at cost less impairment at December 31, 2016 because the range of reasonable fair value estimates is so significant that the management of the Group is of the opinion that their fair values cannot be measured reliably.

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

*Financial assets designated at FVTPL*

	At December 31,	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Unlisted financial products issued by banks .....	13,092	8,366
	<u>13,092</u>	<u>8,366</u>

The financial assets designated at FVTPL represent investments in financial products issued by banks with no predetermined or guaranteed return nor principal protected as at December 31, 2016 and 2017. The fair values are based on cash flow discounted using the expected return based on management judgement and are within level 2 of the fair value hierarchy.

## 18. INTEREST IN AN ASSOCIATE

	At December 31,			At April 30,
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of investment in an associate . .	–	500	–	–
Share of post-acquisition profits and other comprehensive income . . . . .	–	478	–	–
	<u>–</u>	<u>978</u>	<u>–</u>	<u>–</u>

Details of the Group's associates at the end of the reporting period are as follow:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of Ownership interest held by the Group				Proportion of voting rights held by the group				Principal activity
			April 30,		December 31,		April 30,		December 31,		
			2019	2018	2017	2016	2019	2018	2017	2016	
Tianjin Xiaofeiniiao Technology Co., Ltd ("Xiaofeiniiao") (i) . . . . .	PRC	PRC	–	–	15%	–	–	–	15%	–	Online computer wallpaper sales
Hangzhou Ju'a Network Technology Co., Ltd ("Hangzhou Ju'a") (ii) . . . . .	PRC	PRC	–	–	–	–	–	–	–	–	Online advertising

*Notes:*

- (i) The Group held 15% of the registered share capital of Xiaofeiniào. However, the Company and Xiaofeiniào have the same controlling shareholder and director, Mr. Tian Ye. The directors of the Company consider that the Group had significant influence over Xiaofeiniào and it was therefore classified as an associate of the Group. In September 2018, the Group disposed of the 15% interest in Xiaofeiniào to Mr. Tian Ye for a proceed of RMB550,000. This transaction had resulted in the recognition of a gain on disposal in profit or loss, calculated as follows:

	<i>RMB'000</i>
Proceed of disposal . . . . .	550
Less: carrying amount of the interest in the associate on the date of disposal . . . . .	<u>(500)</u>
Gain on disposal of interest in an associate recognised . . . . .	<u><u>50</u></u>

The gain on disposal recognised for the year ended December 31, 2018 comprised a realised profit of RMB50,000.

- (ii) The Group acquired a 10% interest in Hangzhou Ju'a in January 2018 and was able to exercise significant influence over Hangzhou Ju'a because it had the power to appoint one out of the three directors of that company under the Articles of Association of that company. Hangzhou Ju'a was classified as an associate of the Group. In September 2018, the Group disposed of the 10% interest in Hangzhou Ju'a to a third party, Tianjin Sudu Technology Co., Ltd ("Sudu Technology") for a proceed of RMB5,000,000. This transaction had resulted in the recognition of a gain on disposal in profit or loss, calculated as follows:

	<i>RMB'000</i>
Proceed of disposal . . . . .	5,000
Less: carrying amount of the interest in the associate on the date of disposal . . . . .	<u>(4,408)</u>
Gain on disposal of interest in an associate recognised . . . . .	<u><u>592</u></u>

The gain on disposal recognised for the year ended December 31, 2018 comprised a realised profit of RMB592,000.

## 19. DEFERRED TAX ASSETS

The following are the major deferred taxation recognised and movement thereon during the Track Record Period:

	Allowance for doubtful debts and inventories	Impairment loss on AFS investments	Unrealised intragroup profit	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2016 . . . . .	–	–	–	–
Credited to profit or loss . . .	85	–	–	85
At December 31, 2016 . . . . .	85	–	–	85
Credited to profit or loss . . .	9	250	–	259
At December 31, 2017 . . . . .	94	250	–	344
Credited (charged) to profit or loss . . . . .	99	(250)	744	593
At December 31, 2018 . . . . .	193	–	744	937
Charged to profit or loss . . . .	(40)	–	–	(40)
At April 30, 2019 . . . . .	153	–	744	897

As at December 31, 2016, the Group had no unused tax losses and as at December 31, 2017, 2018 and April 30, 2019, the Group has unused tax losses of RMB1,508,000, RMB8,636,000 and RMB13,148,000, respectively, available for offset against future profits. No deferred tax asset has been recognised in relation to these tax losses due to the unpredictability of future profit streams. At December 31, 2017, the tax losses of RMB1,508,000 will expire in 2022. At December 31, 2018, the tax losses of RMB1,508,000 and RMB7,128,000 will expire in 2022 and 2023, respectively. At April 30, 2019, the tax losses of RMB1,508,000, RMB7,128,000 and RMB4,512,000 will expire in 2022, 2023 and 2024, respectively.

## 20. TRADE RECEIVABLES

	At December 31,			At April 30,
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
– related parties . . . . .	4,956	16,774	24,356	18,320
– third parties . . . . .	3,504	2,019	39,934	27,427
Less: allowance for credit losses . . .	(175)	(90)	(619)	(459)
	8,285	18,703	63,671	45,288

Details of amounts due from related parties included in trade receivables are as follows:

Related parties	Relationship	At December 31,			At April 30,
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
360 Technology Inc. . . . .	Shareholder of Beijing Qihu	4,839	1,355	498	282
Shanghai Songheng Network Technology Inc. ("Shanghai Songheng") . . . . .	Shareholder of the Company	–	11,087	9,081	5,709
Beijing Qihu Technology Co., Ltd. ("Beijing Qihu") . . . . .	Shareholder of the Company	–	4,268	14,693	12,222
Shenzhen Blog Technology Co., Ltd. . . . .	Non-controlling interest holder's subsidiary	–	29	70	71
Beijing Star World Technology Co., Ltd. . . . .	360 Technology Inc.'s subsidiary	117	35	6	13
Shanghai Zhanmeng Network Technology Co., Ltd. ("Shanghai Zhanmeng") . . . . .	Shanghai Songheng's subsidiary	–	–	–	7
Xiaofeiniuao . . . . .	Controlled by Tian Ye	–	–	8	16
Total . . . . .		4,956	16,774	24,356	18,320

The Group allows a credit period of 90 to 120 days to its customers of online advertising services, sales of certified pre-owned and factory smartphones, certified pre-owned and factory other electronic devices and smart accessories. Customers of online game business usually prepay the consideration before services are provided.

The following is an aging analysis of trade receivables net of allowance for credit losses at the end of each period presented based on the dates of delivery of goods/dates of rendering of services.

	At December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0-90 days . . . . .	7,846	18,267	53,080	39,688
91-180 days . . . . .	241	232	8,960	5,039
Over 180 days . . . . .	198	204	1,631	561
	8,285	18,703	63,671	45,288

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB439,000, RMB371,000, RMB4,556,000 and RMB3,229,000 which are past due at December 31, 2016, 2017, 2018, and April 30, 2019, respectively, for which the Group has not provided an impairment loss as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	At December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Days overdue				
0 – 90 days .....	241	155	2,992	3,119
91 – 180 days .....	198	216	1,564	43
181 – 365 days .....	–	–	–	67
	<u>439</u>	<u>371</u>	<u>4,556</u>	<u>3,229</u>

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The debtors are assessed individually into three internal credit rating ranks (namely: low risk, medium risk and high risk) based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtors, and analysis of the debtor's current financial position. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed individually for credit-impaired debtors and collectively for not credit-impaired debtors based on provision matrix as at December 31, 2018 and April 30, 2019.

For trade debtors that are not credit-impaired

*As at December 31, 2018*

Internal credit rating	Gross carrying amount	Average loss rate	Loss allowance
	RMB'000	%	RMB'000
Low risk .....	28,084	0.02	7
Medium risk .....	35,477	0.29	102
High risk .....	228	3.95	9
	<u>63,789</u>		<u>118</u>

*As at April 30, 2019*

Internal credit rating	Gross carrying amount	Average loss rate	Loss allowance
	RMB'000	%	RMB'000
Low risk .....	21,747	0.05	11
Medium risk .....	23,572	0.43	102
High risk .....	87	5.75	5
	<u>45,406</u>		<u>118</u>



For trade debtors that are credit-impaired

*As at December 31, 2018*

Internal credit rating	Gross carrying amount	Average loss rate	Loss allowance
	<i>RMB'000</i>	%	<i>RMB'000</i>
High risk .....	501	100.00	501
	<u>501</u>		<u>501</u>

*As at April 30, 2019*

Internal credit rating	Gross carrying amount	Average loss rate	Loss allowance
	<i>RMB'000</i>	%	<i>RMB'000</i>
High risk .....	341	100.00	341
	<u>341</u>		<u>341</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed when necessary. The majority of the Group's trade receivables that are past due but not impaired have no history of defaulting on repayment.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

Movement in the allowance for credit losses:

	At December 31,			At April 30,
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening .....	41	175	90	619
Impairment losses recognised on trade receivables .....	175	87	619	118
Reversal of impairment recognised on trade receivables .....	(41)	(172)	(90)	(278)
Ending .....	<u>175</u>	<u>90</u>	<u>619</u>	<u>459</u>

The Group always measures the allowance for credit losses for trade receivables at an amount equal to life time ECL upon the application of HKFRS 9. During the year ended December 31, 2018 and the four months ended April 30, 2019, RMB529,000 of impairment loss (net of reversal) was recognised for trade receivables and RMB160,000 (net of allowance for credit loss) was reversed due to settlement received from trade debtors, respectively.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit-impaired)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at December 31, 2017 under HKAS 39</b> . . . .	79	11	90
Adjustment upon application of HKFRS 9 . . . . .	–	–	–
<b>As at January 1, 2018 – As restated</b> . . . . .	79	11	90
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses reversed . . . . .	(79)	(11)	(90)
Changes due to financial instruments recognised during the year:			
– Impairment losses recognised . . . . .	118	501	619
<b>As at December 31, 2018</b> . . . . .	118	501	619
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses reversed . . . . .	(118)	(160)	(278)
Changes due to financial instruments recognised during the period:			
– Impairment losses recognised . . . . .	118	–	118
<b>As at April 30, 2019</b> . . . . .	<u>118</u>	<u>341</u>	<u>459</u>

The Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade receivables. Credit-impaired debtors with gross carrying amounts of RMB501,000 and RMB341,000 as at December 31, 2018 and April 30, 2019, respectively, were assessed individually. The ECL for not credit-impaired trade receivables are assessed collectively using a provision matrix with groupings based on internal credit rating.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over 180 days past due, whichever occurs earlier.

## 21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group			The Company		
	At December 31,			At	At	At
	2016	2017	2018	April 30,	December 31,	April 30,
	2016	2017	2018	2019	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	363	690	1,629	4,145	-	-
Deductible value-added tax	-	-	-	1,929	-	-
Deferred cash consideration on disposal of subsidiaries	-	-	2,000	2,000	-	-
Deferred cash consideration on disposal of an associate	-	-	1,500	1,500	-	-
Prepayments and deferred expenses	397	6,612	3,348	2,908	-	-
Prepaid listing expenses	-	-	1,992	1,855	-	-
Deferred issue costs	-	-	5,351	5,604	5,351	5,604
Interest receivables	408	1,017	1,680	2,411	26	-
Online payment platform (Note)	3,855	3,372	1,550	4,140	-	-
Total	5,023	11,691	19,050	26,492	5,377	5,604

Note: The amount is unsecured, interest-free and repayable in one day and it represents receivables from third party payment platform in respect of the Group's online game business.

## 22. INVENTORIES

The inventories of the Group mainly comprise certified pre-owned smartphones, certified pre-owned computers, certified pre-owned smart accessories and other electronic devices held for sale.

## 23. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and short-term deposits with an original maturity of three months or less and a non-pledged time deposits with an original maturity of more than three months. Bank balances and cash of the Company comprise cash and short-term deposits with an original maturity of three months or less.

As at December 31, 2016, 2017, 2018, and April 30, 2019, the Group's short-term bank deposits amounted RMB42,990,000, RMB115,703,000, RMB174,147,000 and RMB181,962,000 carried interest rates, per annum, ranging from 0.35% to 3.2%, 0.35% to 4.1%, 0.0625% to 4.1%, and 0.01% to 4%, respectively.

As at December 31, 2018 and April 30, 2019, the Company's bank deposits carried an interest rate, per annum, ranging from 0.0625% to 2.5% and 0.01% to 2.5%, respectively.

As at April 30, 2019, a non-pledged time deposit amounted to RMB20,000,000 with an original maturity of August 27, 2019 is included in the bank balances of the Group. The non-pledged time deposit carries interest rate with minimum interest rate of 1.55%, per annum.

For the year ended December 31, 2018 and the four months ended April 30, 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

## 24. TRADE AND OTHER PAYABLES

	At December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
– related parties	–	626	346	617
– third parties	1,790	3,363	8,241	8,518
Other payables ( <i>Note</i> )	1,375	3,792	6,545	5,401
Accrued listing expenses/share issue costs	–	–	4,534	5,584
Payroll payable	2,760	4,353	5,808	4,700
Other tax payable	879	1,168	686	103
	<u>6,804</u>	<u>13,302</u>	<u>26,160</u>	<u>24,923</u>

*Note:* The amount is unsecured, interest-free and repayable on a monthly basis and mainly represents payable to online game business operators for prepayments collected by the Group from third party game players.

Details of amounts due to related parties included in trade payables are as follows:

Related parties	Relationship	At December 31,			At April 30,
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
Beijing Qihu	Shareholder of the Company	–	448	342	407
Shanghai Gaoxin Computer System Co., Ltd. (“Shanghai Gaoxin”)	Shanghai Songheng’s subsidiary	–	178	4	210
		<u>–</u>	<u>626</u>	<u>346</u>	<u>617</u>

The credit period granted by trade creditors is normally within three months. The following is an aging analysis of trade payables presented based on the dates of delivery of goods/dates of rendering of services:

	At December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0-90 days	1,790	3,989	8,487	9,008
91-180 days	–	–	21	–
Over 180 days	–	–	79	127
Total	<u>1,790</u>	<u>3,989</u>	<u>8,587</u>	<u>9,135</u>

## 25. AMOUNTS DUE TO/FROM RELATED PARTIES/AMOUNTS DUE TO SUBSIDIARIES

## (a) Amounts due to related parties

## The Group

Related parties	Relationship	At December 31,			At April 30,	
		2016	2017	2018	2019	
		RMB'000	RMB'000	RMB'000	RMB'000	
Xiaofeiniaio	Controlled by Tian Ye	-	459	-	-	
Zhang Xiao Zhen	Non-controlling interest holder	-	546	-	-	
		-	1,005	-	-	

The amounts due to related parties are non-trade related, unsecured, non-interest bearing and repayable on demand.

## (b) Amounts due to subsidiaries

## The Company

Related parties	Relationship	At December 31,			At April 30,	
		2016	2017	2018	2019	
		RMB'000	RMB'000	RMB'000	RMB'000	
Chengdu Qilu	Subsidiary of the Company	-	-	20,923	23,493	
Anyixun	Subsidiary of the Company	-	-	550	1,231	
		-	-	21,473	24,724	

## (c) Amounts due from related parties

## The Group

Related parties	Relationship	At December 31,				At April 30, 2019	Maximum amounts outstanding during the year ended December 31, 2018	Maximum amounts outstanding during the four months ended April 30, 2019
		2016	2017	2018	2019			
		RMB'000	RMB'000	RMB'000	RMB'000			
Tian Ye	Shareholder of the Company	-	-	550	550	550	550	
Hu Wei Bin	Shareholder of Zhonghe Yilian	-	-	1,000	300	3,000	1,000	
Chengdu Qilu Haochen Enterprise Management Consulting Co., Ltd	Shareholder of the Company	-	-	15	15	15	15	
Xiaofeiniaio	Controlled by Tian Ye	-	-	50	-	2,377	50	
		-	-	1,615	865	5,942	1,615	

The amounts due from related parties are non-trade related, unsecured, non-interest bearing and repayable on demand.

**26. CONTRACT LIABILITIES**

As at January 1, 2016, advance from customers of RMB342,000 in respect of advertising services previously included in trade and other payables was reclassified to contract liabilities upon adoption of HKFRS 15. The balances represents amounts received in advance of delivery of goods or services to customers. For the contract liabilities as at January 1, 2016, December 31, 2016, 2017 and 2018, the entire balances are recognised as revenue during the year ended December 31, 2016, 2017, 2018 and four months ended April 30, 2019, respectively. The contract liabilities as at April 30, 2019 are expected to be recognised as revenue during the year ending December 31, 2019.

**27. BORROWING**

	Year ended December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loan, repayable within one year .....	–	–	5,918	5,918

The loan is secured by a pledged bank deposit held by the Group with carrying amount of RMB6,000,000 as at December 31, 2018 and April 30, 2019. The loan is fixed at 5.0% per annum and will be repayable in full in October 2019.

**28. CAPITAL, RESERVES AND NON-CONTROLLING INTERESTS**

The paid-in capital at December 31, 2016 and 2017 represented the paid-in capital of Chengdu Qilu prior to the completion of the Group Reorganisation as stipulated in Note 1 to the Historical Financial Information.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 7, 2018 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares with par value of HK\$0.01. On the same date, one share of the Company was issued and allotted to the incorporator at par value.

**The Company**

	Number of shares	Amount	Amount	Shown in the Historical Financial Information as
		HK\$	RMB	RMB'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At date of incorporation,				
December 31, 2018 and				
April 30, 2019 .....	38,000,000	380,000	308,180	N/A
Issued				
At date of incorporation .....	1	–	–	–
Issue of new shares on July 12, 2018 .....	999,999	10,000	8,502	9
Issue of new shares on August 22, 2018 (Note) .....	7,110	71	62	*
At December 31, 2018 and				
April 30, 2019 .....	1,007,110	10,071	8,564	9

\* Less than RMB1,000

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on February 7, 2018 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares with par value of HK\$0.01, of which 265,071 shares were allotted and issued and fully paid to Dashi Technology Holdings (a company owned by Mr. Tian Ye), 50,000 shares to Hongmeng Investment, 13,500 shares to BullRock Capital, 16,667 shares to China Celestial, 416,667 shares to True Thrive and 238,095 shares to Songchang International.

*Note:* On July 24, 2018 and August 1, 2018, the Company signed an agreement and a supplemental agreement (the "Agreements") with an independent third party, Lima High Tech Limited (the "Lima"). Pursuant to the Agreements, the Company issued 7,110 shares of the Company with liquidation preference and redemption rights (the "Put Option") to Lima, at US\$399 (equivalent to RMB2,725) per share for a total net cash proceed of approximately US\$2,837,000 (equivalent to RMB19,375,000) in August 2018. The Put Option is designated as a financial liability at FVTPL on initial recognition and is measured at fair value with any changes in fair value arising on remeasurement recognised in the profit or loss. Details are set out in Note 29.

### Reserves

The Company's reserves are as follows:

	<b>Other reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At date of incorporation . . . . .	–	–	–
Issue of shares . . . . .	(9)	–	(9)
Loss and total comprehensive expenses for the period . . . . .	–	(15,931)	(15,931)
At December 31, 2018 . . . . .	<u>(9)</u>	<u>(15,931)</u>	<u>(15,940)</u>
Loss and total comprehensive expenses for the period . . . . .	–	(2,869)	(2,869)
At April 30, 2019 . . . . .	<u>(9)</u>	<u>(18,800)</u>	<u>(18,809)</u>

### Non-controlling Interests

The Group's non-controlling interests are as follows:

	<b>Share of net assets of subsidiaries</b>
	<i>RMB'000</i>
At January 1, 2016 and December 31, 2016 . . . . .	–
Share of profit for the year . . . . .	3,014
Capital contribution from non-controlling interests of a subsidiary . . . . .	6,820
At December 31, 2017 . . . . .	<u>9,834</u>
Share of profit for the year . . . . .	4,071
Capital contribution from Chengdu Qilu to a subsidiary . . . . .	1,293
At December 31, 2018 . . . . .	<u>15,198</u>
Share of profit for the period . . . . .	289
At April 30, 2019 . . . . .	<u>15,487</u>

**29. PUT OPTION LIABILITY**

On July 24, 2018 and August 1, 2018, the Company signed the Agreements with an independent third party, Lima. Pursuant to the Agreements, the Company issued 7,110 shares of the Company (Note 28) attached with the Put Option and certain special rights to Lima, at US\$399 (equivalent to RMB2,725) per share for a total net cash proceed of approximately US\$2,837,000 (equivalent to RMB19,375,000) in August 2018. The Put Option and any special rights granted to Lima under the Agreements would be terminated upon successful initial public offering (the "IPO").

The significant terms of the Agreements are as follows:

**(a) Liquidation preferences**

In the event of any liquidation, the investor shall be entitled to receive, prior and in preference to any distribution of the proceeds of such liquidation event to the holders of ordinary shares. All of the remaining proceeds available for distribution to shareholders shall be distributed pro rata among the holders of ordinary shares.

**(b) Anti-dilution provision**

In the event that the Company introduce new investors by issuing additional shares (excluding the employee incentive plan permitted by the investor) before the completion of successful IPO, without the written consent by the investor, the share issuance price paid by new investors shall be not lower than the price in this transaction. Otherwise, the investor has the right to adjust the investment consideration of this transaction based on the weighted average method.

**(c) Redemption**

The investor is granted an option to demand the Company to repurchase its shares if there is no successful IPO within 24 months after the completion of the investment (regardless of any subjective and objective reasons).

- (1) The repurchase price is calculated as follows:

Repurchase price= Investment consideration \*  $(1+8\%/365 * \text{the actual number of days between the injection of consideration to the designated account and investor received the total repurchase price}) - \text{the dividend that the Company paid to investor};$

- (2) The Company shall pay the investor in 15 working days after the investor issue the written repurchase request;

The Put Option and special rights granted to Lima under the Agreements as detailed above would terminate upon the completion of a successful IPO.

The Put Option is designated as a financial liability at FVTPL on initial recognition. The put option liability is measured at fair value with any changes in fair value arising on remeasurement recognised in the profit or loss.

The put option liability was valued at fair value by the Company with reference to an independent valuation provided by Jones Lang LaSalle Appraisals Consultation Co., Ltd., an independent firm professional valuer not connected with the Group, who has appropriate qualification and recent experience of valuation of similar financial instrument. Its address is 6/F, Three Pacific Place 1 Queen's Road East, Hong Kong.

The fair value of the put option liability at December 31, 2018 and April 30, 2019 was determined by using valuation technique of discounted cash flow analysis. The fair value of the put option liability was determined using scenarios probabilities analysis.



The key assumptions adopted for the scenarios probabilities analysis are as follows:

	<u>At December 31,</u> <u>2018</u>	<u>At April 30,</u> <u>2019</u>
Estimated probability of the Put Option		
– for successful IPO .....	90%	90%
– for redemption .....	10%	10%

The key parameters adopted for the valuation of the put option liability under successful IPO scenario as at December 31, 2018 and April 30, 2019 are as follows:

	<u>At December 31,</u> <u>2018</u>	<u>At April 30,</u> <u>2019</u>
Methodology .....	Discounted cash flow and option pricing method on discount for lack of marketability	Discounted cash flow and option pricing method on discount for lack of marketability
Terminal growth rate (“TGR”) .....	2%	2%
WACC .....	15%	15%
Risk-free rate .....	3.63%	3.31%
Volatility .....	38.80%	38.80%
Dividend yield .....	0%	0%
Maturity date .....	April 26, 2019	September 30, 2019

The key parameters adopted for the valuation of the put option liability under redemption scenario as at December 31, 2018 and April 30, 2019 are as follows:

	<u>At December 31,</u> <u>2018</u>	<u>At April 30,</u> <u>2019</u>
Methodology .....	Discounted cash flow	Discounted cash flow
Time to expiration (number of years) .....	1.64	1.31
Discount rate .....	8%	8%

The movements of the put option liability are set out below:

<b>The Group and the Company</b>	<b>Put option liability</b>
	<i>RMB'000</i>
At January 1, 2016, December 31, 2016, 2017 .....	–
Issuance of the Put Option .....	19,375
Changes in fair value recognised in profit or loss .....	(61)
At December 31, 2018 .....	<u>19,314</u>
Changes in fair value recognised in profit or loss .....	(415)
At April 30, 2019 .....	<u><u>18,899</u></u>

**30. SHARE-BASED PAYMENTS**

On November 1, 2014, Chengdu Qiyong, Beijing Qihu and Mr. Tian Ye, entered into an agreement to set up Chengdu Qilu in PRC. Pursuant to the agreement, Chengdu Qiyong and Beijing Qihu committed to inject the intellectual property of RMB7,000,000 to Chengdu Qilu. In addition, both Beijing Qihu and Mr. Tian Ye committed to injecting cash of RMB1,500,000 each and the total registered capital was RMB10,000,000. As at November 25, 2014 (“Establishment Date of Chengdu Qilu”), the shareholding in Chengdu Qilu held by Chengdu Qiyong, Beijing Qihu and Mr. Tian Ye is 36.4%, 48.6% and 15.0% respectively. On December 30, 2014, Chengdu Qiyong, Beijing Qihu and Mr. Tian Ye entered a supplemental agreement to provide incentives to Mr. Tian Ye as the management of Chengdu Qilu. It granted Mr. Tian Ye the right to request Chengdu Qiyong and Beijing Qihu to transfer 11% equity interest of Chengdu Qilu in aggregate to Mr. Tian Ye at a cash consideration of RMB1,500,000 within 36 months since the Establishment Date of Chengdu Qilu, upon fulfilling below performance condition:

1. The net profit of Chengdu Qilu under Chinese Accounting Standard for the year ended December 31, 2015 exceeds RMB10,000,000;
2. The Monthly Active Users (“MAU”) of PC Terminal exceeds 30,000,000 within 18 months since the Establishment Date of Chengdu Qilu; and
3. The MAU of Mobile Terminal exceeds 6,000,000 within 18 months since the Establishment Date of Chengdu Qilu.

The fair value of the share option was performed by the assistant of China Enterprise Appraisals Consultation Co., Ltd. (the “EFV Specialist”), an independent qualified professional valuer not connected with the Group. The address of the EFV Specialist is Zhongfu building, No. 18, Gongti East Road, Chaoyang District, Beijing, China. Options were priced using the Black-Scholes pricing model. The main inputs used in the model were as follows:

Share price	RMB3,025,000
Exercise price	RMB1,500,000
Expected volatility	77.91%
Vesting period	December 30, 2014 to May 24, 2016
Validity period	December 30, 2014 to November 24, 2017
Expected Life	2.15 years
Risk-free rate	3.32%
Expected dividend yield	0.22%

Expected volatility was determined by using historical volatility of Chengdu Qilu’s comparable companies over the previous 2-3 years. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

A share-based compensation expense of RMB569,000 has been recognised in profit or loss for the year ended December 31, 2016.

In December 2016, the share option was fully exercised by Mr. Tian Ye.

## 31. LEASE LIABILITIES

	As at December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities . . . . .	727	495	1,612	1,793
Non-current liabilities . . . . .	588	697	1,377	1,030
	<u>1,315</u>	<u>1,192</u>	<u>2,989</u>	<u>2,823</u>
	As at December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Minimum lease payment due:				
– within one year . . . . .	913	562	1,875	1,822
– more than one year, but not exceeding two years . . . . .	316	509	1,667	1,038
– more than two years . . . . .	324	247	155	53
	<u>1,553</u>	<u>1,318</u>	<u>3,697</u>	<u>2,913</u>
Less: future finance charges . . . . .	(238)	(126)	(708)	(90)
	<u>1,315</u>	<u>1,192</u>	<u>2,989</u>	<u>2,823</u>
	As at December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Present value of lease liability				
– within one year . . . . .	727	495	1,612	1,793
– more than one year, but not exceeding two years . . . . .	297	477	1,282	978
– more than two years . . . . .	291	220	95	52
	<u>1,315</u>	<u>1,192</u>	<u>2,989</u>	<u>2,823</u>

The Group leased properties for its office premises and the lease liabilities were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate at January 1, 2016. The rate applied is 4.75% per annum. All leases are entered at fixed rates.

Leases are negotiated and fixed for the terms in the range of 2 to 4 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions.

The total cash outflows for leases including the payments of lease liabilities for the year ended December 31, 2016, 2017 and 2018 and for the four months ended April 30, 2018 (unaudited) and 2019 were RMB899,000, RMB1,012,000, RMB1,383,000, RMB641,000 (unaudited) and RMB748,000, respectively.

**32. RETIREMENT BENEFIT PLAN**

The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The contributions made by the Group in respect of the retirement benefit scheme amounting to approximately RMB1,435,000, RMB1,952,000, RMB3,290,000, RMB910,000 (unaudited), and RMB1,326,000 for the year ended December 31, 2016, 2017, 2018 and for the four months ended April 30, 2018 (unaudited) and 2019, respectively are included in cost of sales and services, administrative expenses, research and development expenses or selling and distribution expenses.

**33. DISPOSAL OF SUBSIDIARIES**

As referred to in Note 38, in August 2018, the Group disposed its subsidiaries, Tianjin Kuleng Technology Co., Ltd (“Kuleng Technology”) and Sudu Technology to independent third parties, and disposed another subsidiary, Tianjin Aidai Technology Co., Ltd (“Aidai Technology”) to the shareholder of Zhonghe Yilian, which is a related party of the Group. The total net assets of subsidiaries, at the date of disposal were as follows:

Consideration received:	<i>RMB'000</i>
Cash received . . . . .	6,000
Deferred cash consideration . . . . .	3,000
	<hr/>
Total consideration received . . . . .	9,000
	<hr/> <hr/>
Analysis of assets and liabilities over which control were lost:	<i>RMB'000</i>
Assets	
Property, plant and equipment . . . . .	16
Financial assets at FVTPL . . . . .	1,000
Trade and other receivables . . . . .	694
Bank balances and cash . . . . .	5,766
	<hr/>
	7,476
	<hr/>
Liabilities	
Trade and other payables . . . . .	(163)
	<hr/>
Net assets disposed of . . . . .	7,313
	<hr/>
Gain on disposal of subsidiaries:	
Considerations received and receivable . . . . .	9,000
Net assets disposed of . . . . .	(7,313)
	<hr/>
Gain on disposal . . . . .	1,687
	<hr/>
Net cash inflow arising on disposal:	
Cash consideration received . . . . .	6,000
Less: bank balances and cash disposed of . . . . .	(5,766)
	<hr/>
	234
	<hr/> <hr/>

The deferred cash considerations of RMB2,000,000 and RMB1,000,000 are included in other receivables and amounts due from related parties, respectively, as at December 31, 2018. The deferred cash considerations of RMB2,000,000 are included in other receivables as at April 30, 2019, and the amount of deferred cash consideration of RMB700,000 included in amounts due from related parties has been settled in cash during the four months ended April 30, 2019. The amount of deferred cash consideration of RMB300,000 included in amounts due from related parties as at April 30, 2019 were settled in cash up to the date of this report.

### 34. RELATED PARTY TRANSACTIONS

During the Track Record Period, besides the disclosures elsewhere in the Historical Financial Information, the Group entered into the following transactions with related parties:

#### *i Transactions with related parties*

	Relationship	Year ended December 31,			Four months ended April 30,	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from Beijing Qihu .....	Shareholder of the Company	–	45,375	61,010	16,469	20,613
Revenue from 360 Technology Inc. ....	Shareholder of Beijing Qihu	46,829	5,166	5,232	2,714	510
Revenue from Shanghai Songheng .....	Shareholder of the Company	*	41,538	23,971	6,919	10,980
Revenue from Hangzhou Ju'a .....	Associate of Chengdu Qilu	–	–	1,334	–	**
Revenue from Beijing Star World Technology Company Ltd. ....	360 Technology Inc.'s subsidiary	111	46	5,511	9	7,501
Revenue from Quyou time (Beijing) Technology Co., Ltd. ....	360 Technology Inc.'s subsidiary	–	2	–	–	–
Revenue from Shenzhen Blog Technology Co., Ltd .....	Non-controlling interest holder's subsidiary	–	29	215	14	38
Revenue from Xiaofeiniiao Cost to Beijing Qihu . . . .	Controlled by Tian Ye Shareholder of the Company	–	–	12	–	43
Cost to Shanghai Zhanmeng .....	Shanghai Songheng's subsidiary	786	1,680	2,221	318	384
Cost to Shanghai Gaoxin	Shanghai Songheng's subsidiary	*	11	1	–	–
Cost to Shanghai Gaoxin	Shanghai Songheng's subsidiary	*	2,146	617	428	995
Market promotion fee to 360 Technology Inc. . . .	Shareholder of Beijing Qihu	1,179	–	–	–	–

\* Shanghai Songheng, Shanghai Gaoxin and Shanghai Zhanmeng became related parties of the Group since 2017.

\*\* Hangzhou Ju'a has ceased to be the Group's related party since September 2018 as disclosed in Note 18.

ii *Compensation of key management personnel*

The remuneration of directors and other members of key management of the Group during the Track Record Period were as follows:

	Year ended December 31,			Four months ended April 30,	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and allowances . . . . .	1,576	1,655	2,299	1,073	1,569
Retirement benefit scheme contributions . . . . .	76	69	93	68	79
Equity-settled share-based payments expenses . . . . .	569	–	–	–	–
	<u>2,221</u>	<u>1,724</u>	<u>2,392</u>	<u>1,141</u>	<u>1,648</u>

### 35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of debt, which includes amounts due to related parties (Note 25), borrowing (Note 27) and put option liability (Note 29), net of bank balances and cash and equity attributable to owners of the Group, comprising paid-in capital/share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares and new debts, if necessary.

### 36. FINANCIAL INSTRUMENTS

*Categories of financial instruments*

**The Group**

	At December 31,			At April 30,
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>				
Loans and receivables/debt instruments at amortised cost				
Trade receivables . . . . .	8,285	18,703	63,671	45,288
Other receivables . . . . .	4,626	5,079	8,359	14,196
Amounts due from related parties . . . . .	–	–	1,615	865
Pledged bank deposit . . . . .	–	–	6,000	6,000
Bank balances and cash . . . . .	42,990	115,703	174,147	201,962
AFS investments . . . . .	2,000	–	–	–
Financial assets at FVTPL . . . . .	13,092	8,366	–	–
	<u>70,993</u>	<u>147,851</u>	<u>253,792</u>	<u>268,311</u>

	At December 31,			At April 30,
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial liabilities</b>				
FVTPL				
Put option liability .....	–	–	19,314	18,899
Amortised cost				
Trade and other payables* .....	3,165	7,781	15,132	14,536
Amounts due to related parties ..	–	1,005	–	–
Borrowing .....	–	–	5,918	5,918
	<u>3,165</u>	<u>8,786</u>	<u>40,364</u>	<u>39,353</u>

\* Payroll payable, accrued listing expense/share issue costs and other tax payable are excluded

#### The Company

	At December 31,	At April 30,
	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets</b>		
Bank balances and cash .....	<u>19,479</u>	<u>19,219</u>
<b>Financial liabilities</b>		
FVTPL		
Put option liability .....	19,314	18,899
Amortised cost		
Amounts due to subsidiaries .....	<u>21,473</u>	<u>24,724</u>
	<u>40,787</u>	<u>43,623</u>

#### *Financial risk management objectives and policies*

The Group's and the Company's major financial instruments include trade receivables, other receivables, amounts due from/to related parties, amounts due to subsidiaries, AFS investments, pledged bank deposit, bank balances and cash, financial assets at FVTPL, put option liability, trade and other payables and borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## (a) Market risk

## (i) Foreign Currency risk

The Group has bank balances, trade receivables, trade payables and put option liability which are denominated in US dollars (the "USD") and the Company has bank balances and put option liability which are denominated in USD. The carrying amounts of the Group's and the Company's USD denominated monetary assets and liabilities at the end of reporting period are as follows:

	The Group		The Company	
	At April 30, 2019	At December 31, 2018	At April 30, 2019	At December 31, 2018
	RMB'000	RMB'000	RMB'000	RMB'000
USD				
Assets .....	32,475	23,033	19,219	19,479
Liabilities .....	(21,443)	(19,314)	(18,899)	(19,314)

## Sensitivity analysis

The Group is mainly exposed to the USD. The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates a decrease (an increase) in profit before tax or an increase (a decrease) in loss before tax where Renminbi strengthens 5% against USD. For a 5% weakening of Renminbi against USD, there would be an equal and opposite impact on the profit or loss.

	The Group		The Company	
	Four months ended April 30, 2019	Year ended December 31, 2018	Four months ended April 30, 2019	Year ended December 31, 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss related to USD .....	552	186	16	8

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of the reporting period does not reflect the exposure during the respective period.

## (ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Company are exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances and pledged bank deposit and fair value interest rate risk on the fixed-rate borrowing.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

No sensitivity analysis is prepared for variable-rate interest bearing bank balances and pledged bank deposit and the fixed-rate bank borrowing as the bank interest rate on bank balances and pledged bank deposit is relative stable and interest rate on borrowing is fixed over the Track Record Period.



**(b) Credit risk***Overview of the Group's exposure to credit risk before adoption of HKFRS 9 as at January 1, 2018*

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform its obligations is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk on trade and other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables based on historical settlement records and past experience. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balances of trade and other receivables. In addition, the credit risk on trade receivables with related parties are reduced as the Group can closely monitor the repayment of the related parties. The Group has concentration of credit risk on trade receivables with related parties, which were due from two and five related parties as at December 31, 2016 and 2017, respectively.

The Groups' and the Company's credit risk on bank balances is limited because the counterparties are reputable financial institutions.

*Overview of the Group's exposure to credit risk after adoption of HKFRS 9 as at January 1, 2018*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise credit risk, the Group has tasked its credit management team to develop and maintain the credit risk grading for the Group's trade and other receivables and other financial assets at amortised cost and to categorise exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework in respect of other receivables and other financial assets at amortised cost comprises the following categories:

<b>Category</b>	<b>Description</b>	<b>Basis for recognising ECL</b>
Performing . . . . .	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful . . . . .	There has been a significant increase in credit risk since initial recognition	Lifetime ECL-not credit-impaired
In default . . . . .	There is evidence indicating the asset is credit-impaired	Lifetime ECL-credit impaired
Write-off . . . . .	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

For trade receivables, the Group has applied the simplified approach under HKFRS 9 to measure the loss allowance at lifetime ECL. The ECL on trade receivables are assessed individually for credit-impaired debtors and collectively for not credit-impaired debtors based on provision matrix, based on historical credit loss experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort at the reporting date.

For other receivables, the management of the Group makes periodic collective as well as individual assessment on the recoverability of these financial assets based on credit risk assessment and historical settlement records and past experience, if any, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

As the Group's debtor and general economic conditions of the industry changed slightly, no loss allowance was recorded as an adjustment to the accumulated profits as at January 1, 2018, and loss allowances of RMB619,000 and RMB459,000 were accrued as at December 31, 2018 and April 30, 2019, respectively.

(c) **Liquidity risk**

In management of the liquidity risk, the management of Group monitors and maintains level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay). The table includes both interest and principal cash flows, where applicable.

	Weighted average effective interest rate	The Group					Total undiscounted cash flows	Carrying amounts
		On demand or within 3 months	3 months- 1 year	1-2 years	2-5 years			
		%	RMB'000	RMB'000	RMB'000	RMB'000		
As at December 31, 2016								
<i>Non-interest bearing</i>								
Trade and other payables . . .	N/A	3,165	–	–	–	3,165	3,165	
<i>Interest bearing</i>								
Lease liabilities . . . . .	4.75%	304	609	316	324	1,553	1,315	
		<u>3,469</u>	<u>609</u>	<u>316</u>	<u>324</u>	<u>4,718</u>	<u>4,480</u>	
As at December 31, 2017								
<i>Non-interest bearing</i>								
Trade and other payables . . .	N/A	7,781	–	–	–	7,781	7,781	
Amounts due to related parties . . . . .	N/A	1,005	–	–	–	1,005	1,005	
<i>Interest bearing</i>								
Lease liabilities . . . . .	4.75%	187	375	509	247	1,318	1,192	
		<u>8,973</u>	<u>375</u>	<u>509</u>	<u>247</u>	<u>10,104</u>	<u>9,978</u>	
As at December 31, 2018								
<i>Non-interest bearing</i>								
Trade and other payables . . .	N/A	15,132	–	–	–	15,132	15,132	
<i>Interest bearing</i>								
Borrowing . . . . .	5%	74	6,057	–	–	6,131	5,918	
Put option liability . . . . .	8%	–	–	22,586	–	22,586	19,314	
Lease liabilities . . . . .	4.75%	625	1,250	1,667	155	3,697	2,989	
		<u>15,831</u>	<u>7,307</u>	<u>24,253</u>	<u>155</u>	<u>47,546</u>	<u>43,353</u>	

	The Group						
	Weighted average effective interest rate	On demand or within 3 months	3 months- 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at April 30, 2019							
<i>Non-interest bearing</i>							
Trade and other payables . . .	N/A	14,536	–	–	–	14,536	14,536
<i>Interest bearing</i>							
Borrowing . . . . .	5%	74	5,993	–	–	6,067	5,918
Put option liability . . . . .	8%	–	–	22,143	–	22,143	18,899
Lease liabilities . . . . .	4.75%	607	1,215	1,038	53	2,913	2,823
		<u>15,217</u>	<u>7,208</u>	<u>23,181</u>	<u>53</u>	<u>45,659</u>	<u>42,176</u>

	The Company					
	Weighted average effective interest rate	On demand or within 3 months	3 months- 1 year	1-2 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2018						
<i>Non-interest bearing</i>						
Amounts due to subsidiaries . . . . .	N/A	21,473	–	–	21,473	21,473
<i>Interest bearing</i>						
Put option liability . . . . .	8%	–	–	22,586	22,586	19,314
		<u>21,473</u>	<u>–</u>	<u>22,586</u>	<u>44,059</u>	<u>40,787</u>
As at April 30, 2019						
<i>Non-interest bearing</i>						
Amounts due to subsidiaries . . . . .	N/A	24,724	–	–	24,724	24,724
<i>Interest bearing</i>						
Put option liability . . . . .	8%	–	–	22,143	22,143	18,899
		<u>24,724</u>	<u>–</u>	<u>22,143</u>	<u>46,867</u>	<u>43,623</u>

**(d) Fair value measurement**

*Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis*

This note provides information about how the Group determines fair value of the following financial assets and financial liabilities that are measured at fair value on a recurring basis.

	Fair value as at December 31,			Fair value as at April 30,	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
	2016	2017	2018	2019			
	RMB'000	RMB'000	RMB'000	RMB'000			
<u>Financial assets</u>							
Unlisted financial products issued by banks . . . . .	13,092	8,366	–	–	Level 2	Discounted cash flow-future cash flow are estimated based on observable expected return, and discounted at a rate that reflects the risk of underlying investments	N/A
<u>Financial liabilities</u>							
Put option liability . . . . .	–	–	19,314	18,899	Level 3	Discounted cash flow analysis, option pricing method on discount for lack of marketability and scenarios analysis Key inputs: TGR, WACC, risk-free rate and volatility to determine the enterprise fair value, probability of successful IPO, time to expiration, discount rate	As at December 31, 2018 and April 30, 2019: – WACC (15%) – Discount rate (8%)

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing model based on discounted cash flow analysis.

Details of reconciliation from the beginning balance to the ending balance of Level 3 fair value measurements of financial liability regarding the put option liability are set out in Note 29.

In determining the fair value of put option liability as at December 31, 2018 and April 30, 2019, WACC of 15% and discount rate of 8% are used. If WACC was 1% higher while all the other variables were held constant, the fair value of the put option liability would decrease by RMB1,326,000 and RMB1,240,000 as at December 31, 2018 and April 30, 2019, respectively. If WACC was 1% lower while all the other variables were held constant, the fair value of the put option liability would increase by RMB1,555,000 and RMB1,453,000 as at December 31, 2018 and April 30, 2019, respectively. In addition, the fair value of the put option liability is not sensitive to the fluctuation of the discount rate.

The management of the Group considers that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate to their fair values.

### 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES/NET DEBT RECONCILIATION

	Amounts due to related parties		Other payables	Lease liabilities	Put option liability	Accrued share issue costs	Total
	Borrowing						
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	-	-	-	962	-	-	962
Inception of leases	-	-	-	1,143	-	-	1,143
Interest expenses	-	-	-	109	-	-	109
Financing cash flows	-	-	-	(899)	-	-	(899)
December 31, 2016	-	-	-	1,315	-	-	1,315
Inception of leases	-	-	-	780	-	-	780
Interest expenses	-	-	-	109	-	-	109
Financing cash flows	1,005	-	-	(1,012)	-	-	(7)
At December 31, 2017	1,005	-	-	1,192	-	-	2,197
Inception of leases	-	-	-	2,976	-	-	2,976
Interest expenses	-	-	81	204	-	-	285
Financing cash flows	(1,005)	5,918	-	(1,383)	19,375	(4,672)	18,233
Deferred issue costs	-	-	-	-	-	5,351	5,351
Fair value changes on put option liabilities	-	-	-	-	(61)	-	(61)
At December 31, 2018	-	5,918	81	2,989	19,314	679	28,981
Inception of leases	-	-	-	525	-	-	525
Interest expenses	-	-	98	57	-	-	155
Financing cash flows	-	-	(81)	(748)	-	(358)	(1,187)
Deferred issue costs	-	-	-	-	-	253	253
Fair value changes on put option liabilities	-	-	-	-	(415)	-	(415)
At April 30, 2019	-	5,918	98	2,823	18,899	574	28,312

## 38. PARTICULARS OF SUBSIDIARIES

As at the date of this report, the Company has direct or indirect interests, in the following subsidiaries:

Name of subsidiary	Date and place of establishment/ incorporation	Issued and fully paid paid-in capital/ share capital/ registered capital (at date of this report)	Effective equity interest attributable to the Company				At date of this report	Principal activities
			At December 31,			At April 30		
			2016	2017	2018	2019		
			%	%	%	%	%	
360 Ludashi Consulting Limited	March 27, 2018 the British Virgin Islands	Nil/US\$50,000	N/A	N/A	100	100	100	Investment holding
360 Ludashi Technology Limited	February 15, 2018 HK	Nil/HK\$10,000	N/A	N/A	100	100	100	Investment holding
Anyixun	October 20, 2015 the PRC	RMB300,000/ RMB1,000,000	100	100	100	100	100	Online advertising
Chengdu Qilu	November 25, 2014 the PRC	RMB8,500,000/ RMB10,500,000	100	100	100	100	100	Online advertising
Liu Liyou Technology	April 17, 2017 the PRC	RMB6,500,000/ RMB12,500,000	N/A	68	68	68	68	Online game business
Xiaolu Second-Hand (Note 1)	April 25, 2017 the PRC	RMB9,500,000/ RMB17,500,000	N/A	70	82.86	82.86	82.86	Certified pre-owned and factory smartphones sales
Lubang Technology	November 23, 2017 the PRC	RMB3,000,000/ RMB5,000,000	N/A	70	66.29	66.29	66.29	Certified pre-owned and factory smartphones sales
Zhongzhixing	June 27, 2017 the PRC	Nil/RMB100,000	N/A	100	100	100	100	Homepage directory services
Kuleng Technology (Notes 2 & 4)	September 5, 2017 The PRC	RMB1,500,000/ RMB10,000,000	N/A	15	-	-	-	Inactive
Chengdu Aiyu Technology Co., Ltd (Notes 2 & 6)	September 21, 2017 The PRC	RMB900,000/ RMB5,000,000	N/A	18	-	-	-	Online game development
Aidai Technology (Notes 2 & 3)	September 28, 2017 The PRC	RMB1,500,000/ RMB10,000,000	N/A	15	-	-	-	Inactive
Sudu Technology (Notes 2 & 5)	October 11, 2017 The PRC	RMB1,900,000/ RMB10,000,000	N/A	19	-	-	-	Inactive
Shenzhen Zhonghe Yilian Technology Co., Ltd (Note 2)	December 4, 2017 The PRC	RMB1,900,000/ RMB10,000,000	N/A	19	19	19	19	Smart accessories sales
Tianjin Jiubake Technology Co., Ltd (Notes 2 & 7)	April 2, 2018 The PRC	Nil/ RMB10,000,000	N/A	N/A	15	15	-	Inactive

Name of subsidiary	Date and place of establishment/ incorporation	Issued and fully paid paid-in capital/ share capital/ registered capital (at date of this report)	Effective equity interest attributable to the Company					Principal activities
			At December 31,			At		
			2016	2017	2018	April 30 2019	At date of this report	
			%	%	%	%	%	
Zhilu Technology (Note 8) .....	May 23, 2018 The PRC	Nil/ RMB10,000,000	N/A	N/A	15.2	15.2	-	Internet of things service
Chengdu Xiaolu Zhidian Technology Co., Ltd (Note 9) .....	July 17, 2018 the PRC	RMB1,500,000/ RMB5,000,000	N/A	N/A	80	80	80	Smartphone and computer maintenance
Shanghai Qilu Network Technology Company Ltd .....	January 15, 2019 the PRC	RMB1,000,000/ RMB10,000,000	N/A	N/A	N/A	100	100	Inactive

**Notes:**

- (1) In April 2018, the Group injected RMB15,000,000 to Xiaolu Second-hand, as a result, the equity interest in Xiaolu Second-hand increased to 82.86%.
- (2) Despite the fact that the Group's legal equity ownership in each of these investees is below 50% during the Track Record Period, the Group has control over them as relevant decisions required only simple majority vote and the remaining or majority legal ownership is held by the Group's employees who are also key management of these investees. In addition, since all the capital and working capital of these investees were solely contributed by the Group, based on the relevant shareholders' agreements, the Group has rights to all the net assets of these investees. Therefore, the Group considers it has power over these investees, and has exposure and rights to variable returns from its involvement with the investees.
- (3) In August 2018, the Company disposed of all the equity interests held by the Group and its employee to an independent third party.
- (4) The Group disposed of its 15% equity interest to an independent third party in August 2018.
- (5) The Group disposed of its 19% equity interest to an independent third party in August 2018.
- (6) In September 2018, the resolution of the shareholders' meeting unanimously passed the de-registration of Chengdu Aiyu Technology Co., Ltd., and the de-registration was approved by Industry and Commerce Bureau in November 2018.
- (7) In September 2018, the resolution of the shareholders' meeting unanimously passed the de-registration of Tianjin Jiubake Technology Co., Ltd., and the de-registration was approved by Industry and Commerce Bureau in June 2019.
- (8) In May 2018, Shenzhen Zhonghe Yilian Technology Co., Ltd. established Zhilu Technology with an independent third party with equity interest of 80% and 20% respectively. In January 2019, the resolution of the shareholders' meeting unanimously passed the de-registration of Zhilu Technology, and the de-registration was approved by Industry and Commerce Bureau in June 2019.
- (9) The Group solely contributed all the capital and working capital of Chengdu Xiaolu Zhidian Technology Co., Ltd. Based on the relevant shareholders' agreements, the Group has rights to all the net assets of this investee.

The Company's financial year end date is December 31, which is consistent with all other group entities.

The statutory financial statements of the following subsidiaries established in the PRC were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by the following certified public accountants registered in the PRC.

<b>Name of subsidiaries</b>	<b>Financial year ended</b>	<b>Name of auditors</b>
Chengdu Qilu . . . . .	December 31, 2018 & December 31, 2017	德勤華永會計師事務所(特殊普通合夥)成都分所 ("Deloitte Touche Tohmatsu Certified Public Accountants LLP Chengdu Branch")
	December 31, 2016	四川華信(集團)會計師事務所 ("Sichuan Huaxin (Group) Certified Public Accountants")
Anyixun . . . . .	December 31, 2018 & December 31, 2017	德勤華永會計師事務所(特殊普通合夥)成都分所 ("Deloitte Touche Tohmatsu Certified Public Accountants LLP Chengdu Branch")
	December 31, 2016	四川華信(集團)會計師事務所 ("Sichuan Huaxin (Group) Certified Public Accountants")
Liu Liuyou Technology . . . . .	December 31, 2018 & From April 17, 2017 to December 31, 2017	德勤華永會計師事務所(特殊普通合夥)成都分所 ("Deloitte Touche Tohmatsu Certified Public Accountants LLP Chengdu Branch")
Xiaolu Second-Hand . . .	December 31, 2018 From April 25, 2017 to December 31, 2017	德勤華永會計師事務所(特殊普通合夥)成都分所 ("Deloitte Touche Tohmatsu Certified Public Accountants LLP Chengdu Branch")
Lubang Technology . . .	December 31, 2018	德勤華永會計師事務所(特殊普通合夥)成都分所 ("Deloitte Touche Tohmatsu Certified Public Accountants LLP Chengdu Branch")
Zhongzhixing . . . . .	December 31, 2018	德勤華永會計師事務所(特殊普通合夥)成都分所 ("Deloitte Touche Tohmatsu Certified Public Accountants LLP Chengdu Branch")

No statutory financial statements have been prepared for the subsidiaries other than listed above, since their dates of incorporation/establishment were near the year end of 2017 or 2018 and they had no operation in 2017 or 2018 or there are no statutory audit requirement.



### 39. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting by non-rights held controlling interests			Profit allocated to non-controlling interest			
		At December 31, 2017	At December 31, 2018	At April 30, 2019	Year ended December 31, 2017	Year ended December 31, 2018	Four months ended April 30, 2018	Four months ended April 30, 2019
		%	%	%	RMB'000	RMB'000	RMB'000	RMB'000
Liu Liuyou Technology . . . . .	PRC	68%	68%	68%	2,660	4,268	2,341	510

(unaudited)

Name of subsidiary	Accumulated non-controlling interests		
	At December 31, 2017	At December 31, 2018	At April 30, 2019
	RMB'000	RMB'000	RMB'000
Liu Liuyou Technology . . . . .	9,480	13,748	14,258
Individually immaterial subsidiaries with non-controlling interests . . . . .	354	1,450	1,229
	<u>9,834</u>	<u>15,198</u>	<u>15,487</u>

Summarised financial information in respect of Liu Liuyou Technology and its subsidiaries is set out below. The summarised financial information below represents amounts before intra-group elimination.

#### *Liu Liuyou Technology and subsidiary*

	At December 31,		At April 30,
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Current assets . . . . .	35,016	51,602	54,248
Non-current assets . . . . .	41	188	169
Current liabilities . . . . .	5,431	8,828	9,860
Non-current liabilities . . . . .	–	–	–
Equity attributable to owners of the Company . . .	20,146	29,214	30,299
Non-controlling interests of Liu Liuyou Technology . . . . .	9,480	13,748	14,258

	Year ended December 31,		Four months ended April 30,	
	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Revenue .....	15,963	49,190	12,693	19,012
Profit for the year .....	8,313	13,336	7,315	1,595
Profit attributable to owners of the Company .....	5,653	9,068	4,974	1,085
Profit attributable to the non-controlling interests of Liu Liuyou Technology .....	2,660	4,268	2,341	510
Profit before taxation .....	8,313	13,336	7,315	1,595
	Year ended December 31,		Four months ended April 30,	
	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Net cash inflow from operating activities .....	9,254	9,958	3,444	15
Net cash outflow from investing activities .....	(43)	(234)	(111)	(6)
Net cash inflow from financing activities .....	20,000	–	–	–
Net cash inflow .....	29,211	9,724	3,333	9

#### 40. EVENTS AFTER REPORTING PERIOD

Save as elsewhere disclosed in this report, events and transactions took place subsequent to April 30, 2019 are detailed as below:

On September 9, 2019, written resolutions of the shareholders of the Company were passed to approve the matters set out in the section headed “3. Written resolutions of all the Shareholders passed on 9 September 2019” in Appendix IV to the Prospectus. It was resolved, among other things, that:

- (i) the authorised share capital was increased from HK\$380,000 to HK\$100,000,000 by the creation of a further 9,962,000,000 shares;
- (ii) the issue of 198,992,890 shares to shareholders whose names appear on the register of members of the Company as of the date of the passing of the resolution, on a pro rata basis, to be made upon capitalisation of part of the amount standing to the credit of the share premium account of the Company as set out in the section headed “3. Written resolutions of all the Shareholders passed on 9 September 2019” in Appendix IV to the Prospectus; and
- (iii) the Company has conditionally approved and adopted a share option scheme, the principle terms of which are set out in the section headed “D. Share option scheme” in Appendix IV to the Prospectus.

#### 41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company, any of the subsidiaries of the Company or the Group have been prepared in respect of any period subsequent to April 30, 2019.

The information set out in this Appendix does not form part of the accountants' report on the financial information of the Group for each of the three years then ended December 31, 2018 and the four months ended April 30, 2019 (the "Track Record Period") (the "Accountants' Report") issued by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for information only.

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.*

#### A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the proposed global offering of the Company's shares (the "Global Offering") on the audited consolidated net tangible assets of the Group attributable to owners of the Company at April 30, 2019 as if the Global Offering had taken place on April 30, 2019.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 or any future dates following the Global offering.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 as shown in the Accountants' Report, as set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 per Share	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>Note 1</i>	<i>Note 2</i>		<i>Note 3</i>	<i>Note 4</i>
Based on a minimum offer price of HK\$2.3 per Share . . . . .	229,457	91,878	321,335	1.24	1.37
Based on a maximum offer price of HK\$3.0 per Share . . . . .	229,457	128,727	358,184	1.38	1.53

*Notes:*

- (1) The amount is based on the audited consolidated net assets of the Group attributable to owners of the Company as at April 30, 2019 of RMB232,252,000, extracted from the Accountants' Report of the Group set out in Appendix I to this prospectus and adjusted for intangible assets as at April 30, 2019 of RMB2,795,000. The audited consolidated net assets of the Group attributable to owners of the Company as at April 30, 2019 has included the carrying amount of the Put Option (as defined in note 3 below) of RMB18,899,000 which is designated as financial liability at fair value through profit or loss in the consolidated statement of financial position of the Group as at April 30, 2019.
- (2) The estimated net proceeds from the Global Offering are based on 60,000,000 Shares at the offer price of lower limit and upper limit of HK\$2.3 and HK\$3.0 per Share, respectively, after deduction of estimated related fees and expenses (excluding approximately RMB19.66 million of listing expenses which have already been accounted for prior to April 30, 2019), but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or upon exercise of the Over-allotment Option, or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the sections headed "Share Capital – Repurchase mandate" or "Structure of the Global Offering" in this prospectus.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 per Share has been arrived on the basis of a total of 260,000,000 Shares in issue immediately following completion of the Global Offering and Capitalisation Issue, which include 1,411,961 Shares with the liquidation preference and redemption rights (the "Put Option") granted to an independent third party, Lima High Tech Limited ("Lima"), but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or upon exercise of the Over-allotment Option, or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the sections headed "Share Capital – Repurchase mandate" or "Structure of the Global Offering" in this prospectus.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share, stated in Renminbi are converted into Hong Kong Dollar at an exchange rate of RMB0.9028 to HK\$1, the rate prevailing on September 16, 2019 with reference to the rate published by the People's Bank of China. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or any other rates or at all.
- (5) As disclosed in the Note 29 to Historical Financial Information of the Accountants' Report set out in Appendix I to this prospectus, the Company issued 7,110 Shares (before the effect of Capitalisation Issue) of the Company with liquidation preference and the Put Option to Lima, at US\$399 (equivalent to RMB2,725) per Share for a total net cash proceeds of approximately US\$2,837,000 (equivalent to RMB19,375,000) in August 2018. The liquidation preference and the Put Option granted to Lima will be terminated upon listing. For the purpose of calculating the above unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 per Share, the audited consolidated net assets of the Group attributable to owners of the Company as at April 30, 2019 has included the carrying amount of the Put Option of RMB18,899,000 which are designated as financial liability at fair value through profit or loss in the consolidated statement of financial position of the Group as at April 30, 2019.

Had the carrying amount of the Put Option been transferred to equity upon termination of liquidation preference and the Put Option as at April 30, 2019, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 would have been increased by approximately RMB18,899,000, which represents the carrying value of the Put Option as of April 30, 2019. Assuming the termination of liquidation preference and the Put Option and with the estimated net proceeds from the Global Offering as assumed in note 2 above, based on the minimum and maximum Offer Price of HK\$2.3 and HK\$3.0 per Share, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 would have been RMB340,234,000 and RMB377,083,000, respectively, and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 per Share would be RMB1.31 (approximately HK\$1.45) per Share and RMB1.45 (approximately HK\$1.61) per Share. The computation of such unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 per Share is arrived on the basis of a total of 260,000,000 Shares in issue immediately following completion of Global Offering and Capitalisation Issue, but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or upon exercise of the Over-allotment Option, or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the sections headed "Share Capital – Repurchase mandate" or "Structure of the Global Offering" in this prospectus.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share, stated in Renminbi are converted into Hong Kong Dollar at an exchange rate of RMB0.9028 to HK\$1, the rate prevailing on September 16, 2019 with reference to the rate published by the People's Bank of China. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or any other rates or at all.

- (6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 to reflect any trading results or other transactions of the Group entered into subsequent to April 30, 2019.

**B. ASSURANCE REPORT FROM INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

**Deloitte.****德勤*****Independent Reporting Accountants' Assurance Report on the Compilation of Pro Forma Financial Information*****To the Directors of 360 Ludashi Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of 360 Ludashi Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at April 30, 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated September 26, 2019 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed global offering on the Group's financial position as at April 30, 2019 as if the proposed global offering had taken place at April 30, 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years then ended December 31, 2018 and the four months ended April 30, 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities 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 (the "HKICPA").

### **Our Independence and Quality Control**

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

Our firm applies Hong Kong Standard on Quality Control 1 “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 review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at April 30, 2019 would have been as presented.

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

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, 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 purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
September 26, 2019



Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 February 2018 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 9 September 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

### **(a) Shares**

#### **(i) Classes of shares**

The share capital of the Company consists of ordinary shares.

#### **(ii) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings



will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(iii) Alteration of capital**

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(iv) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

**(v) Power of the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

**(vi) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**(vii) Calls on shares and forfeiture of shares**

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares,

together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors**

**(i) Appointment, retirement and removal**

Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors. A majority of the Directors of the Company shall at all times be PRC Nationals.

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

Subject to the Articles and the Law, and provided that (i) any person so elected has been proposed by a resolution passed by the Directors, and (ii) following any such election, a majority of the Directors shall be PRC Nationals, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board, provided that following any such election, a majority of the Directors shall be PRC Nationals. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place, provided that following any such election, a majority of the Directors shall be PRC Nationals.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

Subject to the Articles and the Law, the Company may by ordinary resolution amend the terms of reference of the Nomination Committee provided that such amendment has been proposed by a resolution passed by the Directors.

**(ii) Power to allot and issue shares and warrants**

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

**(iii) Power to dispose of the assets of the Company or any of its subsidiaries**

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

**(iv) Borrowing powers**

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

**(v) Remuneration**

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the



Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

**(vi) Compensation or payments for loss of office**

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

**(vii) Loans and provision of security for loans to Directors**

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

**(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries**

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be



avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

*(c) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

*(d) Alterations to constitutional documents and the Company's name*

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

*(e) Meetings of members*

**(i) Special and ordinary resolutions**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

**(ii) Voting rights and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(iii) Annual general meetings and extraordinary general meetings**

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

**(iv) Notices of meetings and business to be conducted**

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

**(v) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(vi) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

**(f) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company's annual

accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

*(g) Dividends and other methods of distribution*

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

***(h) Inspection of corporate records***

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.



*(i) Rights of minorities in relation to fraud or oppression*

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

*(j) Procedures on liquidation*

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

*(k) Subscription rights reserve*

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the



subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

### 3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### *(a) Company operations*

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

#### *(b) Share capital*

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

*(c) Financial assistance to purchase shares of a company or its holding company*

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

*(d) Purchase of shares and warrants by a company and its subsidiaries*

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

*(e) Dividends and distributions*

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

*(f) Protection of minorities and shareholders' suits*

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder

petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

***(g) Disposal of assets***

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

***(h) Accounting and auditing requirements***

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

***(i) Exchange control***

There are no exchange control regulations or currency restrictions in the Cayman Islands.

*(j) Taxation*

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 11 September 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

*(k) Stamp duty on transfers*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

*(l) Loans to directors*

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

*(m) Inspection of corporate records*

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

***(n) Register of members***

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

***(o) Register of Directors and Officers***

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

***(p) Beneficial Ownership Register***

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

***(q) Winding up***

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or

where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which



approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

*(s) Take-overs*

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

*(t) Indemnification*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

*(u) Economic Substance Requirements*

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

#### **4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V to this Prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



**A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES****1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 7 February 2018. The Company has established its principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 3 October 2018. The Company has appointed Cheng Ching Kit (鄭程傑) of 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong as the authorized representative of the Company for the acceptance of service of process and notices in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and to its constitution comprising the Memorandum and the Articles of Association. A summary of various provisions of the Company's constitution and certain relevant aspects of the Cayman Companies Law is set out in Appendix III to this Prospectus.

**2. Changes in Share Capital of the Company**

As at the date of incorporation of the Company, its authorized share capital was HK\$380,000 divided into 38,000,000 Shares with par value of HK\$0.01 each. Upon its incorporation, one Share was allotted and issued to its initial subscriber, which was then transferred to Mr. Tian on the same day.

On 12 July 2018, (i) Mr. Tian transferred one Share to Dashi Technology Holdings; and (ii) the Company allotted and issued 265,070 Shares to Dashi Technology Holdings, 50,000 Shares to Hongmeng Investment, 13,500 Shares to BullRock Capital, 16,667 Shares to China Celestial, 416,667 Shares to True Thrive and 238,095 Shares to Songchang International, respectively.

On 24 July 2018, Hongmeng Investment transferred 16,084 Shares to Dashi Technology Holdings.

On 21 August 2018, Dashi Technology Holdings transferred 2,518 Shares to Templar.

On 22 August 2018, the Company allotted and issued 7,110 Shares to Lima High Tech.

On 9 September 2019, the Company increased its authorized share capital from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each by the creation of an additional 9,962,000,000 Shares (ranking *pari passu* in all respects with the then existing issued Shares).

Assuming that the Global Offering becomes unconditional and the issue of the Shares pursuant to the Global Offering and the Capitalization Issue mentioned herein are made, but not taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of the Company will be HK\$2,600,000 divided into 260,000,000 Shares fully paid or credited as fully paid.

Other than pursuant to any options which may be granted under the Share Option Scheme, the exercise of the Over-allotment Option or the exercise of the general mandate to issue shares referred to in this section headed “A. Further information about the Company and its Subsidiaries – 3. Written Resolutions of all the Shareholders passed on 9 September 2019,” there is no present intention to issue any part of the authorized but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and under the section headed “A. Further information about the Company and its subsidiaries – 4. Corporate Reorganization” in this Appendix IV, there has been no alteration in the share capital of the Company since its incorporation.

### ***3. Written Resolutions of all the Shareholders passed on 9 September 2019***

On 9 September 2019, written resolutions of all the Shareholders were passed pursuant to which, among others:

- (a) the Memorandum be and was thereby approved and adopted with immediate effect and the Articles of Association be and were thereby conditionally approved and adopted which will come into effect on the Listing Date, the terms of which are summarized in Appendix III to this Prospectus;
- (b) the authorized share capital of the Company be increased from HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares with a par value of HK\$0.01 each by the creation of an additional 9,962,000,000 Shares ranking pari passu with the existing Shares with immediate effect;
- (c) conditional on (A) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the Global Offering, the Capitalization Issue, the Over-allotment Option and the Share Option Scheme); and (B) the entering into of the agreement on the Offer Price between the Joint Global Coordinators and the Company; and (C) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint

Global Coordinators, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, in each case on or before the date determined in accordance with the terms of the Underwriting Agreements:

- (i) the Global Offering was approved and the Directors were authorized to effect the same and to allot and issue the Offer Shares pursuant to the Global Offering;
  - (ii) the Over-allotment Option was approved and the Directors were authorized to allot and issue any Shares which may be required to be issued if the Over-allotment Option is exercised;
  - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” below, were approved and adopted and the Directors were authorized, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares issued thereunder and to take all such steps as they consider necessary, desirable or expedient to implement and give effect to the Share Option Scheme; and
  - (iv) conditional upon the share premium amount of the Company being credited as a result of the Global Offering, the Directors were authorized to capitalize the amount of HK\$1,989,928.90 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 198,992,890 Shares for allotment and issue to the person(s) whose name(s) appears on the register of members of the Company as of the date of the passing of the resolution in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued);
- (d) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of the Company to allot, issue and deal in (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue or an issue of shares upon the exercise of the Over-allotment Option or any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of share or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by the Shareholders in general meeting, any unissued Shares with a total nominal value not exceeding 20% of the aggregate of the total

nominal value of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares that may be issued upon exercise of the Over-allotment Option) and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible into Shares) which might require the exercise of such power to issue Shares either during or after the end of the Relevant Period (as defined below), such mandate to remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; or
  - (iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (e) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed, and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares with a total nominal value not exceeding 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares that may be issued upon exercise of the Over-allotment Option or pursuant to the exercise of any options which may be granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the date by which the next annual general meeting of the Company is required by the Articles of Association or applicable laws of the Cayman Islands to be held; or
  - (iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately

following completion of the Global Offering and the Capitalization Issue (excluding any Shares that may be issued upon exercise of the Over-allotment Option Shares or pursuant to the exercise of any options which may be granted under the Share Option Scheme).

#### **4. *Corporate Reorganization***

In preparation for the Listing, the companies comprising our Group underwent the Reorganization to rationalize the corporate structure of the Group. For further details, please refer to the section headed “History, Reorganization and Corporate Structure – Reorganization” in this Prospectus.

#### **5. *Changes in Share Capital of Subsidiaries***

Save as disclosed in “History, Reorganization and Corporate Structure,” there has been no alteration in the share capital of any of our subsidiaries within the two years preceding the date of this Prospectus.

#### **6. *Particulars of Our Subsidiaries***

Particulars of our subsidiaries are set forth in the Accountant’s Report, the text of which is set forth in Appendix I to this Prospectus.

#### **7. *Repurchase of Our Own Securities***

This paragraph includes the information required by the Stock Exchange to be included in this Prospectus concerning the repurchase by the Company of its own securities.

##### **(a) *Provisions of the Listing Rules***

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

##### **(i) *Shareholders’ Approval***

All proposed repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

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*Note:* Pursuant to the written resolution of all the Shareholders passed on 9 September 2019, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by the Company of Shares as described above in the section headed “A. Further information about the Company and its subsidiaries – 3. Written resolutions of all the Shareholders passed on 9 September 2019.”

*(ii) Source of Funds*

Any repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and the Articles of Association and the applicable laws and regulations of the Cayman Islands.

**(b) Funding of Purchases**

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles of Association and the applicable laws and regulations of the Cayman Islands. Pursuant to the Repurchase Mandate, repurchases will be made out of funds of the Company legally permitted to be utilized in this connection, including profits of the Company or out of a fresh issue of Shares made for the purpose of the repurchase or, if authorized by the Articles of Association and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles of Association and subject to the Cayman Companies Law, out of capital of the Company. The Company may not repurchase securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

**(c) Reasons for Repurchases**

Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit the Company and the Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

**(d) Status of repurchased Shares**

The listing of all repurchased Shares (whether offered on the Stock Exchange or otherwise) on Main Board will automatically be cancelled and the certificates for those Shares shall be cancelled and destroyed.

**(e) Trading restrictions**

The total number of shares which a listed company may repurchase on Main Board is the number of shares representing up to a maximum of 10% of the aggregate number of shares of that company in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or higher than the average closing market price for the five preceding trading days on which its shares were

traded on Main Board. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

**(f) Suspension of repurchase**

A listed company may not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year, half-year or quarter-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on Main Board if a listed company has breached the Listing Rules.

**(g) Reporting requirements**

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

**(h) Exercise of the Repurchase Mandate**

Exercise in full of the Repurchase Mandate, on the basis of 260,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalization Issue (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 26,000,000 Shares being repurchased by the Company during the course of the period (the "**Relevant Period**") prior to the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;



- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association and the applicable laws and regulations of the Cayman Islands to be held; or
- (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the Shareholders in general meeting.

If the Over-Allotment Option is exercised in full, the exercise in full of the Repurchase Mandate on the basis of 403,500,000 Shares in issue immediately following the completion of the Global Offering and the Capitalization Issue could result in 40,350,000 Shares being repurchased by the Company during the Relevant Period.

**(i) General**

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention, if the Repurchase Mandate is approved by the Shareholders, to sell any Shares to the Company or its subsidiaries.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this Prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum, the Articles of Association and all the applicable laws and regulations of the Cayman Islands.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made after the Listing. Save as aforesaid, our Directors are not aware of any other consequence under the Takeovers Code as a result of a repurchase of Shares made immediately after the Listing.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he has a present intention to sell any Shares to the Company or has undertaken not to do so, if the Repurchase Mandate is exercised.



**B. FURTHER INFORMATION ABOUT OUR BUSINESS****1. Summary of Material Contracts**

The following contracts (not being contracts in the ordinary course of business of our Group) have been entered into by members of the Group within the two years preceding the date of this Prospectus and are or may be material:

- (a) the Chengdu Qilu Shareholder Rights Entrustment Agreement dated 15 January 2018 among Mr. Tian, Qihu Technology and Chengdu Qilu, pursuant to which Mr. Tian is entrusted by Qihu Technology to exercise all of Qihu Technology's rights as a shareholder of Chengdu Qilu;
- (b) the capital increase and equity transfer agreement dated 10 February 2018 among Chengdu Qilu, Mr. Tian, Qihu Technology, Shanghai Songheng and Qilu Haochen, pursuant to which (i) Mr. Tian agreed to subscribe for the increase in registered capital of Chengdu Qilu in the amount of RMB500,000 at a consideration of RMB28,571,430; and (ii) Qihu Technology transferred 5% equity interest in Chengdu Qilu to Qilu Haochen at a consideration of RMB30,000,000;
- (c) the share transfer agreement dated 26 March 2018 among Dashi Technology Holdings, Mr. Tian, Templar, the Company and Chengdu Qilu, pursuant to which Dashi Technology Holdings transferred 2,518 Shares of the Company to Templar at a consideration of RMB2,270,000;
- (d) the equity transfer agreement dated 26 April 2018 between Mr. Hu Weibin (戶維斌) and Chengdu Qilu, pursuant to which Mr. Hu Weibin transferred 50% equity interest in Xiaolu Second-Hand to Chengdu Qilu;
- (e) the equity transfer agreement dated 15 May 2018 between Chengdu Qilu and WFOE, pursuant to which Chengdu Qilu transferred 82.86% equity interest in Xiaolu Second-Hand to WFOE at a consideration of RMB17,000,000;
- (f) the equity transfer agreement dated 21 May 2018 between Chengdu Qilu and Mr. Hu Weibin (戶維斌), pursuant to which Chengdu Qilu transferred 15% equity interest in Aidai Technology to Mr. Hu Weibin at a consideration of RMB3,000,000;
- (g) the equity transfer agreement dated 27 June 2018 between Mr. Tian and WFOE, pursuant to which Mr. Tian transferred 99% equity interest in Zhongzhixing to WFOE;
- (h) the equity transfer agreement dated 27 June 2018 between Ms. Niu Yuanyuan (牛媛媛) and WFOE, pursuant to which Ms. Niu Yuanyuan transferred 1% equity interest in Zhongzhixing to WFOE;

- (i) the equity transfer agreement dated 28 June 2018 between Chengdu Qilu, Ms. Weng Ziyun (翁子匀) (an Independent Third Party) and WFOE, pursuant to which Chengdu Qilu transferred 1% equity interest in WFOE to Ms. Weng Ziyun at a consideration of RMB100,000;
- (j) the equity transfer agreement dated 15 July 2018 among Ms. Weng Ziyun (翁子匀) (an Independent Third Party), Chengdu Qilu, WFOE and HK Company, pursuant to which Ms. Weng Ziyun and Chengdu Qilu transferred 1% and 99% equity interests in WFOE to HK Company at a consideration of RMB100,000 and RMB9,900,000, respectively;
- (k) the investment agreement dated 24 July 2018 (as amended by a supplemental agreement dated 1 August 2018) among the Company, Lima High Tech and Mr. Tian, pursuant to which Lima High Tech agreed to subscribe for 7,110 Shares at a consideration of US\$2,836,983;
- (l) the equity transfer agreement dated 1 August 2018 between Chengdu Qilu and Mr. Tian, pursuant to which Chengdu Qilu transferred 15% equity interest in Xiaofeiniiao Technology to Mr. Tian at a consideration of RMB550,000;
- (m) the equity transfer agreement dated 20 August 2018 between Chengdu Qilu and Ms. Chen Ningning (陳寧寧) (an Independent Third Party), pursuant to which Chengdu Qilu transferred 15% equity interest in Kuleng Technology to Ms. Chen Ningning at a consideration of RMB3,000,000;
- (n) the equity transfer agreement dated 1 August 2018 between Chengdu Qilu and Mr. Luo Xuran (羅旭然) (an Independent Third Party), pursuant to which Chengdu Qilu transferred 7% equity interest in Zhonghe Lianchuang to Mr. Luo Xuran at nil consideration;
- (o) the equity transfer agreement dated 27 August 2018 between Chengdu Qilu and Sudu Technology, pursuant to which Chengdu Qilu transferred 10% equity interest in Ju'a Network to Sudu Technology at a consideration of RMB5,000,000;
- (p) the equity transfer agreement dated 7 August 2018 between Xiaolu Second-Hand and Mr. Cui Wei (崔巍), pursuant to which Xiaolu Second-Hand transferred its 20% equity interest in Lubang Technology to Mr. Cui Wei;
- (q) the equity transfer agreement dated 20 August 2018 between Chengdu Qilu and Ms. Chen Ningning (陳寧寧) (an Independent Third Party), pursuant to which Chengdu Qilu transferred 19% equity interest in Sudu Technology to Ms. Chen Ningning at a consideration of RMB3,000,000;
- (r) the Exclusive Option Agreement dated 31 August 2018 among WFOE, Chengdu Qilu and the Relevant Shareholders, pursuant to which, WFOE was granted an irrevocable and exclusive right to purchase from the Relevant Shareholders all or any part of their equity interests in Chengdu Qilu by itself or through its appointee(s) for a nominal price or the lowest value permitted by the then applicable PRC law;

- (s) the Exclusive Business Cooperation Agreement dated 31 August 2018 between WFOE and Chengdu Qilu whereby, among others, Chengdu Qilu agreed to engage WFOE as its exclusive provider of business support, technical and consulting services to the extent permitted under PRC laws in exchange for service fees;
- (t) the Share Pledge Agreement dated 31 August 2018 among WFOE, Chengdu Qilu and the Relevant Shareholders, pursuant to which the Relevant Shareholders pledged all of their respective equity interests in Chengdu Qilu to WFOE as collateral security, among others, (i) for any or all of Chengdu Qilu's payments due to WFOE; and (ii) to guarantee the performance of their respective obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Voting Rights Proxy Agreement;
- (u) the Voting Rights Proxy Agreement dated 31 August 2018 among WFOE, Chengdu Qilu and the Relevant Shareholders, pursuant to which the Relevant Shareholders unconditionally and irrevocably authorized WFOE to act on their behalf to exercise all of their shareholders' rights in Chengdu Qilu;
- (v) a cornerstone investment agreement dated 16 September 2019 entered into among our Company, Hong Kong Green Dynasty International Co. Limited, Guosen Securities (HK) Capital Co., Ltd., Macquarie Capital Limited and CCB International Capital Limited, details of which are included in the section headed "Cornerstone Investors" of this Prospectus;
- (w) a cornerstone investment agreement dated 16 September 2019 entered into among our Company, Mobvista International Technology Limited, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, details of which are included in the section headed "Cornerstone Investors" of this Prospectus;
- (x) a cornerstone investment agreement dated 16 September 2019 entered into among our Company, Ms. Qian Haiyan, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, details of which are included in the section headed "Cornerstone Investors" of this Prospectus;
- (y) a cornerstone investment agreement dated 18 September 2019 entered into among our Company, Mr. Chen Xian, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, details of which are included in the section headed "Cornerstone Investors" of this Prospectus;
- (z) a cornerstone investment agreement dated 18 September 2019 entered into among our Company, Ms. Wu Meirong, Guosen Securities (HK) Capital Co., Ltd. and Macquarie Capital Limited, details of which are included in the section headed "Cornerstone Investors" of this Prospectus;
- (aa) the deed of non-competition dated 9 September 2019 executed by Mr. Tian and Dashi Technology Holdings in favor of the Company as detailed in the paragraph headed "Relationship with Controlling Shareholders – Non-competition Undertaking by Mr. Tian and Dashi Technology Holdings" of this Prospectus;
- (bb) the deed of indemnity dated 9 September 2019 executed by Mr. Tian and Dashi Technology Holdings in favor of the Company (for itself and as trustee for its subsidiaries) containing the indemnities referred to in the sub-paragraph headed "– E. Other information – 1. Estate duty, Tax and Other Indemnity" in this appendix; and
- (cc) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property of the Group

### (a) Trademarks

As of the Latest Practicable Date, the Group is the registered owner of, or has been licensed to use, the following trademarks registered in the PRC and Hong Kong which are material to our business:

No.	Trademark	Registration No.	Place of Application	Trademark Owner	Class	Effective Date	Expiry Date
1. ....	鲁大师	7531994	PRC	Anyixun Technology	42	21 December 2010	20 December 2020
2. ....	鲁大师	7531979	PRC	Anyixun Technology	9	7 February 2011	6 February 2021
3. ....		24594019	PRC	Liu Liuyou Technology	35	14 June 2018	13 June 2028
4. ....		16317963	PRC	Anyixun Technology	42	28 April 2016	27 April 2026
5. ....	looda	16317211	PRC	Anyixun Technology	9	14 August 2016	13 August 2026
6. ....		26990378	PRC	Anyixun Technology	28	21 October 2018	20 October 2028
7. ....		26990380	PRC	Anyixun Technology	35	21 October 2018	20 October 2028
8. ....		27006496	PRC	Anyixun Technology	41	21 October 2018	20 October 2028
9. ....		29449158	PRC	Xiaolu Second-Hand	38	21 January 2019	20 January 2029
10. ....		29449169	PRC	Xiaolu Second-Hand	28	21 January 2019	20 January 2029
11. ....	LUDASHI	31840407	PRC	Anyixun Technology	42	7 April 2019	6 April 2029
12. ....	魯大師	304461877	Hong Kong	Anyixun Technology	9, 42	16 March 2018	15 March 2028
13. ....	LUDASHI	304471308	Hong Kong	Chengdu Qilu	9, 35 and 42	23 March 2018	22 March 2028
14. ....		304471326	Hong Kong	Chengdu Qilu	9, 35 and 42	23 March 2018	22 March 2028

As of the Latest Practicable Date, the Group had made applications to register the following trademarks which are material to our business:

No.	Trademark	Place of Application	Applicant	Class	Date of Application	Application No.
1 . . . . .	<b>LUDASHI</b>	India	Anyixun Technology	09, 35, 41, 42	17 September 2018	3946934
2 . . . . .	<b>LUDASHI</b>	Hong Kong	Anyixun Technology	41	30 August 2018	304652550
3 . . . . .	<b>LUDASHI</b>	Malaysia	Anyixun Technology	09	5 September 2018	2018068232
4 . . . . .	<b>LUDASHI</b>	Malaysia	Anyixun Technology	35	5 September 2018	2018068233
5 . . . . .	<b>LUDASHI</b>	Malaysia	Anyixun Technology	41	5 September 2018	2018068234
6 . . . . .	<b>LUDASHI</b>	Malaysia	Anyixun Technology	42	5 September 2018	2018068236
7 . . . . .	<b>LUDASHI</b>	Singapore	Anyixun Technology	09, 35, 41, 42	30 August 2018	40201817328P
8 . . . . .	<b>LUDASHI</b>	Indonesia	Anyixun Technology	09, 35, 41, 42	6 September 2018	DID2018043883

**(b) Domain Names**

As of the Latest Practicable Date, the Group was the registered proprietor of the following domain names:

Registrant	Domain Name	Date of Registration	Expiry Date
Chengdu Qilu . . . . .	ludashi.com	7 July 2009	7 July 2023
Chengdu Qilu . . . . .	taojike.cn	6 August 2015	6 August 2020
Chengdu Qilu . . . . .	ludan.cn	28 May 2011	28 May 2024
Chengdu Qilu . . . . .	xiaoluerhuo.com	22 March 2017	22 March 2021
Chengdu Qilu . . . . .	xiaoluhaohuo.com	17 April 2017	17 April 2021
Chengdu Qilu . . . . .	birdpaper.cn	14 June 2017	14 June 2020
Chengdu Qilu . . . . .	ludashi.cn	6 May 2010	6 May 2023
Chengdu Qilu . . . . .	monidashi.cn	9 June 2017	9 June 2020
Chengdu Qilu . . . . .	monidashi.com.cn	9 June 2017	9 June 2020
Chengdu Qilu . . . . .	xiaoluyouxuan.com	7 February 2018	7 February 2021
Liu Liuyou Technology . . . . .	taojike.com.cn	6 August 2015	6 August 2024

## (c) Copyrights

As of Latest Practicable Date, we have registered the following copyrights which are material to our business:

No.	Registered owner	Title of copyright	Registration number	Place of registration	Registration date
1. . . .	Chengdu Qilu	Ludashi 1 Benchmark 2 Acceleration 3 Cooling 4 Battery 5 Cleaning Software V7.3 (魯大師1跑分2加速3降溫4 電池5清理工具軟件V7.3)	2016SR007765	PRC	30 October 2015
2. . . .	Chengdu Qilu	Ludashi System Software [Ludashi V3.58] (魯大師系統工具軟件[簡稱: 魯大師]V3.58)	2015SR141867	PRC	16 July 2013
3. . . .	Anyixun Technology	360 Battery Doctor (Android) [Battery Doctor for Android] 1.50 (360省電王(Android版) 軟件[簡稱:省電王Android 版]1.5.0)	2018SR662648	PRC	29 July 2012
4. . . .	Anyixun Technology	360 Battery Doctor (iPhone Pro) [Battery Doctor for iPhone Pro] 1.2.0 (360省電王(iPhone專業版) 軟件[簡稱:省電王iPhone專 業版]1.2.0)	2018SR662642	PRC	5 July 2012
5. . . .	Anyixun Technology	360 Battery Doctor (iPhone) [Battery Doctor for iPhone] 1.2.0 (360省電王(iPhone版) 軟件[簡稱:省電王iPhone 版]1.2.0)	2018SR662645	PRC	27 July 2012
6. . . .	Anyixun Technology	Ludashi System Software [Ludashi] V2.45 (魯大師系統工具軟件[簡稱: 魯大師]V2.45)	2018SR662652	PRC	6 November 2009
7. . . .	Anyixun Technology	Xiao Lu Temperature Controller [Xiao Lu] V3.0.0.1001 (小魯溫度監控軟件[簡稱: 小魯] V3.0.0.1001)	2018SR662655	PRC	1 January 2016

No.	Registered owner	Title of copyright	Registration number	Place of registration	Registration date
8. . . .	Anyixun Technology	Simulator Master [SJMNDS] V1.5 (手機模擬大師軟件 [簡稱:SJMNDS]V1.5)	2018SR655561	PRC	30 May 2017
9. . . .	Anyixun Technology	Ludashi System Software [Ludashi] V5.12 (魯大師系統工具軟件[簡稱:魯大師]V5.12)	2018SR655567	PRC	18 August 2015
10. . .	Anyixun Technology	Ludashi AI Chips Evaluation Software [V1.0] (魯大師AI芯片評測軟件)[V1.0]	2018SR768328	PRC	20 September 2018

**(d) Patents**

As of Latest Practicable Date, we have registered the following patents which we believe are material to our business:

No.	Patent	Patentee	Place of registration	Patent number	Application date	Expiry date
1. . . .	Smartphones with users' interfaces with graphics (smart charging accelerator) (帶圖形用戶界面的手機(智能充電加速器))	Chengdu Qilu	PRC	ZL201530460769.7	30 March 2016	17 November 2025
2. . . .	Smartphones with users' interfaces with graphics (smart charging accelerator) (帶圖形用戶界面的手機(智能充電加速器))	Chengdu Qilu	PRC	ZL201530460886.3	30 March 2016	17 November 2025
3. . . .	A method and system for evaluating ROM fluency on mobile ends (一種智能終端ROM流暢度評測方法及系統)	Anyixun Technology	PRC	ZL201510830466.9	24 July 2018	24 November 2035

### C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

#### 1. *Interests and Short Positions of Directors in the Share Capital of the Company*

##### Interests in the Company

Immediately following completion of the Global Offering and the Capitalization Issue (taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), the interests or short positions of each of the Directors and the chief executives in the share capital, underlying shares and debentures of the Company which, once the Shares are listed, will 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 he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which, once the Shares are listed, will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange are set out as follows:

<u>Name</u>	<u>Nature of interest</u>	<u>Number of Shares (Note 1)</u>	<u>Approximate percentage of shareholding</u>
Mr. Tian (Note 2) . . . . .	Interest in controlled corporation	138,079,057 (L)	53.1073%
Mr. He (Note 3) . . . . .	Interest in controlled corporation	6,735,312 (L)	2.5905%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Dashi Technology Holdings and True Thrive will hold approximately 21.2823% and 31.8250% of the issued share capital of our Company, respectively. Pursuant to the Entrustment Arrangements, as more particularly described in “History, Reorganization and Corporate Structure – Entrustment Arrangements” in this Prospectus, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in our Company to Dashi Technology Holdings. Dashi Technology Holdings is deemed to be interested in all the Shares and voting rights held by True Thrive. Dashi Technology Holdings is directly and wholly owned by Mr. Tian who is therefore deemed to be interested in all the Shares and voting rights held by Dashi Technology Holdings.
- (3) Hongmeng Investment will hold 2.5905% of the issued share capital of our Company. Hongmeng Investment is directly and wholly owned by Mr. He. Mr. He is therefore deemed to be interested in all the Shares held by Hongmeng Investment.



## 2. *Interests and Short Positions of Substantial Shareholders in the Share Capital of the Company*

### Interests in the Company

So far as the Directors are aware, immediately following completion of the Global Offering and the Capitalization Issue (but taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), in addition to the interests disclosed under “– 1. Interests and Short Positions of Directors in the Share Capital of the Company” above, the persons (not being a director or chief executive of the Company) who will have interests or short positions in the Shares and underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

<u>Name</u>	<u>Nature of interest</u>	<u>Number of Shares (Note 1)</u>	<u>Approximate percentage of shareholding</u>
Dashi Technology Holdings (Notes 2 and 4) . . . . .	Beneficial owner	138,079,057 (L)	53.1073%
True Thrive (Notes 3 and 4) . .	Beneficial owner	82,745,082 (L)	31.8250%
Songchang International (Note 5) . . . . .	Beneficial owner	47,282,819 (L)	18.1857%
Mr. Tian (Notes 2 and 4) . . . .	Interest in controlled corporation	138,079,057 (L)	53.1073%
360 Technology (Notes 3 and 4) . . . . .	Interest in controlled corporation	82,745,082 (L)	31.8250%
360 (Notes 3 and 4) . . . . .	Interest in controlled corporation	82,745,082 (L)	31.8250%
Qixin Zhicheng (Notes 3 and 4) . . . . .	Interest in controlled corporation	82,745,082 (L)	31.8250%
Mr. Zhou (Notes 3 and 4) . . . .	Interest in controlled corporation	82,745,082 (L)	31.8250%
Songyuan International (Notes 5 and 6) . . . . .	Interest in controlled corporation	47,282,819 (L)	18.1857%
Shanghai Gaoxin (Notes 5 and 6) . . . . .	Interest in controlled corporation	47,282,819 (L)	18.1857%
Shanghai Songheng (Notes 5 and 6) . . . . .	Interest in controlled corporation	47,282,819 (L)	18.1857%
Shanghai Dongfangwang (Notes 5 and 6) . . . . .	Interest in controlled corporation	47,282,819 (L)	18.1857%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Dashi Technology Holdings is directly and wholly owned by Mr. Tian. Mr. Tian is therefore deemed to be interested in all the Shares held by Dashi Technology Holdings.

- (3) True Thrive is wholly owned by 360 Technology, which is wholly owned by 360, which is ultimately held by Mr. Zhou and Qixin Zhicheng. Each of 360 Technology, 360, Mr. Zhou and Qixin Zhicheng is therefore deemed to be interested in all the Shares held by True Thrive.
- (4) Pursuant to the Entrustment Arrangements, as more particularly described in “History, Reorganization and Corporate Structure – Entrustment Arrangements” in this Prospectus, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in the Company to Dashi Technology Holdings. True Thrive will hold approximately 31.8250% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued under the Over-allotment Option or the exercise of any options may be granted under the Share Option Scheme). Dashi Technology Holdings is deemed to be interested in all the Shares and voting rights held by True Thrive.
- (5) Songchang International is directly and wholly owned by Songyuan International, which is in turn directly and wholly owned by Shanghai Gaoxin, which is in turn directly and wholly owned by Shanghai Songheng, which is in turn controlled by Shanghai Dongfangwang. Songyuan International, Shanghai Gaoxin, Shanghai Songheng and Shanghai Dongfangwang are therefore deemed to be interested in all the Shares held by Songchang International.
- (6) Shanghai Songheng is an Internet company established on 18 March 2014 which is principally engaged in development and consulting of Internet technology and PC technology. Shanghai Dongfangwang is the controlling shareholder of Shanghai Songheng, and directly and through its subsidiary, Shanghai Dongfangwang Investment Company Limited\* (上海東方網投資有限公司), holds in aggregate approximately 34.3566% of Shanghai Songheng. Shanghai Dongfangwang is in turn controlled by State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會) of the Shanghai City. Shanghai Songheng is held as to 20.3566% by Shanghai Dongfangwang Investment Company Limited, 14% by Shanghai Dongfangwang and 11.8332% by Mr. Li Song (李嵩), being the top three shareholders of Shanghai Songheng. Mr. Li Song (李嵩) is an Independent Third Party.

Save as disclosed herein but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a director or chief executive of the Company) who will immediately following completion of the Global Offering have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will immediately following completion of the Global Offering be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital in any associated corporations of the Company carrying rights to vote in all circumstances at general meetings of associated corporation of the Company.

### **3. *Directors’ Service Contracts and Remuneration***

#### **(a) *Directors’ Service Contracts***

Each of our executive Directors and non-executive Director has entered into a service contract with our Company for a term of three years commencing from the date thereof, which may be terminated by not less than three months’ notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

**(b) Directors' remuneration**

For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, the aggregate amount paid to our Directors as remuneration (including fees, salaries, contribution to retirement benefit scheme and discretionary performance related bonus) were RMB2.2 million, RMB1.7 million, RMB2.0 million and RMB0.7 million, respectively.

For the year ending 31 December 2019, the estimated total compensation payable to the Directors amounts to RMB2.4 million (excluding any discretionary bonus).

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this Prospectus.

**4. Disclaimers**

Save as disclosed in this Prospectus:

- (a) none of the Directors nor any of the persons whose names are listed in the paragraph headed "Consents of Experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors nor any of the persons whose names are listed in the paragraph headed "Consents of Experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of the Group;
- (c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) none of the Directors or their associates (as defined in the Listing Rules) or existing shareholders or the Company (who, to the knowledge of the Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers of the Company; and

- (e) none of the Directors or their associates (as defined in the Listing Rules) or our existing shareholders of the Company (who, to the knowledge of the Directors, owns more than 5% of our issued share capital) has any interest in any or the five largest suppliers of the Company.

#### D. SHARE OPTION SCHEME

##### *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the written resolutions of all the Shareholders of our Company passed on 9 September 2019. Our Directors confirm that the terms of the Share Option Scheme comply with the requirements under Chapter 17 of the Listing Rules.

##### (a) Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, our Group and for such other purposes as the Board may approve from time to time.

##### (b) Who may join

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or adviser of our Group who in the sole discretion of the Board has contributed to and/or will contribute to our Group) (the “**Eligible Persons**”) to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme.

##### (c) Maximum number of Shares

- (i) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.
- (ii) Subject to paragraphs (c)(i), (iv) and (v), at the time of adoption by our Company of the Share Option Scheme or any new share option scheme (the “**New Scheme**”), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the “**Existing Schemes**”) of our Company must not in aggregate exceed 26,000,000 Shares, representing 10% of the total number of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”).

- (iii) For the purposes of calculating the Scheme Mandate Limit under paragraph (c)(ii), Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted.
- (iv) The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:
- the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued Shares as at the date of Shareholders' approval of the refreshment of the Scheme Mandate Limit;
  - options previously granted under any Existing Schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and
  - a circular regarding the proposed refreshment of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules.
- (v) Our Company may seek separate approval from the Shareholders in the general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:
- the grant is to Eligible Persons specifically identified by our Company before the approval is sought; and
  - a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules and other applicable laws and rules,

in accordance with the terms of the Share Option Scheme.

**(d) Maximum number of options to any one individual**

No option shall be granted to any Eligible Person (the “**Relevant Eligible Person**”) if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all Options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period expiring on the date on which an offer of the grant of an option under the Share Option Scheme is made to the Relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time, unless:

- such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his associates abstained from voting;
- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and
- the number and terms (including the Subscription Price) of such options are fixed before the general meeting of our Company at which the same are approved.

**(e) Price of Shares**

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Person and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option (the "**Offer Date**") (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing where our Company has been listed for less than five business days as of the Offer Date); and (iii) the nominal value of the Share. A consideration of RMB1 is payable on acceptance of the offer of an option or options.

**(f) Granting options to connected persons**

Any grant of options to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the options). If our Company proposes to grant options to a Substantial Shareholder or an independent non-executive Director of our Company or their respective associates which will result in the number and value of Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant in aggregate exceeding: (i) 0.1% of the Shares in issue at the relevant time of grant; and (ii) HK\$5 million, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange at the date of each grant, such grant shall not be valid unless: (A) a circular containing the details of the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules (including in particular, a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the

prospective grantee) to the independent Shareholders as to voting); and (B) the grant has been approved by the Shareholders in general meeting (taken on a poll), at which all Connected Persons abstained from voting in favor at such meeting.

**(g) Restrictions on the time of grant of options**

No offer to grant option shall be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified by our Company to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement. The period which no option may be granted will cover any period of delay in the publication of results announcement.

**(h) Rights are personal to grantee**

An option is personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option.

**(i) Time of exercise of option**

Subject to the provisions of the Listing Rules and other applicable laws and regulations, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the offer Letter) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.



The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry by giving notice in writing to our Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

**(j) Performance target**

The Board may from time to time require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Share Option Scheme can be exercised. There are no specific performance targets stipulated under the terms of the Share Option Scheme and the Board is currently unable to determine such restriction on the exercise of the options granted under the Share Option Scheme.

**(k) Rights on ceasing to be an Eligible Person**

In the event of the grantee ceasing to be an Eligible Person for any reason other than ceasing (1) by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offense involving his integrity or honesty or (2) by death or permanent disability the option may be exercised within one month after the date of such cessation, which date shall be (i) if he is an employee or director of our Company or any subsidiary, his last actual working day with our Company or any subsidiary whether salary is paid in lieu of notice or not; or (ii) if he is not an employee of our Company or any subsidiary, the date on which the relationship constituting him an Eligible Person ceases.

**(l) Rights on death or permanent disability**

In the event that the grantee of an outstanding option dies or becomes permanently disabled before exercising the option in full or at all, the option may be exercised up to the entitlement of such grantee or, if appropriate, in the circumstances described in paragraphs (n), (o) and (q), an election made by his personal representatives within twelve months after the date of his death or permanent disability.



**(m) Lapse of option on misconduct, bankruptcy or dismissal etc.**

If a grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offense involving his integrity or honesty, the right to exercise the option (to the extent not already exercised) shall terminate immediately.

**(n) Rights on a general offer by way of a take-over**

If a general offer by way of a take-over is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional, our Company shall forthwith notify all the grantees and any grantee (or his personal representatives) may by notice in writing to our Company within 21 days after such offer becoming or being declared unconditional exercise the option to its full extent or to the extent specified in such notice.

**(o) Rights on a general offer by way of a scheme of arrangement**

If a general offer by way of a scheme of arrangement is made to all the Shareholders and the scheme has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith notify the grantees and any grantee (or his personal representatives) may thereafter (but before such time as shall be notified by our Company) by notice in writing to our Company exercise the option to its full extent or to the extent specified in such notice.

**(p) Rights on a compromise or arrangement**

If a compromise or arrangement between our Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the grantee (together with a notice of the existence of the provisions of this paragraph) on the same date or soon after it dispatches the notice to each member or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of 2 months thereafter and the date on which such compromise or arrangement is sanctioned by the court of competent jurisdiction, exercise any of his options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement become effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. Our Company may require the grantee (or his personal

representatives) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

**(q) Rights on winding-up**

In the event a notice is given by our Company to its Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company other than for the purpose of a reconstruction, amalgamation or scheme of arrangement, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options at any time not later than four business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than one business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

**(r) Lapse of the options**

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of any of the periods referred to in paragraph (k), (l) or (n);
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (o);
- (iv) subject to the compromise or arrangement referred to in paragraph (p);
- (v) the date on which the grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offense involving his integrity or honesty;
- (vi) subject to paragraph (q), the date of the commencement of the voluntary winding-up of our Company;

- (vii) the date on which the grantee commits a breach of paragraph (h);
- (viii) the date on which the option is cancelled by the Board as provided in paragraph (v);  
or
- (ix) the non-fulfillment of any condition referred to in paragraph (x) on or before the date specified therein.

Our Company shall owe no liability to any grantee for the lapse of any option under this paragraph (r).

**(s) Ranking of Shares**

The Shares to be allotted and issued upon the exercise of an option shall be subject to our Company's Memorandum and Articles of Association and the laws of the Cayman Island for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of our Company as of the date of allotment and will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the date of allotment and issue.

**(t) Effect of alterations to share capital**

In the event of any alteration to the capital structure of our Company arising from capitalization of profits or reserves, rights issue, consolidation, redenomination, subdivision or reduction of the share capital of our Company in accordance with the legal requirements or requirements of the Stock Exchange other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party. Adjustment (if any) shall be made to (a) the number or nominal amount of Shares subject to the option so far as unexercised; and/or (b) the subscription price for the Shares subject to the option so far as unexercised; and/or (c) the Shares to which the option relates; or any combination thereof as the Auditors or the independent financial advisers to our Company (acting as expert not arbitrator) shall at the request of our Company certify in writing to the Board either generally or as regards any particular grantee that the adjustments are in compliance with Rule 17.03(13) of the Listing Rules and the notes thereto. Any such adjustments must give a grantee the same proportion of the equity capital of our Company as to which that grantee was previously entitled, and any adjustments so made shall be in compliance with the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, without limitation, the "Supplemental Guidance on Main Board Listing Rule 17.03(13) and the Notice immediately after the Rule" attached to the letter of the Stock Exchange dated September 5, 2005 to all issuers relating to share option scheme) and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time (but no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the Auditors or the independent financial advisers to our Company in

this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees. The costs of the Auditors or the independent financial advisers to our Company shall be borne by our Company. Notice of such adjustment shall be given to the Grantees by our Company.

**(u) Alteration of Share Option Scheme**

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme as to:

- (i) the definitions of “Eligible Person” and “grantee” in the Share Option Scheme; and
- (ii) the provisions relating to the matters set out in Rule 17.03 of the Listing Rules

which shall not be altered to the advantage of grantees or prospective grantees except with the prior approval of the Shareholders in general meeting (with participants and their respective associates abstained from voting). No such alterations shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantees as would be required of the Shareholders under the bye-laws for the time being of our Company for a variation of the rights attached to the Shares. Any change to the authority of the Board in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting. Any alterations to the provisions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting except where the alterations take effect automatically under the existing provisions of the Share Option Scheme. Any amended terms of the Scheme or the options must comply with Chapter 17 of the Listing Rules.

**(v) Cancellation of options**

The Board may cancel an option granted but not exercised with the approval of the grantee of such option. No options may be granted to an Eligible Person in place of his cancelled options unless there are available unissued options (excluding the cancelled options) within the limit set out in paragraph (c) above from time to time.

**(w) Termination of the Share Option Scheme**

Our Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

**(x) Conditions of the Share Option Scheme**

The Share Option Scheme is conditional upon:

- (i) the Listing Committee granting approval of the listing of, and permission to deal in, any Shares which may fall to be allotted and issued pursuant to the exercise of any such options;
- (ii) the passing of the resolutions by the Shareholders to approve and adopt the Share Option Scheme and to authorize the Board to grant Options under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of any options; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

**(y) Disclosure in annual and interim reports**

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

**E. OTHER INFORMATION****1. Estate Duty, Tax and Other Indemnity****Indemnity on estate duty and taxation**

Mr. Tian and Dashi Technology Holdings (the “**Indemnifiers**”) have pursuant to the Deed of Indemnity, given indemnities on a joint and several basis in favor of the Company (for itself and as trustee as its subsidiaries) in connection with, among others, any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the Global Offering becomes unconditional (the “**Effective Date**”).

The Indemnifiers will however, not be liable under the Deed of Indemnity for taxation where:

- (a) to the extent (if any) to which provision, reserve or allowance has been made for such taxation liabilities and claims in the audited combined accounts of the Company for the Track Record Period as set out in Appendix I to this Prospectus (the “**Accounts**”);

- (b) to the extent such taxation liabilities and claims falling on any of the members of the Group in respect of their current accounting periods or any accounting period commencing on or after the Listing Date would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of the members of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement or acquiescence of the Indemnifiers other than any such act, omission or transaction:
- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Listing Date, or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this Prospectus; or
- (c) to the extent of any provision, reserve or allowance made for such taxation liabilities in the Accounts which is finally established to be an over-provision or an excessive reserve or allowance, in which case the Indemnifiers' liability (if any) in respect of such taxation liabilities shall be reduced by an amount not exceeding such provision, reserve or allowance, provided that the amount of any such provision, reserve or allowance applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of such taxation liabilities shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excess provision, reserve or allowance shall only be applied to reduce the liability of the Indemnifiers under the Deed of Indemnity and none of the members of the Group shall in any circumstances be liable to pay the Indemnifiers any such excess; or
- (d) to the extent that any taxation liabilities and claims arises or is incurred as a result of the imposition of such taxation liabilities as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC or any other relevant authority (whether in Hong Kong, the BVI, the PRC or any other part of the world) coming into force after the Effective Date or to the extent that such taxation liabilities and claims arise or is increased by an increase in rates of such taxation liabilities after the Effective Date with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of the Cayman Islands, the BVI, Hong Kong or the PRC, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

## 2. *Litigation*

Save as disclosed in the section headed “Business – Legal Proceedings and Compliance” in this Prospectus, as of the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

## 3. *Sponsor*

The Sponsor has made an application on behalf of the Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and pursuant to the exercise of any options which may be granted under the Share Option Scheme).

The Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The Sponsor’s fee (excluding any other types of fees such as underwriting fee) payable by us in respect of the Sponsor’s services for the Listing is HK\$6.5 million.

## 4. *Preliminary Expenses*

Our preliminary expenses are estimated to be approximately US\$5,000 and were paid by our Company.

## 5. *Promoter*

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed above, within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefits have been paid, allotted or given to any promoters in connection with the Global Offering or the related transactions described in this Prospectus.

## 6. *Qualifications of Experts*

The following are the qualifications of the experts who have given opinion or advice which are contained in this Prospectus:

<u>Name</u>	<u>Qualification</u>
Guosen Securities (HK) Capital Co., Ltd. . . . . .	A licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising a corporate finance) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu . . . . .	Certified public accountants

<u>Name</u>	<u>Qualification</u>
Conyers Dill and Pearman . . . . .	Cayman Islands attorneys-at-law
Jingtian & Gongcheng . . . . .	PRC legal advisers to the Company
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. . . . .	Industry consultant
RSM Consulting (Hong Kong) Limited . .	Internal control consultant

### **7. *Consents of Experts***

Each of the experts named in paragraph 6 above has given and has not withdrawn its consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or opinion and/or data (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named in paragraph 6 above has any shareholding interests in the Group or any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group.

### **8. *Binding Effect***

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

### **9. *Agency fees or commission received***

The Underwriters will receive an underwriting commission, as referred to under the section headed “Underwriting – Underwriting Arrangements and Expenses – Commissions and expenses” in this Prospectus.

### **10. *Miscellaneous***

- (a) Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus:
  - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;



- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
  - (iv) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
  - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries.
- (b) Since 30 April 2019, being the date of our latest audited consolidated financial results as set out in “Appendix I – Accountants Report” to this Prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group.
- (c) There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this Prospectus.
- (d) Subject to the provisions of the Cayman Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Branch Share Registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (e) No company within the Group is presently listed on any stock exchange or traded on any trading system.
- (f) There are no arrangements in existence under which future dividends are to be or agreed to be waived.
- (g) Our Directors have been advised that, under the Cayman Companies Law, the use of a Chinese name by the Company does not contravene the Cayman Companies Law.

***11. Financial Advisor***

Macquarie Capital Limited has been appointed by the Company as the financial advisor in respect of the Global Offering. The appointment of Macquarie Capital Limited was not made pursuant to the requirements of the Listing Rules, and the appointment of Macquarie Capital Limited is separate and distinct from the appointment of the Sole Sponsor (which is required to be made by us pursuant to the Listing Rules). The Sole Sponsor is responsible for fulfilling its duties as sponsor to the Company's application for listing on the Stock Exchange, and the Sole Sponsor has not relied on any of the work performed by Macquarie Capital Limited in fulfilling those duties. The role of Macquarie Capital Limited in the Global Offering is different from that of the Sole Sponsor in that it focuses on providing general corporate financing advice to the Company in respect of the listing and Global Offering. Macquarie Capital Limited is a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activities under the SFO.

***12. Bilingual Prospectus***

The English language and Chinese language versions of this Prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “Statutory and General Information – E. Other Information – 7. Consents of Experts” in Appendix IV to this Prospectus, and copies of the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts” in Appendix IV to this Prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Jingtian & Gongcheng LLP at Suites 3205-3207, 32/F, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus.

1. the Memorandum of Association and Articles of Association of the Company;
2. the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this Prospectus;
3. the report prepared by Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this Prospectus;
4. the audited consolidated financial statements of our Group for the three years ended 31 December 2016, 2017, 2018 and the four months ended 30 April 2019;
5. the PRC legal opinions issued by Jingtian & Gongcheng, our PRC legal advisers, in respect of certain aspects of the PRC law;
6. the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal advisers, summarizing certain aspects of the Cayman Islands company law as referred to in Appendix III to this Prospectus;
7. the industry report prepared by Frost & Sullivan;
8. the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts” in Appendix IV to this Prospectus;

9. the written consents referred to in the paragraph headed “Statutory and General Information – E. Other Information – 7. Consents of Experts” in Appendix IV to this Prospectus;
10. the rules of the Share Option Scheme;
11. the service contracts referred to in the paragraph headed “Statutory and General Information – C. Further Information About Our Directors and Substantial Shareholders – 3. Directors’ Service Contracts and Remuneration” in Appendix IV to this Prospectus;
12. the Cayman Companies Law; and
13. the report on internal control review prepared by RSM Consulting (Hong Kong) Limited.



**360 LUDASHI HOLDINGS LIMITED**  
**360 魯大師控股有限公司**