



Fulu Holdings Limited 福祿控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2101

GLOBAL OFFERING

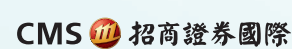
Sole Sponsor



Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers

CROSBY  富途證券

IMPORTANT

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



Fulu Holdings Limited 福祿控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 100,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 10,000,000 Shares (subject to reallocation)
Number of International Offer Shares	: 90,000,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$8.90 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: US\$0.0001 per Share
Stock code	: 2101

Sole Sponsor



Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



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

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

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or around Friday, September 11, 2020 and, in any event, on or before Tuesday, September 15, 2020. The Offer Price will not be more than HK\$8.90 per Offer Share and is expected to be not less than HK\$6.90 per Offer Share, unless otherwise announced. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$8.90 per Hong Kong Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$8.90 per Offer Share.

If, for any reason, our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Tuesday, September 15, 2020, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range stated (which is HK\$6.90 to HK\$8.90) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published on the website of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.fulu.com. Further details are set forth in "Structure of the Global Offering" and "How to Apply for 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".

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States and may not be offered, sold, pledged or transferred within the United States or for the account or benefit of U.S. persons in offshore transactions, except pursuant to an exemption from registration under the U.S. Securities Act or outside the United States in reliance on Regulation S under the U.S. Securities Act.

September 7, 2020

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Global Offering, we will issue an announcement in Hong Kong to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.fulu.com.

Latest time to complete electronic applications under the
White Form eIPO service through the designated website
www.eipo.com.hk⁽²⁾ 11:30 a.m. on Friday,
September 11, 2020

Application lists open⁽³⁾ 11:45 a.m. on Friday,
September 11, 2020

Latest time to lodge **WHITE** and **YELLOW**
Application Forms 12:00 noon on Friday,
September 11, 2020

Latest time to give **electronic application**
instructions to HKSCC⁽⁴⁾ 12:00 noon on Friday,
September 11, 2020

Latest time to complete payment of **White Form eIPO**
applications by effecting internet banking transfer(s) or
PPS payment transfer(s) 12:00 noon on Friday,
September 11, 2020

Application lists of the Hong Kong Public Offering close 12:00 noon on Friday,
September 11, 2020

Expected Price Determination Date⁽⁵⁾ Friday, September 11, 2020

Announcement of:

- the 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 (with successful applicants' identification document numbers, where appropriate)

EXPECTED TIMETABLE⁽¹⁾

to be published on our Company's website at www.fulu.com
and the website of the Hong Kong Stock Exchange
at www.hkexnews.hk on Thursday,
September 17, 2020

Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document numbers,
where appropriate) Thursday,
September 17, 2020

Results of allocations for the Hong Kong Public Offering
will be available at www.iporesults.com.hk
(alternatively: English <https://www.eipo.com.hk/en/Allotment>;
Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a
"search by ID" function from Thursday,
September 17, 2020

Dispatch/collection of Share certificates or deposit of
Share certificates into CCASS in respect of wholly or
partially successful applications on or before⁽⁶⁾ Thursday,
September 17, 2020

Dispatch/collection of refund cheques or **White Form** e-Refund
payment instructions in respect of wholly or partially successful
applications if the final Offer Price is less than the maximum
Offer Price per Public Offer Share initially paid on application
(if applicable) or wholly or partially unsuccessful application
on or before⁽⁶⁾ & ⁽⁷⁾ Thursday,
September 17, 2020

Dealings in Shares on the Stock Exchange
expected to commence on 9:00 a.m. on Friday,
September 18, 2020

The application for the Hong Kong Offer Shares will commence on Monday, September 7, 2020 through Friday, September 11, 2020, being longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Thursday, September 17, 2020. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Friday, September 18, 2020.

Notes:

1. All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering".
2. You will not be permitted to submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

EXPECTED TIMETABLE⁽¹⁾

3. If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions at any time between 9:00 a.m. and 12:00 noon on Friday, September 11, 2020, the application lists will not open on that day. Further information is set out in “How to Apply for Hong Kong Offer Shares – C. Effect of Bad Weather on the Opening and Closing of the Application Lists”.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see “How to Apply for Hong Kong Offer Shares – A. Applications for 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 Friday, September 11, 2020 and, in any event, not later than Tuesday, September 15, 2020. If, for any reason, the Offer Price is not agreed on or before Tuesday, September 15, 2020, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
6. Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect refund cheques (if applicable) and Share certificates (if applicable) in person and may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, September 17, 2020. Identification and (where applicable) authorization documents acceptable to the Hong Kong Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect refund cheques (if applicable) in person but may not collect their Share certificates which will be deposited in CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply through the **White Form eIPO** service by paying the applications monies through a single bank account may have e-Refund payment instructions (if any) dispatched to their application payment bank account on Thursday, September 17, 2020. Applicants who have applied through the **White Form eIPO** service by paying their application monies through multiple bank accounts may have refund cheque(s) sent to the address as specified in their application instructions through the **White Form eIPO** service, on or before Thursday, September 17, 2020, by ordinary post at their own risk.

7. Refund cheques will be issued (where applicable) and e-Refund payment instructions will be dispatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price payable on application.

You should read “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” sections carefully for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund monies and Share certificates.

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong 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 in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions 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. We have 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 us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all of the information that may be important to you. You should read the whole prospectus before you decide whether 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”. You should read that section carefully in full before you decide whether to invest in the Offer Shares.

OVERVIEW

We are a leading third-party virtual goods and services platform operator in China. Our platform connects virtual goods vendors and virtual goods sales channels. We generate revenues from providing “business to business” (B2B) services to virtual goods vendors and sales channels, including (i) facilitating virtual goods transactions between virtual goods vendors and virtual goods sales channels and (ii) providing value-added services such as operating online stores for virtual goods vendors.

According to Frost & Sullivan:

- we were the largest third-party virtual goods and services platform operator in China with a market share of 7.7% by revenue in 2019;
- we were the largest third-party leisure and entertainment-related virtual goods and services platform operator in China with a market share of 11.7% by revenue and 7.6% by GMV in 2019;
- we were the largest third-party games-related virtual goods and services platform operator in China with a market share of 11.8% by revenue and 6.6% by GMV in 2019;
- we ranked fifth among third-party lifestyle-related virtual goods and services platform operators in China with a market share of 0.9% by revenue and 0.7% by GMV in 2019; and
- we ranked seventh among third-party telecommunications-related virtual goods and services platform operators in China with a market share of 1.6% by revenue and 2.6% by GMV in 2019.

SUMMARY

MARKET OPPORTUNITIES IN CHINA'S VIRTUAL GOODS AND SERVICES INDUSTRY

China is one of the world's largest and fastest growing virtual goods and services markets. According to Frost & Sullivan, China's virtual goods and services market by GMV grew from RMB645.6 billion in 2014 to RMB1,293.5 billion in 2019, representing a CAGR of 14.9%, and is expected to grow to RMB2,100.2 billion in 2024, representing a CAGR of 10.2% from 2019. Leisure and entertainment, games, telecommunications and lifestyle services were four principal virtual goods and services categories in China in 2019.

- *Leisure and entertainment virtual goods* include membership services and in-app virtual currencies which can be used to access audio, musical, paid-knowledge, live streaming, education, sports and other content, such as (a) membership cards that can be used to access premium video content on Tencent Video (騰訊視頻會員卡), (b) virtual currencies that can be used to purchase audio content on Ximalaya.fm (喜馬拉雅喜點) and (c) virtual currencies that can be used to tip streamers on Douyu (鬥魚魚翅).
- *Games-related virtual goods* include prepaid virtual cards and game currencies which can be used by players in games to upgrade game characters or buy virtual accessories (e.g. costumes, skills, tools, equipment or other in-game consumables or functions), such as (a) Steam cards that can be used to purchase online games and (b) games vouchers that can be used to exchange for skills or costumes of game characters in King of Glory (王者榮耀點券).
- *Telecommunications-related virtual goods* include telephone fees and data usage packages, such as China Unicom top-up card (聯通充值卡).
- *Lifestyle services virtual goods* include prepaid cards, gift cards and digital coupons which can be used in a variety of contexts (e.g. restaurants, hotels and shops), such as discount cards that can be used to purchase food and beverages at a discount on Meituan Dianping (美團外賣紅包).

Traditionally, consumers purchased virtual goods directly from channels owned by virtual goods vendors. As China's virtual goods and services market develops, consumers typically expect a comprehensive buying experience at attractive prices. However, virtual goods vendors are often only able to offer limited services and homogenous products through their own sales channels. In addition, some new virtual goods vendors, especially certain new virtual goods vendors in China's leisure and entertainment industry, are at an early stage of development and often face challenges of cultivating consumers' paying habits. As a result, virtual goods vendors are increasingly seeking to expand their sales channels to promote the sales of virtual goods, increase revenue and save marketing and technology infrastructure costs. On the other hand, virtual goods sales channels need supplies of more varieties of virtual goods and services

SUMMARY

to monetize the consumer traffic on their platforms. Due to the large number of participants of the virtual goods value chain, virtual goods vendors and virtual goods sales channels usually find it time-consuming and costly to connect and establish separate business relationships with each other.

This situation has led to the emergence of third-party virtual goods and services platform operators. In 2019, the market share of third-party virtual goods and services platform operators in China's leisure and entertainment, games, telecommunications and lifestyle virtual goods and services industries was 13.1%, 22.5%, 40.6%, and 20.5%, respectively. As a third-party virtual goods and services platform operator, we have independently developed an open platform, Fulu Open Platform. Fulu Open Platform serves as a gateway for virtual goods vendors to access a wide variety of sales channels and is not open to end consumers for purchases of virtual goods (i.e. consumers do not have access to Fulu Open Platform). We believe the competitive strengths described in “– Key Drivers for Our Business Growth and Financial Performance” and “Business – Our Strengths” allow us to capture market opportunities in china's virtual goods and services industry. Our platform connects virtual goods vendors and virtual goods sales channels (i.e. our platform participants) to provide a comprehensive range of virtual goods-related services and value-added services. We believe our services add value to the supply chain of virtual goods transactions by:

- providing virtual goods vendors (1) access to diversified sales channels to improve their monetization capabilities and save marketing and technology infrastructure costs and (2) a wide range of value-added services, such as online store operations help them acquire and retain customers and monetize their products; and
- helping virtual goods sales channels (1) build their online marketplaces to provide virtual services more cost-efficiently and save the money they would otherwise spend on building and operating their own online virtual services platforms and (2) enhance consumer loyalty through “one-stop” virtual goods-related and value-added services.

OUR PLATFORM AND ITS PARTICIPANTS

As a third-party virtual goods and services platform operator, our platform connects:

- virtual goods vendors, including leisure and entertainment content providers, games producers, telecommunication operators and lifestyle services providers, which offer virtual goods online; and
- virtual goods sales channels, such as e-commerce and online payment platforms, banks, hotels and transportation services providers, which end consumers access to purchase virtual goods.

SUMMARY

Through our platform, we provide “one-stop” virtual goods-related services and value-added services to platform participants. Our Fulu Open Platform can be embedded into the internet systems of virtual goods vendors and virtual goods sales channels through API and MALL service applications, serving as a gateway for virtual goods vendors to access a wide variety of sales channels to sell virtual goods to consumers. We provide virtual goods-related services and a wide range of value-added services to platform participants, including online store operations, establishment of online sales platforms, targeted marketing services, user acquisition and management services and IT solutions. Virtual goods vendors can utilize applications on our platform to distribute their products through different sales channels.

Our strong relationships with virtual goods vendors and virtual goods sales channels lead to significant network effects, which we believe constitute a key factor of our success. As our platform connects more virtual goods sales channels, we believe we become an increasingly important gateway for virtual goods sales, building stronger relationships with, and receiving more favorable terms, such as lower virtual goods prices and better commission and incentive fee rates, from virtual goods vendors. This makes our platform more attractive to virtual goods sales channels, leading to increased consumers and consumer spending. This in turn helps virtual goods vendors monetize their businesses more effectively.

In the twelve months ended March 31, 2020, our platform facilitated transactions for an aggregate of over 910 virtual goods vendors and over 1,450 virtual goods sales channels. Among the virtual goods vendors, our platform facilitated transactions for the following:

- over 20 top-tier virtual goods vendor partners (*i.e.*, vendors with annual transaction volume of at least RMB100 million), including (a) virtual goods vendors in the leisure and entertainment industry, such as Tencent Video (騰訊視頻), a leading video content provider and Douyu (鬥魚), a leading live streaming platform, (b) a leading telecom operator, (c) a well-known lifestyle service company in China and (d) a leading games-related and telecommunications-related virtual goods and services platform operator in China. Our top virtual goods vendor partners contributed to over 60% of our total GMV and over 40% of our total revenue in each year during the Track Record Period;
- over 50 second-tier virtual goods vendor partners (*i.e.*, vendors with annual transaction volume of at least RMB10 million but less than RMB100 million), including (a) virtual goods vendors in the leisure and entertainment industry, such as audio content providers (*e.g.*, Ximalaya.fm (喜馬拉雅)) and a leading online music platform and (b) other third-party virtual goods and services platform operators in China; and
- other virtual goods vendor partners (*i.e.*, vendors with annual transaction volume of less than RMB10 million).

SUMMARY

Our top-tier and second-tier virtual goods vendor partners contributed to more than 90% of our total GMV facilitated, with other virtual goods vendor partners contributing to the remaining GMV facilitated (less than 10% of our total GMV) in each year during the Track Record Period.

Among the virtual goods sales channels, we facilitated virtual goods transactions through:

- over 15 top-tier virtual goods sales channel partners (*i.e.*, sales channels with annual transaction volume of at least RMB100 million), including e-commerce platforms such as the two largest e-commerce platforms in China, online payment platforms such as the two largest third-party online payment and transaction platforms in China and a leading online consumption platform affiliated with a US listed company. Our top sales channel contributed to over 70% of our total GMV facilitated in each year during the Track Record Period;
- over 60 second-tier virtual goods sales channel partners (*i.e.*, sales channels with annual transaction volume of at least RMB10 million but less than RMB100 million), including online payment platforms such as affiliates of certain leading commercial banks in China, e-commerce platforms and other sales channels such as other third-party virtual goods and services platform operators; and
- other virtual goods sales channel partners (*i.e.*, sales channels with annual transaction volume of less than RMB10 million).

Our top-tier and second-tier virtual goods sales channel partners contributed to more than 80% of our total GMV facilitated, with other virtual goods sales channel partners contributing to the remaining GMV facilitated (less than 20% of our total GMV) in each year during the Track Record Period.

In 2019 and three months ended March 31, 2020, we facilitated transactions with an aggregate GMV of RMB12.8 billion and RMB3.7 billion, respectively. From our inception to March 31, 2020, our platform facilitated the sale of over 22,000 types of virtual goods to over 460 million end consumers.

Virtual goods vendors determine the commissions they pay us based on sales volumes, market prices and the types of virtual goods they sell through our platform. Virtual goods sales channels charge us commissions based on market rates, as adjusted for the amount of virtual goods sold to their customers. See “Business – Our Business Model and Transaction Process – Pricing” for details.

We generally prepay virtual goods vendors for virtual goods transactions we facilitate for them, while we require that some virtual goods sales channels prepay for the virtual goods sold through our platform. We earn commissions from virtual goods vendors upon the completion of virtual goods transactions. Virtual goods vendors (as opposed to our Company) bear responsibility for transaction order failures (*i.e.* failure of virtual goods vendors to deliver virtual goods to end consumers). See “Business – Our Business Model and Transaction Process” for details.

SUMMARY

OUR STRENGTHS

We believe the following strengths enable us to capture opportunities arising from China's virtual goods and services industry:

- leading third-party virtual goods and services platform operator in China;
- “Connect + Service” platform model;
- quality platform participants with powerful network effects;
- excellent service capabilities and extensive operating experience;
- leading information technological capabilities; and
- experienced and devoted management team with entrepreneurial culture.

OUR STRATEGIES

We plan to implement the following strategies to strengthen our leadership position:

- expand the scope of our platform participants and service offerings and deepen industry penetration;
- pursue strategic cooperation, investments and acquisitions;
- expand in overseas markets; and
- strengthen our data and technology advantages.

OUR BUSINESS MODEL AND TRANSACTION PROCESS

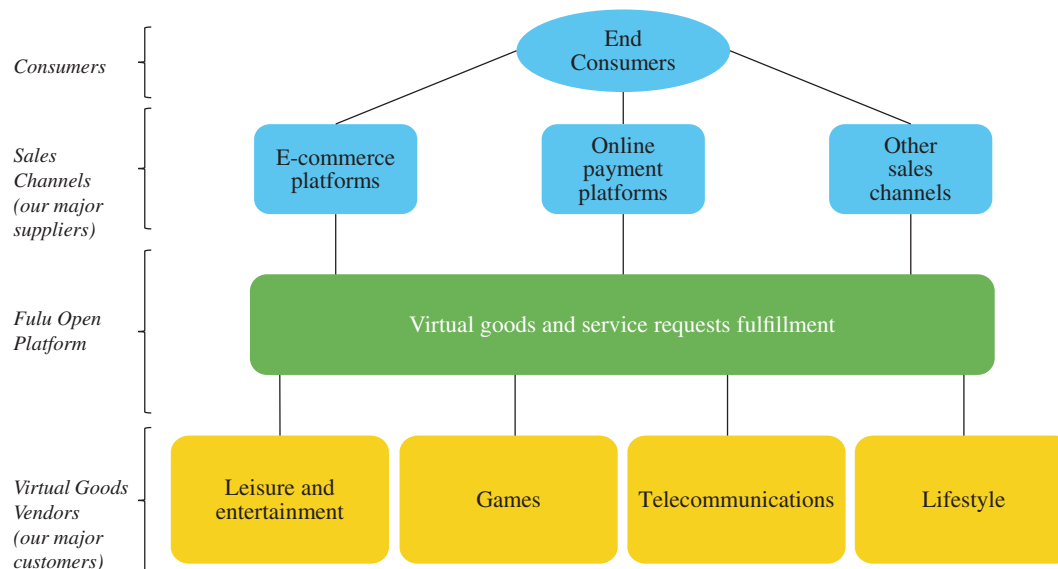
Our Business Model

We provide virtual goods-related and value-added services in a wide variety of industries, including leisure and entertainment, games, telecommunications and lifestyle services-related industries. We facilitate the sale of various types of virtual goods, such as membership cards, in-app or in-game virtual currencies, virtual cards, e-vouchers, membership benefits, in-game consumables or functions and data usage packages. We do not own the virtual goods sold through our platform.

We provide B2B virtual goods-related and value-added services to virtual goods vendors and virtual goods sales channels to help them achieve their commercial objectives, such as traffic acquisition and monetization. Our customers primarily include virtual goods vendors, from whom we earn commissions by facilitating the sales of the virtual goods they offer

SUMMARY

through our platform. See “Business – Customers” for details. Our suppliers primarily include (a) virtual goods sales channels, through which we facilitate virtual goods transactions for virtual goods vendors and (b) data storage and server hosting providers. See “Business – Suppliers” for details. The following diagram illustrates our general business model:



Our platform connects virtual goods vendors and virtual goods sales channels. Our platform is not a market place open to consumers for purchases of virtual goods and consumers do not have access to our Fulu Open Platform. Our platform differs from a “business-to-consumer” (B2C) (e.g. Tmall and JD Mall) open market place in that in transactions conducted on B2C market places, end consumers typically purchase goods displayed on the market places directly, whereas in transactions conducted through our B2B platform, end consumers generally must access virtual goods sales channels connected to our platform to purchase virtual goods.

Our Working Capital Cycle

As is typical for a third-party virtual goods and services platform operator in China, we generally prepay virtual goods vendors for virtual goods transactions we facilitate. According to Frost & Sullivan, it is an industry norm that third-party virtual goods and services platform operators prepay virtual goods vendors for virtual goods transactions they facilitate and our prepayment arrangements are generally in line with industry practice. During the Track Record Period, we made substantial non-refundable prepayments to virtual goods vendors. Please see “Financial Information – Discussion of Certain Key Balance Sheet Items – Prepayments, other receivables and other assets” for details.

We generally prepay virtual goods vendors for virtual goods transactions that we expect to facilitate during periods ranging from several days to a few months. Please see “Business – Our Business Model and Transaction Process – Our Working Capital Cycle” for details. This requires that we maintain certain levels of working capital to fund our operations. If our cash outflows for prepayments significantly exceed our cash inflows during any period, our liquidity and cash position will be adversely affected. In addition, we do not control the volumes of

SUMMARY

virtual goods transactions conducted through our platform and end consumers may not respond favorably to the virtual goods offered by our virtual goods partners. Although we do not bear inventory risk, our business and operating results may still suffer if we fail to maintain appropriate levels of prepayments in line with the approximate level of demand for virtual goods. We offer various value-added services to increase the volume of virtual goods transactions between end consumers and virtual goods vendors. See “Business – Our Products and Services – Value-added Services”. Prepayments provided to virtual goods vendors also expose us to the credit and default risks of virtual goods vendors and may not be recovered. We could incur substantial losses relating to the write down or write off of prepayments made to virtual good vendors. Please see “Risk Factors – Prepayments to virtual goods vendors may adversely affect our liquidity and cash flows and expose us to the credit and default risks of virtual goods vendors. If we fail to maintain appropriate levels of prepayments in line with the approximate level of demand for virtual goods, and our business and operating results could suffer” for details.

Prepayments to virtual goods providers were RMB134.9 million, RMB242.5 million, RMB237.4 million and RMB277.0 million as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively, of which the non-refundable portion was RMB122.0 million, RMB226.9 million, RMB215.9 million and RMB269.6 million, respectively. Our overall prepayment turnover rate during the Track Record Period was relatively high (i.e. only 4-7 days), primarily reflecting the high frequency nature of the telecommunications virtual goods transactions we facilitated, which contributed to most of our total GMV facilitated. In 2017, 2018, 2019 and the three months ended March 31, 2020, the telecommunications segment accounted for 53.4%, 58.6%, 59.8% and 69.2% of our total GMV. As of March 31, 2020, RMB40.5 million of our prepayments were aged over 6 months and RMB11.8 million of our prepayments were aged over one year. This was primarily because we typically prepaid leisure and entertainment virtual goods vendors several months in advance of the completion of virtual goods transactions. Most of the unutilized prepayments as of March 31, 2020 were due from our major customers, which are typically leaders in their respective industries and have good credit histories. Prepayments aged over 6 months increased from RMB12.9 million as of December 31, 2019 to RMB40.5 million as of March 31, 2020, primarily because the demand for virtual goods offered by certain leading leisure and entertainment virtual goods vendors did not increase as much as we expected.

The unutilized prepayments primarily consisted of (a) RMB20.2 million to a leading video content provider, (b) RMB7.8 million to a leading online media, video, search and gaming company, (c) RMB4.3 million to a leading games- and entertainment-related third-party virtual goods vendor and (d) RMB3.3 million to a leading Chinese digital reading platform.

As of the Latest Practicable Date, we had utilized RMB1.6 million, or 13.9%, of our RMB11.8 million prepayments to virtual goods providers aged over one year as of March 31, 2020. The unutilized prepayments of RMB10.2 million primarily consisted of prepayments to the leading online media, video, search and gaming company in China and the leading Chinese digital reading platform described above. We have been communicating with these vendors about accelerating the utilization of the outstanding balance of the prepayments made to them. As these vendors are leaders in their respective industries with good credit histories, we do not anticipate any material difficulties in utilizing the unsettled prepayments made to them.

SUMMARY

Our Transaction Process

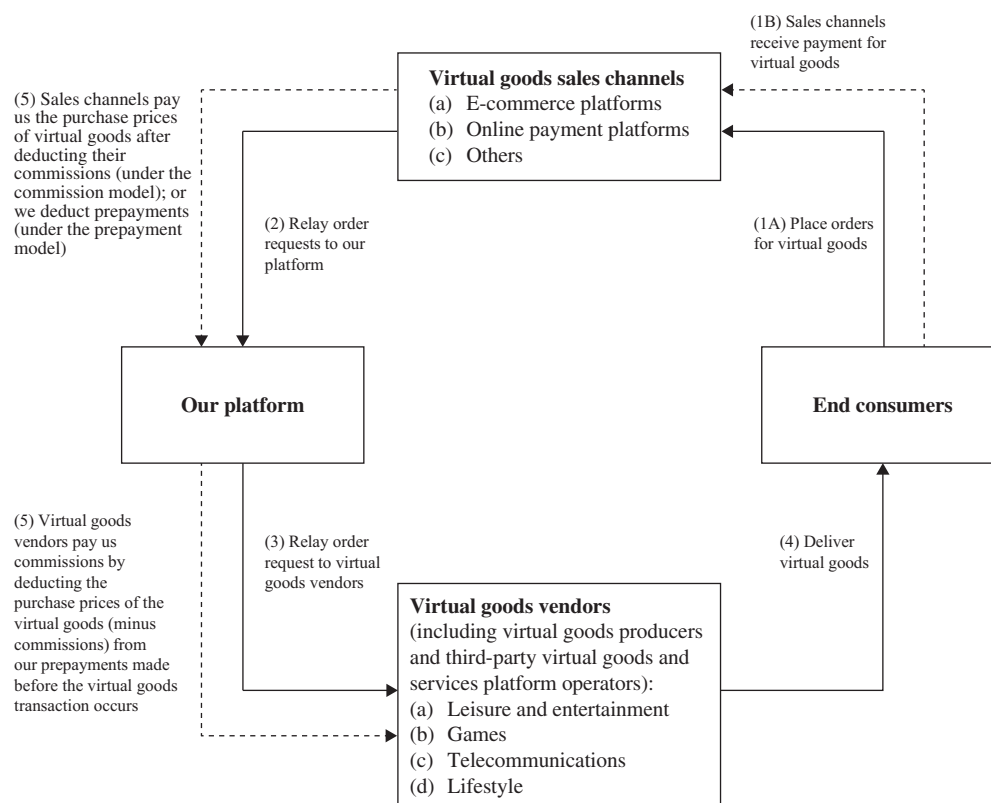
Before a virtual goods transaction

We generally make prepayments to virtual goods vendors.

We collaborate with virtual goods sales channels under two different models: the prepayment model and the commission model. Under the prepayment model, we require some virtual goods sales channels (such as third-party virtual goods and services platform operators) to make prepayments to us for virtual goods sold through our platform. Under the commission model, we pay some virtual goods sales channels (such as e-commerce platforms and online payment platforms) commissions for the virtual goods transactions conducted through them and do not require these sales channels to prepay for virtual goods sold through our platform.

During a virtual goods transaction

The following diagram illustrates the general process (including flow of actions and flow of monies) of a virtual goods transaction:*, **



Notes:

* —————> Denotes flow of actions and - - - - -> denotes flow of monies

** Steps (1) to (5) above refer to the sequence of the general process for virtual goods transactions.

SUMMARY

The following are the major steps of the general process for a virtual goods transaction:

- (1) A consumer accesses a virtual goods sales channel to (A) place an order and (B) pay the virtual goods sales channel for virtual goods;
- (2) The virtual goods sales channel relays order requests through various applications available on our platform;
- (3) After authenticating the order, our platform relays the order to the virtual goods vendor;
- (4) We do not own the virtual goods sold through our platform and the virtual goods vendor automatically delivers the virtual goods to the consumer; and
- (5) We make prepayments to the virtual goods vendor before the virtual goods transaction occurs. The virtual goods vendor pays us commissions by deducting the purchase price of the virtual goods (minus commissions) from our prepayments made before the virtual goods transaction occurs (as opposed to deducting the full amount of the purchase price of the virtual goods).

Under the commission model, a virtual goods sales channel pays us the purchase prices of virtual goods after deducting its commissions. Under the prepayment model, we deduct the selling prices of virtual goods from the prepayments made by virtual goods sales channels. See “Business – Our Business Model and Transaction Process” for details.

Competitive Landscape of China’s Third Party Virtual Goods and Services Market

According to Frost & Sullivan, China’s third-party virtual goods and services industry is relatively concentrated, with the top 10 participants accounting for approximately 48.1% of the total GMV in 2019. In 2019, Fulu ranked No. 1 in terms of revenue and No. 6 in terms of GMV among third-party virtual goods and services platform operators.

The competition in China’s third-party virtual goods and services industry is intense. We face significant competition from:

- *Existing third-party virtual goods and services platform operators.* Other third-party virtual goods and services platform operators may have significantly more financial, technical, marketing and other resources than we have, and may devote greater resources to develop, promote and support their platforms and services. In addition, they may have more extensive industry relationships, longer operating histories and greater name recognition than we have. As a result, these competitors may respond more quickly to new technologies, regulatory requirements and consumer demand. We may face competition from other virtual goods and services platform operators who seek to expand their scopes of business. For example, our competitors who originally focus on telecommunications sector may extend their service to the entertainment industry.

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- *Virtual goods vendors and sales channels.* As China's virtual goods and services industry becomes more mature, our competition with virtual goods vendors may intensify. In addition, virtual goods sales channels may enter into business collaborations with our competitors or virtual goods vendors and compete with our business. We do not control the commissions offered by virtual goods vendors or charged by virtual goods sales channels. The commissions we earn from virtual goods transactions and pay to virtual goods sales channels may fluctuate or decline significantly due to factors beyond our control. For example, the commission rates for the leisure and entertainment virtual goods transactions we facilitated decreased from 25.8% in 2017 to 13.6% in 2018 and further to 9.4% in 2019 and 8.3% in the three months ended March 31, 2020. During the same periods, the commission rates for the telecommunications-related transactions we facilitated decreased from 0.5% in 2017 to 0.2% in 2018 and 2019. See "Risk factors – Risks Relating to Our Business and Industry – We do not control the commissions offered by virtual goods vendors or charged by virtual goods sales channels. The commissions we earn from virtual goods transactions or pay to virtual goods sales channels may fluctuate or decline significantly due to factors beyond our control, which could significantly harm our business, financial condition and results of operations" for further details. The foregoing could reduce our revenues, gross profit margin and market share and materially adversely affect our business, financial condition and results of operations.
- *New entrants to the third-party virtual goods and services industry.* We also compete with new entrants to the virtual goods industry in China. New entrants typically must possess extensive industry experience, strong business relationships with industry participants and strong financial resources and operating capabilities to compete effectively against more established third-party virtual goods and services platform operators (such as our company). See "Industry Overview – Overview of China's Virtual Goods and Services Industry – Entry Barriers and Key Factors for Success". However, the entry barriers to China's third-party virtual goods and services industry are not significant and new entrants may undercut the commissions they charge to increase market share.

We have adopted various measures to manage potential competition with virtual goods vendors. See "Business – Competition" for details. We believe the potential competition with virtual good vendors does not significantly impact our operations. In addition, as China's virtual goods and services market develops, some virtual goods vendors such as leisure and entertainment content providers and game developers have increasingly relied on third-party virtual goods and services platform operators (such as us) to facilitate virtual goods transactions and the commission rates offered by virtual good vendors are expected to generally stabilize at a certain level. Cooperation with us and other third-party virtual goods and services platform operators enables virtual goods vendors to save the time and costs to establish separate business relationships with a large number of virtual goods sales channels by themselves. We also provide services to help virtual goods vendors better monetize their goods and services.

We may face new competition as we introduce new services or solutions, or enter into new industry sectors, or as other companies introduce new services and solutions. Please see "Industry Overview" for details of our competitive landscape. If we cannot compete successfully against current and future competitors, our business, results of operations and

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financial condition could deteriorate. See “Risk factors – Risks Relating to Our Business and Industry – We face intense competition from virtual goods vendors and other third party virtual goods and services platform operators and we may not be able to compete effectively” for further details.

OUR CUSTOMERS

Our customers primarily include virtual goods vendors, from whom we earn commissions on facilitating sales of their products through our platform. Our customers also include virtual goods vendors and virtual goods sales channels who use our ancillary value-added services for which we charge fees on a case-by-case basis.

In 2017, 2018, 2019 and the three months ended March 31, 2020, our five largest customers accounted for 40.5%, 49.8%, 64.5% and 65.3% of our total revenue, respectively, while our largest customer accounted for 24.8%, 21.9%, 27.4% and 22.3% of our total revenue, respectively.

Please see “Business – Customers” for more details.

OUR SUPPLIERS

Our suppliers primarily include (i) virtual goods sales channels, who charge us commissions and (ii) data storage and server hosting providers.

We select suppliers based on a number of factors, including their user base, market share and reputation.

In 2017, 2018, 2019 and the three months ended March 31, 2020, our five largest suppliers accounted for 55.8%, 48.8%, 51.9% and 54.0% of our total cost of sales, respectively, while our largest supplier accounted for 23.6%, 29.7%, 26.8% and 23.7% of our total cost of sales, respectively.

Please see “Business – Suppliers” for more details.

KEY OPERATING DATA

We facilitate the sale of virtual goods through our self-operated online stores. We also operate online stores on major e-commerce platforms for virtual goods vendors in China. The following table sets forth the number of self-operated online stores and online stores managed on behalf of customers as of the dates indicated:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Number of self-operated online stores	26	42	59	63
Number of online stores managed on behalf of customers	2	6	11	15

SUMMARY

Our platform connects virtual goods vendors and virtual goods sales channels. The following table sets forth the number of our virtual goods vendor and virtual goods sales channel partners as of the dates indicated.

	For the year ended December 31,			For the twelve months ended March 31,	
	2017	2018	2019	2019	2020
Number of virtual goods vendors	267	453	662	477	914
Number of virtual goods sales channels	376	668	1,346	719	1,454
	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
GMV (<i>in millions</i>)	13,387	13,304	12,815	4,311	3,711
Average commission rate	1.8%	1.5%	1.7%	1.4%	1.5%

The following table sets forth the breakdown of GMV of virtual goods transactions we facilitated by industry for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2017		2018		2019		2019		2020	
	GMV	%	GMV	%	GMV	%	GMV	%	GMV	%
<i>(RMB in thousands, except for percentages)</i>										
Leisure and entertainment	577,809	4.3	843,323	6.3	1,224,294	9.6	285,237	6.6	384,436	10.4
Games	5,096,416	38.1	3,976,606	29.9	3,648,882	28.5	1,575,692	36.5	656,918	17.7
Telecommunications	7,145,070	53.4	7,797,801	58.6	7,668,902	59.8	2,366,664	54.9	2,569,810	69.2
Lifestyle services	568,078	4.2	686,690	5.2	273,062	2.1	83,550	1.9	99,992	2.7
Total	13,387,372	100.0	13,304,420	100.0	12,815,141	100.0	4,311,143	100.0	3,711,156	100.0

The increases in the GMV of leisure and entertainment-related virtual goods transactions we facilitated during the Track Record Period were primarily driven by our efforts to provide more leisure and entertainment-related virtual goods and services to capture market opportunities in China's growing online pan-entertainment industry.

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The GMV of games-related virtual goods transactions we facilitated decreased by 22.0% in 2018 from 2017, by 8.2% in 2019 from 2018 and by 58.3% for the three months ended March 31, 2020 from the same period in 2019, primarily because we (1) strategically adjusted the mix of our games-related virtual goods and services to focus on facilitating transactions with higher commission rates and (2) reduced our provision of certain types of games-related virtual goods and services with lower commission rates. Our revenue from the games segment increased by 23.9% in 2018 from 2017, by 41.5% in 2019 from 2018 and by 53.8% in the three months ended March 31, 2020 from the same period in 2019. The average commission rates for games-related virtual goods and services transactions generally increased throughout the Track Record Period.

The GMV of telecommunications-related virtual goods transactions remained generally stable during the Track Record Period.

The GMV of lifestyle-related virtual goods transactions we facilitated decreased by 60.2% in 2019, primarily because we facilitated more lifestyle virtual goods transactions in 2018, primarily driven by enhanced promotion efforts of certain virtual goods vendors.

The following table sets forth the average commission rates for the virtual goods transactions we facilitated in different industries for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
Leisure and entertainment	25.8%	13.6%	9.4%	11.0%	8.3%
Games	1.0%	1.6%	2.4%	1.4%	2.4%
Telecommunications	0.5%	0.2%	0.2%	0.1%	0.3%
Lifestyle services	0.7%	1.3%	0.9%	1.3%	1.4%

The fluctuations in commissions received from virtual goods vendors primarily reflected (1) our facilitation of new types of virtual goods transactions, (2) our facilitation of virtual goods transactions with different commission rates, (3) adjustments of commissions by virtual goods vendors based on their operating strategies and market conditions and (4) market competition, including increasing competition from virtual goods vendors (i.e. our customers).

The average commission rates for leisure and entertainment virtual goods transactions decreased during the Track Record Period, primarily because (1) (a) a large leisure and entertainment virtual goods vendor lowered its commission rates in 2018 and (b) another large leisure and entertainment virtual goods vendor lowered its commission rates in 2018 and 2019, and (2) we facilitated more virtual goods sales for live streaming platforms in 2019 and the three months ended March 31, 2020, which we believe have significant growth potential; we generally earned lower commissions from these services.

SUMMARY

The average commission rates for games-related virtual goods transactions generally increased during the Track Record Period, primarily because we offered more games-related services with higher commission rates, such as the sale of new types of games-related virtual prepaid cards.

The average commission rates for telecommunication-related virtual goods transactions decreased from 0.52% in 2017 to 0.24% in 2018 and 0.20% in 2019, primarily because we ceased providing top-up card recycling services in April 2018. The average commission rates increased from 0.13% in the three months ended March 31, 2019 to 0.29% in the same period in 2020, primarily because (1) we facilitated more virtual goods transactions for new virtual goods vendors; we typically earn higher commissions from these transactions and (2) virtual goods transactions conducted through a new e-commerce platform increased during the marketing campaigns held on this platform; virtual goods vendors paid us higher commissions for virtual goods sold during the marketing campaigns held on this platform.

The average commission rates for lifestyle services-related virtual goods transactions decreased from 1.3% in 2018 to 0.9% in 2019, primarily due to marketing campaigns conducted by certain virtual goods vendors in 2018, from which we charged higher commission rates. The average commission rates remained stable at 1.3% and 1.4% in the three months ended March 31, 2019 and 2020, respectively.

Please see “Business – Our Business Model and Transaction Process – Pricing – Virtual goods-related services – Virtual goods vendors” for more details.

The following table sets forth the average commission rates charged by different types of virtual goods sales channels for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
E-commerce platforms	0.45%	0.49%	0.54%	0.52%	0.54%
Online payment platforms	1.02%	1.01%	0.77%	1.01%	0.69%
Other virtual goods sales channels	0.02%	0.02%	0.01%	0.00%	0.01%
Total average commission rates	0.23%	0.20%	0.21%	0.22%	0.17%

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SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables present our summary of consolidated financial information as of and for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020. We have derived this summary from our audited financial information set forth in the Accountants' Report in Appendix I to this prospectus. You should read this summary in conjunction with those information and the information set forth in "Financial Information".

Consolidated Statements of Profit or Loss

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
Revenue	243,759	208,913	241,919	59,252	79,977
Cost of sales	(57,935)	(50,142)	(48,403)	(15,463)	(10,967)
Gross profit	185,824	158,771	193,516	43,789	69,010
Other income and gains	2,812	4,296	7,789	303	2,166
Selling and distribution expenses	(36,704)	(25,252)	(37,249)	(7,523)	(10,598)
Administrative expenses	(26,422)	(34,368)	(47,549)	(6,952)	(15,417)
Research and development costs	(9,942)	(24,370)	(20,508)	(3,813)	(5,729)
Impairment losses on financial and contract assets, net	(16,237)	(3,184)	(2,433)	(1,931)	(419)
Other expenses	(664)	(524)	(274)	(59)	(256)
Finance costs	(4,783)	(7,049)	(7,948)	(1,631)	(1,512)
Profit before taxation	93,884	68,320	85,344	22,183	37,245
Income tax ⁽¹⁾	(15,889)	(5,623)	(4,729)	(2,253)	(1,083)
Profit and Total Comprehensive Income for the Year/Period	77,995	62,697	80,615	19,930	36,162
Attributable to:					
Owners of the parent	78,132	62,809	80,638	19,950	36,162
Non-controlling interests	(137)	(112)	(23)	(20)	—

Notes:

- (1) Because of an increase in profit contributed by subsidiaries that enjoyed preferential tax treatment, our effective income tax rate decreased from 16.9% in 2017 to 8.2% in 2018 and 5.5% in 2019 and from 10.2% in the three months ended March 31, 2019 to 2.9% in the same period in 2020.

SUMMARY

Breakdowns of Revenue, Gross Profit and Gross Profit Margin

The following table sets forth revenue breakdown by types of services, in absolute amount and as a percentage of total revenue, for the periods indicated. The revenue of virtual goods-related services generally represents the GMV of virtual goods-related services multiplied by commission rates we charge virtual goods vendors for these services.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage)</i>									
Virtual goods-related services	243,516	99.9	206,204	98.7	220,230	91.0	58,305	98.4	56,831	71.1
Value-added services										
Online store operation services	–	–	763	0.4	20,225	8.4	739	1.2	21,509	26.9
Others ⁽¹⁾	243	0.1	1,946	0.9	1,464	0.6	208	0.4	1,637	2.0
Total	243,759	100.0	208,913	100.0	241,919	100.0	59,252	100.0	79,977	100.0

Note:

- (1) Include user acquisition and management services (e.g. mini-game development services) and IT solutions.

We report our financial results in four segments by industry: leisure and entertainment, games, telecommunications and lifestyle services. The following table sets forth segment revenue, in absolute amount and as a percentage of total revenue, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage)</i>									
Leisure and entertainment	148,932	61.1	115,440	55.2	130,524	54.0	32,188	54.3	35,950	45.0
Games	53,269	21.9	65,989	31.6	93,404	38.5	22,839	38.5	35,123	43.9
Telecommunications	37,372	15.3	18,602	8.9	15,642	6.5	3,141	5.3	7,509	9.4
Lifestyle	4,186	1.7	8,882	4.3	2,349	1.0	1,084	1.9	1,395	1.7
Total	243,759	100.0	208,913	100.0	241,919	100.0	59,252	100.0	79,977	100.0

SUMMARY

Our cost of sales primarily consists of commissions paid to virtual goods sales channels and labor-related costs. During the Track Record Period, commissions and labor-related costs accounted for approximately 50% to 53% and 35% to 40% of our total cost of sales, respectively.

The following table sets forth our gross profit and gross profit margin by reporting segment for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage)</i>									
Leisure and entertainment	139,473	93.6	103,324	89.5	117,956	90.4	30,002	93.2	32,665	90.9
Games	21,980	41.3	35,527	53.8	65,481	70.1	11,498	50.3	30,753	87.6
Telecommunications	21,757	58.2	12,641	68.0	8,583	54.9	1,376	43.8	4,530	60.3
Lifestyle	2,614	62.4	7,279	82.0	1,496	63.7	913	84.2	1,062	76.1
Total	185,824	76.2	158,771	76.0	193,516	80.0	43,789	73.9	69,010	86.3

Consolidated Statements of Financial Position

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Current assets				
Trade receivables	46,206	31,835	53,419	74,348
Contract assets	41,328	34,998	54,727	42,645
Prepayments, other receivables and other assets ⁽¹⁾	209,281	307,953	338,627	384,836
Due from related parties	1,242	5,043	12,380	12,301
Pledged deposits	828	4,050	600	600
Cash and cash equivalents	4,677	11,977	8,983	11,316
Total current assets	303,562	395,856	468,736	526,046

SUMMARY

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Current liabilities				
Trade payables	24,373	10,669	23,476	30,635
Other payables and accruals	52,886	104,472	117,513	114,644
Lease liabilities	1,827	2,186	1,580	2,021
Due to related parties	514	1,554	3,441	7,177
Interest-bearing bank and other borrowings	107,000	92,960	61,480	79,520
Tax payable	15,170	11,526	7,212	8,316
Dividends payable	—	—	15,000	8,352
Total current liabilities	201,770	223,367	229,702	250,665
Net current assets	101,792	172,489	239,034	275,381
Net assets	111,179	185,882	253,764	289,926
Equity attributable to owners of the parent				
Share capital	—	—	70	70
Reserves	111,317	186,132	253,694	289,856
Subtotal	111,317	186,132	253,764	289,926
Non-controlling interests	(138)	(250)	—	—
Total Equity	111,179	185,882	253,764	289,926

Note:

- (1) Primarily includes prepayments and deposits paid to virtual goods vendors before we facilitate virtual goods transactions for them. We generally made prepayments to virtual goods vendors for virtual goods sold to end consumers through various sales channels connected to our platform. During the Track Record Period, (1) the non-refundable portion of prepayments made to virtual goods vendors amounted to RMB122 million, RMB227 million, RMB216 million and RMB270 million, respectively and (2) none of our prepayments made to virtual goods vendors were forfeited. In 2016, we inadvertently facilitated the sale of certain virtual goods at prices lower than the minimum prices set by a virtual goods vendor due to a misunderstanding about the pricing policies of such vendor. We stopped selling the virtual goods at such prices as soon as we realized the mistake. We forfeited RMB100,000 of deposits made to the vendor in 2018 after several rounds of communications with the vendor. In 2019, we facilitated sale of certain virtual goods at promotional prices prior to the commencement of the relevant marketing campaigns held by a virtual goods vendor due to an oversight of certain employees of our company. As a result, we forfeited RMB20,000 of deposits made to such vendor. The foregoing incidents did not result in any fines or other penalties on us or materially adversely affect our business relationships with the two virtual goods vendors. Please see “Business – Risk Management – Our Risk Management Policies” for our measures to prevent the mistake of selling virtual goods at prices lower than the minimum prices set by virtual goods vendors and other measures to manage our participation in marketing campaigns held by virtual goods vendors. No deposits were forfeited in 2017 or the three months ended March 31, 2020.

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Selected Cash Flow Statement Data

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

	Year ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
Net cash (used in)/generated from operating activities					
Operating cash flow before change in working capital	109,852	92,439	117,065	24,806	39,721
Changes in working capital	(125,881)	(43,493)	(51,225)	14,256	(50,780)
Income tax paid	(7,457)	(9,242)	(9,153)	–	–
Subtotal	(23,486)	39,704	56,687	39,062	(11,059)
Net cash (used in)/generated from investing activities	(2,493)	(4,988)	(6,473)	(3,881)	38
Net cash generated from/ (used in) financing activities	11,875	(27,416)	(53,208)	(43,226)	13,354
Net (decrease)/increase in cash and cash equivalents	(14,104)	7,300	(2,994)	(8,045)	2,333
Cash and cash equivalent at the end of the year/ period	4,677	11,977	8,983	3,932	11,316

Net cash outflow used in operating activities in the three months ended March 31, 2020 was RMB11.1 million, primarily attributable to profit before taxation of RMB37.2 million, as adjusted by (i) non-cash items, which primarily comprised finance costs of RMB1.5 million, and (ii) changes in working capital, which primarily comprised (a) a RMB46.2 million increase in prepayments, other receivables and other assets, primarily reflecting (i) an increase in prepayments to virtual goods vendors, primarily driven by the growth of our business and (ii) an increase in other receivables, primarily representing amounts due from certain virtual goods sales channels, (b) a RMB8.8 million increase in trade receivables and contract assets, primarily due to an increase in service fees due from third-party games-related virtual goods and services platform operators, (c) a RMB7.2 million increase in trade payables, primarily reflecting the overall growth of our business, and (d) a RMB3.0 million decrease in other payables and accruals, primarily due to a decrease in receipts in advance in the three months ended March 31, 2020 because virtual goods sales channels made more advances at the end of 2019 which were utilized in the first quarter of 2020.

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Net cash outflow used in operating activities in 2017 was RMB23.5 million, primarily attributable to profit before taxation of RMB93.9 million, as adjusted by (i) non-cash items, which primarily comprised (a) equity-settled share-based payment expenses of RMB10.3 million and (b) a RMB4.8 million of finance costs and (ii) changes in working capital, which primarily comprised (a) a RMB86.6 million increase in trade receivables and contract assets, primarily reflecting increases in the amount due from virtual goods sales channels and incentive fees due from virtual goods vendors, (b) a RMB77.6 million increase in prepayments, other receivables and other assets, primarily reflecting an increase in prepayments and deposits paid to virtual goods vendors, (c) an increase in trade payables of RMB23.1 million, primarily reflecting an increase in unsettled payables to virtual goods vendors, and (d) a RMB17.3 million increase in other payables and accruals, primarily reflecting an increase in receipts in advances from virtual goods sales channels and payroll and welfare payables. These changes in working capital primarily reflected the growth of our business.

We plan to improve our operating cash flow position by (1) enhancing our profit margins, please see “Business – Our Business Model and Transaction Process – Pricing – Value-added Services” for the measures that we have adopted to enhance our margins, (2) improving our working capital management by negotiating more favorable payment terms with our business partners (i.e. virtual goods vendors and virtual goods sales channels) and (3) adjusting the amount of prepayments and the volumes of virtual goods transactions that we facilitate based on our working capital resources.

Non-IFRS Measure

To supplement our consolidated financial statements which are presented in accordance with IFRS, we use a non-IFRS measure, adjusted profit for the year/period, which is not required by, or presented in accordance with, IFRS. We believe that such non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating items that our management does not consider to be indicative of our operating performance.

We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted profit for the year/period may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation, or as substitute for analysis of, our results of operations or financial position as reported under IFRS. We defined adjusted profit for the year/period as profit for the year/period adjusted by adding back (1) share-based payment expenses because these expenses are non-cash expenses unrelated to our principal businesses that we do not expect to incur in the future and (2) listing expenses.

SUMMARY

The following table reconciles our adjusted profit for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	<i>(in thousands)</i>				
Profit for the year/period	77,995	62,697	80,615	19,930	36,162
Adjustments:					
Share-based payment expenses ⁽¹⁾	10,281	13,517	19,924	–	–
Listing expenses	–	–	5,521	–	8,741
Adjusted profit for the year/period	88,276	76,214	106,060	19,930	44,903

Note:

- (1) Represents share-based payment expenses recognized in connection with (a) our grant of shares of a subsidiary to key employees without vesting conditions and (b) the purchase of shares of a subsidiary by key employees at a price lower than fair value in 2018 and 2019.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the years/periods indicated.

	Year ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
Gross profit margin ⁽¹⁾	76.2%	76.0%	80.0%	73.9%	86.3%
Net profit margin ⁽²⁾	32.0%	30.0%	33.3%	33.6%	45.2%
Adjusted net profit margin (Non-IFRS measure) ⁽³⁾	36.2%	36.5%	43.8%	33.6%	56.1%

Notes:

- (1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.
- (2) Net profit margin is calculated based on profit divided by revenue and multiplied by 100%.
- (3) Adjusted net profit margin equals adjusted profit divided by revenues and multiplied by 100%. For the reconciliation from adjusted profit to profit, see “Financial Information — Non-IFRS Measures”.

SUMMARY

KEY DRIVERS FOR OUR BUSINESS GROWTH AND FINANCIAL PERFORMANCE

Our business grew significantly during the Track Record Period. We facilitated virtual goods transactions for over 910 virtual goods vendors and over 1,450 virtual goods sales channels in the twelve months ended March 31, 2020, compared to facilitating virtual goods transactions for over 260 virtual goods vendors and over 370 virtual goods sales channels in 2017. We believe we achieved our business growth during the Track Record Period because the competitive strengths in the bullet points below allowed us to capture market opportunities in China's growing online pan-entertainment industry and virtual goods and services industry. According to Frost & Sullivan, China's online pan-entertainment industry increased from RMB274.7 billion in 2014 to RMB775.5 billion in 2019 by revenue, representing a CAGR of 23.1%. China's virtual goods and services industry increased from RMB645.6 billion in 2014 to RMB1,293.5 billion in 2019 in terms of GMV, representing a CAGR of 14.9%.

- *Extensive Industry experience:* Having operated in China's third-party virtual goods and services market for over 10 years, we have gained a deep understanding of consumer needs and market trends to establish a competitive advantage over competitors.
- *Deep relationships with virtual goods vendors and virtual goods sales channels:* We have strong business relationships with virtual goods vendors and virtual goods sales channels, enabling us to enjoy the network effects generated by our platform. Our platform provides virtual goods vendors access to diverse sales channels, allowing virtual goods vendors to broaden the scope of consumers they can reach to monetize their goods and services. Our platform also enables virtual goods vendors to save the costs and time they would otherwise spend on establishing relationships with virtual goods sales channels by themselves. We help virtual goods sales channels build their online marketplaces to provide virtual services more cost-efficiently and save the money they would otherwise spend on building and operating their own online virtual goods sales platforms. By deepening our relationships with virtual goods vendors and virtual goods sales channels, we form economies of scale and entry barriers for competitors.
- *Operating Capabilities.* Our operating capabilities for over a decade and experienced operating teams enable us to achieve high levels of consumer satisfaction and develop a wide varieties of value-added services for our platform participants. We operate online stores for certain virtual goods vendors. We also provide virtual goods vendors and virtual goods sales channels with other value-added services to help them acquire and retain customers, monetize their products and enhance operating efficiency.

As we cooperate with more virtual goods vendors and virtual goods sales channels, we increasingly benefit from the network effects described under “– Our Business Model and Transaction Process – Our Business Model”. This in turn drives the growth of our businesses and results of operations. Our revenue increased by 15.8% from RMB208.9 million in 2018 to RMB241.9 million in 2019, and by 35.0% from RMB59.3 million in the three months ended March 31, 2019 to RMB80.0 million in the same period in 2020.

SUMMARY

Our total revenue decreased by 14.3% from RMB243.8 million in 2017 to RMB208.9 million in 2018, primarily due to (i) providing fewer services that typically generate higher commissions, including (a) our facilitation of fewer telecommunications service transactions for which there is a longer lag time between our payment for virtual goods to virtual goods vendors and the receipt of payment for these virtual goods from virtual goods sales channels and (b) our cessation of top-up card recycling services in April 2018 when certain platforms on which we provided such services stopped engaging in these businesses as market demand decreased, and (ii) fewer commissions received from leisure and entertainment virtual goods vendors. Two large leisure and entertainment virtual goods vendors lowered their commission rates in 2018. These virtual goods vendors conducted more promotional activities and offered higher commission rates to expand their market share. After China's leisure and entertainment industry became more mature and these virtual goods vendors established industry leading positions, the commission rates they offered decreased and then generally stabilized at certain levels.

Our net profit decreased by 19.6% from RMB78.0 million in 2017 to RMB62.7 million in 2018, primarily due to (i) a decrease in our total revenue and (ii) an increase in research and development costs, primarily reflecting our enhanced R&D efforts. See “Financial Information – Period-to-Period Comparison of Results of Operations” for details.

OFFERING STATISTICS

The numbers in the following table are based on the assumptions that (i) the Capitalization Issue and the Global Offering have been completed and 100,000,000 Shares are issued and sold in the Global Offering, (ii) the Over-allotment Option is not exercised, and (iii) 400,000,000 Shares are issued and outstanding following the completion of the Capitalization Issue and the Global Offering.

	Based on an Offer Price of HK\$6.90 per Share	Based on an Offer Price of HK\$8.90 per Share
Market capitalization after completion of the Global Offering	HK\$2,760 million	HK\$3,560 million
Unaudited pro forma adjusted net tangible assets per Share	HK\$2.39	HK\$2.86

Note: Please refer to “Appendix II – Unaudited Pro Forma Financial Information” for the adjustment in calculating the unaudited pro forma adjusted consolidated net tangible assets per Share.

SUMMARY

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practical Date, Mr. Fu Xi (through his wholly-owned FuXi Limited, Fuzhi Holdings and Fuxu Holdings) held an aggregate of 58.88% of the total issued share capital of our Company. Mr. Zhang Yuguo (through his wholly-owned Zhangyuguo Holdings), Mr. Shui Yingyu (through his wholly-owned Shuiyingyu Holdings) and Mr. Zhao Bihao (through his wholly-owned Zhaobihao Holdings) held 15.33%, 7.03% and 5.61% of the total issued share capital of our Company, respectively. Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao, entered into a concert party agreement (the “**Concert Party Agreement**”) on February 21, 2020 to confirm and acknowledge the nature of their acting-in-concert relationship. In view of the Concert Party Agreement, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao, acting in concert, were collectively interested in 86.85% of the total issued share capital of our Company prior to the Capitalization Issue and the Global Offering, and will be collectively interested in 65.14% of the total issued share capital of our Company following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised). Therefore, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao, FuXi Limited, Fuzhi Holdings, Fuxu Holdings, Zhangyuguo Holdings, Shuiyingyu Holdings and Zhaobihao Holdings will remain a group of Controlling Shareholders immediately following the Listing. For details of the Concert Party Agreement, see “Relationship with Our Controlling Shareholders”.

Each of our Controlling Shareholders and Directors confirms that he, she or it or his/her/its respective close associates does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

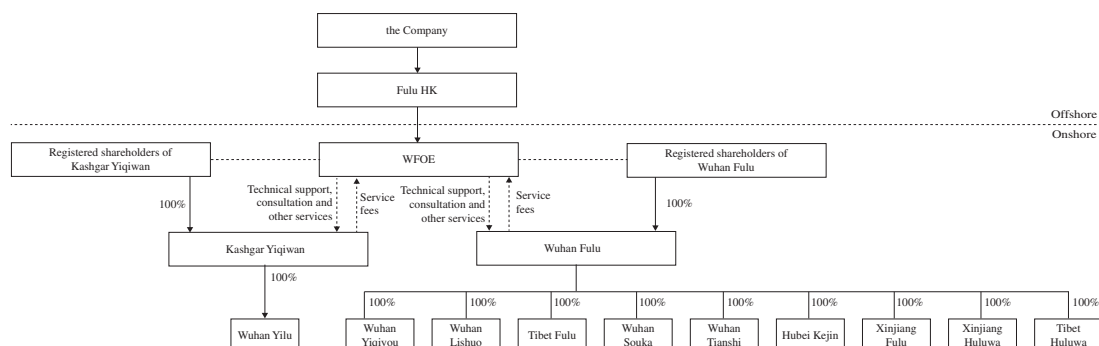
CONTRACTUAL ARRANGEMENTS AND PRC FOREIGN INVESTMENT LAW

The operation of our Consolidated Affiliated Entities is subject to various foreign ownership prohibitions or restrictions under PRC laws and regulations. We therefore do not own any equity interest in our PRC Holdcos (namely, Wuhan Fulu and Kashgar Yiqiwan), which are the holding entities of our Consolidated Affiliated Entities. In order to maintain and exercise control over our Consolidated Affiliated Entities, we have adopted the Contractual Arrangements. The Contractual Arrangements allow us to enjoy the economic benefits of our Consolidated Affiliated Entities and consolidate their results of operations into our Group. See “Contractual Arrangements” for further details. For the risks relating to our Contractual Arrangements, see “Risk Factors – Risks Relating to Our Contractual Arrangements”.

The Contractual Arrangements may subject us to increased income tax due to the different income tax rates applicable to our WFOE and our PRC Holdcos. See “Risk Factors – Risks Relating to our Business and Industry – Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional compliance obligations and costs. The Contractual Arrangements between our WFOE and our PRC Holdcos may subject us to increased income tax due to the different income tax rates applicable to our WFOE and our PRC Holdcos. We have received government grants in the past, but such grants may not be available in the future” for details.

SUMMARY

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Company stipulated under the Contractual Arrangements:



Notes:

- (1) “→” denotes direct legal and beneficial ownership in the equity interest and “----” denotes contractual relationship.
- (2) “----” denotes the control by WFOE over the registered shareholders of the PRC Holdcos and the PRC Holdcos through (1) powers of attorney to exercise all shareholders’ rights in the PRC Holdcos, (2) exclusive options to acquire all or part of the equity interests in the PRC Holdcos, and (3) equity pledges over the equity interests in the PRC Holdcos.

On March 15, 2019, the National People’s Congress promulgated the Foreign Investment Law 《中華人民共和國外商投資法》 (the “**FIL**”), which became effective on January 1, 2020. The FIL constitutes the legal foundation for foreign investment in the PRC. According to the FIL, China has adopted a system of national treatment and negative list for foreign investment. The Special Administrative Measures for Access of Foreign Investment (《外商投資准入特別管理措施(負面清單)》) (the “**Negative List**”) stipulates the administrative measures for foreign investments in special industries. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Implementation Regulations**”) which became effective on January 1, 2020. The Implementation Regulations provide that foreign investments in sectors on the Negative List shall comply with special management measures in respect of shareholding, senior management personnel and other matters under the Negative List. For details about the FIL and Implementation Regulations, see “Regulatory Overview – Regulations on Foreign Investment” and “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – Foreign Investment Law”.

SUMMARY

THE LATEST REGULATORY DEVELOPMENT OF ICB LICENSE

Our Consolidated Affiliated Entities that operate an online games virtual currency/tools trading business are required to obtain an internet culture business license (網絡文化經營許可證) (“**ICB license**”) in accordance with the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》). As of the Latest Practicable Date, each of Tibet Fulu, Wuhan Fulu, Wuhan Yiqiyou, Wuhan Lishuo, Wuhan Souka, Wuhan Tianshi, Hubei Kejin and Wuhan Yilu (collectively, the “**ICB Entities**”) held a valid ICB License (“**Games-related ICB License**”). According to the relevant notice and decisions issued by the MCT in May and July 2019 respectively, (i) the MCT is no longer responsible for regulating the online games businesses (including the online games virtual currency/tools trading business) (the “**Online Games Business**”) and has ceased granting or renewing the Games-related ICB License, and (ii) a current valid Games-related ICB License will remain valid until it expires. As of the Latest Practicable Date, (1) it was still unclear as to which governmental authority would officially assume the supervisory authority to regulate the Online Games Business, and (2) no new laws, regulations or policies had been promulgated or issued to regulate the Online Games Business. Based on the consultations conducted with the competent regulatory authorities, our PRC Legal Advisor is of the view that, until the promulgation of new laws and regulations, the ICB Entities can continue operating online games virtual currency/tools trading businesses as usual after the expiration of their Games-related ICB License. The expiration of the Games-related ICB License will not have a material adverse impact on our Company. See “Business – The Latest Regulatory Developments” and “Regulatory Overview – Regulations on Virtual Currency and Virtual Items” for further details.

DIVIDEND

The Board of Directors is responsible for submitting proposals for dividend payments to the Shareholders’ general meeting for approval. The determination of whether to pay a dividend and in which amount is based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions and other factors that the Board of Directors deems relevant.

We do not have any formal dividend policy. We distributed cash dividends of nil, RMB11.2 million, RMB17.7 million and RMB6.6 million in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. We primarily use cash generated from operations to pay dividends to our Shareholders. We do not plan to distribute the retained earnings of our PRC subsidiaries accumulated prior to the Listing.

SUMMARY

USE OF PROCEEDS

Assuming an Offer Price of HK\$7.90 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$6.90 and HK\$8.90 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$731.6 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering. We will use the net proceeds from the Global Offering for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

- approximately 30%, or HK\$219.6 million, will be used to facilitate virtual goods transactions for more virtual goods vendors and increase the varieties of virtual goods transactions we facilitate;
- approximately 20%, or HK\$146.3 million, will be used to increase the number of our virtual goods sales channel partners, including (a) HK\$109.7 million to enhance our cooperation with virtual goods sales channel partners in China, including connecting to more virtual goods sales channels in Guangxi's virtual goods and services market, and (b) HK\$36.6 million to attract and cooperate with overseas virtual goods sales channel partners by participating in the overseas expansion of key platform participants, including expansion into Southeast Asia's virtual goods and services market;
- approximately 20%, or HK\$146.3 million, will be used to develop our value-added services, such as membership management and interactive advertising services, virtual employee benefit services for enterprise customers, game leveling and companion services and professional game account leasing services;
- approximately 20%, or HK\$146.3 million, will be used for potential acquisitions of businesses and assets complementary to our business, including companies in games-related industries. We select acquisition targets primarily based on customer needs, anticipated synergies from the business to be acquired and a potential target's track record in operating the business. As of the Latest Practicable Date, we had not identified any specific acquisition targets; and
- approximately 10%, or HK\$73.1 million, will be used to fund working capital and other general corporate purposes.

We will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds. Please see "Future Plans and Use of Proceeds" for more details.

SUMMARY

RISK FACTORS

Investing in our Shares may be subject to some risks and uncertainties, including risks associated with:

- our ability to compete effectively;
- fluctuation of commissions offered by virtual goods vendors and charged by virtual goods sales channels;
- our ability to maintain and expand our relationships with virtual goods vendors and virtual goods sales channels;
- our ability to enhance and expand our services and solutions to respond to market and technological changes and the needs of our platform participants;
- China's virtual goods and services industry and the industries in which our platform participants operate; and
- the outbreak of COVID-19, which could significantly disrupt our operations.

Please see "Risk Factors" for details.

NON-COMPLIANCE

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of business. As at the Latest Practicable Date, we are not a party to any material legal proceedings.

During the Track Record Period and up to the Latest Practicable Date, we had complied with applicable PRC laws and regulations in all material respects, and were not involved in any material non-compliance incidents.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. The estimated total listing expenses (including underwriting commissions and other estimated expenses incurred in connection with the Global Offering) in relation to the Global Offering are approximately RMB70.7 million and represent approximately 10.0% of the gross proceeds we expect to receive from this Global Offering (based on the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). The estimated listing expenses consist primarily of (i) approximately RMB43.7 million that is directly attributable to the issue of new Shares to the public and accounted for as a deduction from equity, and (ii) approximately RMB27.0 million that has been or expected to be deducted from our consolidated statements of profits or loss, of which approximately RMB5.5 million was recognized in 2019, RMB8.7 million was

SUMMARY

recognized in the three months ended March 31, 2020, and the remaining is expected to be recognized in the remainder of 2020. Our Directors do not expect these expenses to materially impact our results of operations for the year ended December 31, 2020.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Outbreak of COVID-19

Since December 2019, the disease caused by a novel strain of coronavirus, later named COVID-19, has severely impacted China (including Wuhan, Hubei where our headquarters are located) and the rest of the world. On January 30, 2020, the World Health Organization declared that the COVID-19 outbreak constituted a Public Health Emergency of International Concern.

In January 2020, the PRC government imposed a quarantine on travel in and out of Hubei and several other provinces in China in an effort to halt spread of the virus. Since that time, our employees have worked remotely by accessing our Fulu Open Platform online outside our office premises. Due to the nature of our business, our employees do not need to be physically present at our office premises to perform their job functions. We have enabled the use of a remote access server (i.e. VPN) which allows employees to log on to our operating system outside our office premises. Employees can also access data and other information on cloud outside our office premises.

On January 22, 2020, we formed a company-wide COVID-19 emergency handling plan and established a contingency handling team to monitor COVID-19-related contingencies. The contingency handling team is headed by Mr. Zhao Bihao, an executive Director and a senior vice president of the Company.

We have required employees to monitor their body temperatures and report their whereabouts daily. Employees who have been to the outbreak area are required to promptly notify us and seek medical treatment if they have coronavirus symptoms. As of the date of this prospectus, none of our directors, officers or other employees were or suspected of being infected with COVID-19.

On March 24, 2020, the PRC local government notified us that we could reopen our office from March 24, 2020. On April 8, 2020, the PRC government lifted the quarantine on travel in and out of Hubei province (including Wuhan). We have reopened our office in Wuhan to all our employees since May 25, 2020. We have taken a number of precautionary measures to maintain a safe and hygienic working environment. See “Business – Impact of Outbreak of COVID-19 on Our Business” for further details.

As we provided services to our platform participants over the internet and saved our data on cloud before the COVID-19 outbreak, we did not experience material business disruptions or operating difficulties due to the COVID-19 outbreak. We believe the COVID-19 outbreak has not materially affected our business relationships with our platform participants.

SUMMARY

Most of our platform participants are online technology companies. Due to the nature of their businesses, they have been generally less affected by the COVID-19 outbreak than offline businesses in China. Some of our virtual goods vendor partners have seen growth in their businesses because many people in China stayed home to avoid exposure to the virus and purchased more virtual goods to access leisure and entertainment content and play games online. For example, according to Frost & Sullivan, our virtual goods vendors partners experienced revenue growth in the three months ended March 31, 2020:

- Tencent, one of the largest games producers and leisure and entertainment content providers in China, experienced revenue growth of approximately 31.0% in its games segment and a growth of approximately 70.0% in online music subscription revenue.
- Perfect World and NetEase, two leading game producers in China, experienced revenue growth of approximately 47.7% and 14.1%, respectively.
- IQiyi (a video content provider) and Douyu (a live streaming platform) experienced growth of approximately 35.0% in membership services revenue and 56.0% in live streaming revenue, respectively.

Due to the nature of our business, the outbreak of COVID-19 did not have a material adverse impact on our business operations and financial results. Our revenue and gross profit increased to RMB80.0 million and RMB69.0 million in the three months ended March 31, 2020 from RMB59.3 million and RMB43.8 million in the same period in 2019, respectively. However, as the global COVID-19 situation is evolving, its impact on the Chinese and global economy remains uncertain. Our results of operations may be adversely affected if the COVID-19 causes a severe slowdown in the Chinese or global economy. See “Risk Factors – Risks Relating to Our Business and Industry – We face risks relating to the outbreak of COVID-19” for details of the risks we are exposed to due to health epidemics and other outbreaks. With our liquid assets (including cash at bank, trade and other receivables, contract assets, prepayments and amount due from related parties) and 10% of IPO net proceeds (i.e. proceeds allocated to fund our working capital needs and other general corporate purposes), our directors believe that we can remain financially viable for at least 5 years under the worst case scenario arising from the outbreak of COVID-19 based on assumptions that: (i) the Offer Price is HK\$6.90 per Share, the low end of the indicative Offer Price range, and the Over-allotment Option is not exercised; (ii) our operations are completely disrupted with no additional revenue earned going forward; (iii) our minimum costs and expenses (including rentals, staff costs, financial costs and other necessary office expenses) remain at current levels; (iv) we earn no interest income on our cash balances; (v) recovery of trade and other receivables and contract assets is generally consistent with historical settlement patterns; and (vi) we will repay all existing bank and other borrowings and trade and other payables.

SUMMARY

Our Strategic Cooperation with Guangtou Capital

On June 30, 2020, we formed a company with Guangtou Capital (a state-owned investment company in Guangxi). We held a 40% equity interest in the company as of the Latest Practicable Date. We plan to utilize Guangtou Capital's resources to connect additional virtual goods vendors (e.g. telecom operators) and virtual goods sales channels (e.g. banks) in Guangxi's virtual goods markets. As of the Latest Practicable Date, we had not established any formal business relationships with new virtual goods vendors or sales channels in Guangxi. On July 1, 2020, we also entered into a strategic cooperation framework agreement with Guangtou Capital to explore business opportunities in the virtual goods and services market in Guangxi and Southeast Asia. We are in the process of evaluating market opportunities and conditions and operating environment in different countries in Southeast Asia. As of the Latest Practicable Date, we had not established any business presence or operations in any Southeast Asian countries. Please see "History, Reorganization and Corporate Structure – Our Strategic Cooperation with Guangtou Capital and the Incorporation of an Associated Company" and "Business – Our Strategies" for details.

Operating and Financial Performance after the Track Record Period

In the six months ended June 30, 2020, our revenue increased by over 20% with improved gross profit margin as compared to the same period in 2019. The increases in revenue and gross profit margin were primarily driven by an increase in revenue from virtual goods-related services and online store operating services, reflecting the growth of our business.

Our Directors have confirmed that as of the date of this prospectus, there were no material changes in our financial or trading conditions or prospects since March 31, 2020, and no other matter which may have material effect on the data as set out in the Accountants' Report contained in Appendix I to this prospectus has arisen since March 31, 2020.

Except as disclosed above, there had not been, as far as we are aware, any material changes in the general economic and market conditions in the PRC or the industry in which we operate that have had a material and adverse impact on our business operations and financial condition from March 31, 2020 and to the date of the prospectus. See "Risk Factors – Risks Relating to Our Business and Industry – We face risks relating to the outbreak of COVID-19" for the potential impact of a protracted or more widespread epidemic of COVID-19 on the Chinese economy and our results of operations.

In addition, the global macroeconomic environment is facing numerous challenges as described under "Risk Factors – Risks Relating to Our Business and Industry – Our revenues and financial results may be adversely affected by any economic slowdown in China and globally". Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition. Since early June 2020, floods have severely impacted large tracts of southern China (including Wuhan, where our headquarters are located). Natural disasters could cause the loss or corruption of data or malfunctions of software or hardware and adversely affect our ability to provide our services. Please see "Risk Factor – Risks Relating to Our Business and Industry – We face risks relating to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations" for the risks associated with natural disasters.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings.

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN applications form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of the Company adopted on August 29, 2020, which will become effective upon the Listing Date, 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 to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Capitalization Issue”	the issue of 200,000,000 Shares on the Listing Date to be made upon the capitalization of part of the sum standing to the credit of the share premium account of our Company, details of which are set out in “History, Reorganization and Corporate Structure – Capitalization Issue”
“Cayman Companies Law” or “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
“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

DEFINITIONS

“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, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
“Company”, “our Company”, “Fulu”, “we” or “us”	Fulu Holdings Limited (福祿控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on October 31, 2019, and, except where the context otherwise requires, all or any of its subsidiaries and Consolidated Affiliated Entities, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it in the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries. For further details of these entities, see “History, Reorganization and Corporate Structure” and “Contractual Arrangements”
“Contractual Agreements”	the series of contractual agreements entered into by WFOE, our PRC Holdcos and/or the registered shareholders of our PRC Holdcos, details of which are described in “Contractual Arrangements”

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to each of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao, FuXi Limited, Fuxu Holdings, Fuzhi Holdings, Zhangyuguo Holdings, Shuiyingyu Holdings and Zhaobihao Holdings or all of them as a group of Controlling Shareholders. For further details of these individuals and entities, see “Relationship with Our Controlling Shareholders”
“COVID-19”	coronavirus disease 2019
“CSRC”	China Securities Regulatory Commission
“Deed of Indemnity”	the deed of indemnity dated August 29, 2020 entered into by our Controlling Shareholders with and in favor of our Company (for ourselves and as trustee for our subsidiaries and the Consolidated Affiliated Entities) to provide certain indemnities, particulars of which are set out in “Appendix IV – Statutory and General Information – D. Other Information – 1. Tax and Other Indemnities”
“Deed of Non-competition”	the deed of non-competition dated August 29, 2020 entered into by our Controlling Shareholders with and in favor of our Company (for ourselves and as trustee for our subsidiaries and the Consolidated Affiliated Entities), particulars of which are set out in “Relationship with Our Controlling Shareholders”
“Director(s)”	the director(s) of our Company
“EDI license”	acronym for “electronic data interchange license,” a license issued by MIIT to permit China-based companies to provide online data processing and transaction processing services
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“FIEs”	foreign invested enterprises
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant of our Company

DEFINITIONS

“Fulu HK”	Fulu (Hongkong) Limited (福祿(香港)有限公司), a limited liability company established in Hong Kong on November 21, 2019, the parent company of WFOE and a wholly-owned subsidiary of our Company
“Fulu Open Platform”	our proprietary technology platform that offers applications to virtual goods vendors and virtual goods sales channels to enable them to better manage the virtual goods and services transaction process
“Fulu Technology” or “WFOE”	Fulu (Wuhan) Technology Co., Ltd (福祿(武漢)科技有限公司), a limited liability company established in the PRC on December 25, 2019 and a wholly-owned subsidiary of our Company
“FuXi Limited”	FuXi Limited, a limited liability company incorporated in the BVI on June 27, 2019 and wholly owned by Mr. Fu Xi. It is one of our Controlling Shareholders
“Fuxu Holdings”	Fuxu Holdings Limited, a limited liability company incorporated in the BVI on September 12, 2019 and wholly owned by FuXi Limited. It is one of our Controlling Shareholders
“Fuzhi Holdings”	Fuzhi Holdings Limited, a limited liability company incorporated in the BVI on September 3, 2019 and wholly owned by FuXi Limited. It is one of our Controlling Shareholders
“GDP”	gross domestic product
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Group”, “our Group” or “the Group”	our Company, our subsidiaries and the Consolidated Affiliated Entities from time to time, or where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the subsidiaries as if they were the subsidiaries of our Company at the relevant time (or our Company and any one or more of its subsidiaries, as the context may require)
“Guangtou Capital”	Guangtou Capital Management Co., Ltd. (廣投資本管理有限公司), a state-owned investment company based in Guangxi
“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“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”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 10,000,000 Shares initially offered by our Company for subscription pursuant to the Hong Kong Public Offering (subject to reallocation as described in “Structure of the Global 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 the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“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”

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated September 4, 2020 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters as further described in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement”
“Hubei Kejin”	Hubei Kejin Network Technology Co., Ltd. (湖北氮金網絡科技有限公司), a limited liability company established in the PRC on May 22, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“ICB license”	the internet culture business license (網絡文化經營許可證) for internet culture activities
“ICP license”	the value-added telecommunications business operating license (增值電信業務經營許可證) for internet information service
“IFRS”	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons
“International Offer Shares”	the 90,000,000 Shares, being initially offered in the International Offering together with, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in “Structure of the Global Offering”)
“International Offering”	the offer and sale of the International Offer Shares by our Company through the International Underwriters at the Offer Price in offshore transactions outside the United States in accordance with Regulation S under the U.S. Securities Act, as further described in “Structure of the Global Offering”

DEFINITIONS

“International Underwriters”	the international underwriters for the International Offering, that are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around September 11, 2020 by, among others, our Company, the Controlling Shareholders, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters in respect of the International Offering, as further described in “Underwriting – Underwriting Arrangements and Expenses – International Offering – International Underwriting Agreement”
“Joint Bookrunners”	CMB International Capital Limited, BOCOM International Securities Limited, China Everbright Securities (HK) Limited and China Merchants Securities (HK) Co., Limited
“Joint Lead Managers”	CMB International Capital Limited, BOCOM International Securities Limited, China Everbright Securities (HK) Limited, China Merchants Securities (HK) Co., Limited, Crosby Securities Limited and Futu Securities International (Hong Kong) Limited
“Kashgar Yiqiwan”	Kashgar Yiqiwan Network Technology Co., Ltd. (喀什一起玩網絡科技有限公司), a limited liability company established in the PRC on March 27, 2017, and one of the PRC Holdcos
“Latest Practicable Date”	August 28, 2020 being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about September 18, 2020 on which dealings in the Shares first commence on the Stock Exchange

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Luzhi Holdings”	Luzhi Holdings Limited, a limited liability company incorporated in the BVI on September 20, 2019 and owned as to 14.52%, 3.65%, 2.99%, 2.72%, 2.72%, 34.36%, 10.24%, 3.39%, 3.21%, 7.14% and 11.00% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao and Mr. Chen Tianjun, respectively, each of whom a current employee of the Group, and 4.06% by Mr. Tian Xuan, a former employee of the Group
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Major Subsidiary(ies)”	Our subsidiaries and Consolidated Affiliated Entities primarily responsible for the results, assets, liabilities or businesses of the Group during the Track Record Period, as further described in “History, Reorganization and Corporate Structure – Our Major Subsidiaries and Consolidated Affiliated Entities”
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), adopted on August 29, 2020, which will become effective upon the Listing Date, a summary of which is set out in Appendix III to this prospectus
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOC” or “MCT”	Ministry of Culture of the PRC (中華人民共和國文化部), which is reformed and known as the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅游部) since March 2018
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)

DEFINITIONS

“National Key Software Enterprise”	a recognition by a software industry association in China granted to an enterprise that meets certain requirements of a key software enterprise national planning layout recognition plan
“National Intellectual Property Strategy”	a series of measures formulated and promulgated by the PRC government to encourage and facilitate creation, development, management, and protection of intellectual property at national level
“NDRC”	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)
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$8.90 and expected to be not less than HK\$6.90, at which the Hong Kong Offer Shares are to be subscribed for and to be determined in the manner further described in “Structure of the Global Offering – Pricing of 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 offered pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	pursuant to the International Underwriting Agreement, the option to be granted by the Company to the International Underwriters, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters), pursuant to which the Company may be required to allot and issue up to an aggregate of 15,000,000 additional Shares at the Offer Price to cover, over-allocation, if any, in the International Offering. For further details, please refer to “Structure of the Global Offering”
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, but for the purposes of this prospectus only (unless otherwise indicated) excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Holdcos”, each a “PRC Holdco”	Kashgar Yiqiwan and Wuhan Fulu
“PRC Legal Advisor”	CM Law Firm, acting as legal counsel as to PRC law to our Company
“Price Determination Date”	the date, expected to be on or around Friday, September 11, 2020 on which the Offer Price is determined, or such later time as the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company may agree, but in any event no later than Tuesday, September 15, 2020
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Qinzhou Guanglu”	Guangxi Qinzhou Guanglu Network Technology Co., Ltd. (廣西欽州廣祿網絡科技有限公司), a limited liability company incorporated on June 30, 2020 in the PRC. Qinzhou Guanglu is 40% owned by Fulu Technology and 60% owned by Guangxi Guangtou Jietong Logistics Industry Fund Partnership (Limited Partnership) (廣西廣投捷通物流產業基金合夥企業(有限合夥)) (a limited partnership 99.9% owned by Guangtou Capital)
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Persons”	the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and any of their respective directors, officers or representatives or any other parties involved in the Global Offering

DEFINITIONS

“Remuneration Committee”	the remuneration committee of the Board
“Reorganization”	the reorganization of the Group in preparation of the Listing, details of which are set out in “History, Reorganization and Corporate Structure”
“RMB” or “Renminbi”	the lawful currency of the PRC
“SAIC”	the State Administration for Market Regulation of the PRC (中華人民共和國市場監督管理總局) (formerly known as the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局))
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	holder(s) of our Shares
“Shares”	ordinary share(s) with a nominal value of US\$0.0001 each in the capital of our Company
“Shuiyingyu Holdings”	Shuiyingyu Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“Sole Sponsor” or “Sole Global Coordinator”	CMB International Capital Limited
“Stabilizing Manager”	CMB International Securities Limited
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between the Stabilizing Manager and FuXi Limited on or around the Price Determination Date
“subsidiary” or “subsidiaries”	has the meaning ascribed to it under the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented
“Tibet Fulong”	Tibet Fulong Venture Capital Management Partnership (Limited Partnership) (西藏福隆創業投資管理合夥企業(有限合夥)), a limited liability partnership established in the PRC on January 12, 2017 and owned by Mr. Ren Wei as to 11.75%, Mr. Fu Xi as to 35.36%, Mr. Ding Chao as to 6.29%, Mr. Xu Jian as to 39.31%, Mr. Chen Tianjun as to 4.37%, Mr. Mei Qiaojun as to 1.18% and Mr. Li Jun as to 1.75%. Mr. Fu Xi is our Controlling Shareholder and an executive Director. Mr. Ren Wei, Mr. Xujian and Mr. Chen Tianjun are members of our senior management. Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our employees. Mr. Fu Xi is the sole general partner of Tibet Fulong
“Tibet Fulu”	Tibet Fulu Network Technology Co., Ltd. (西藏福祿網絡科技有限公司), a limited liability company established in the PRC on December 8, 2016, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Tibet Fuxu”	Tibet Fuxu Venture Capital Management Partnership (Limited Partnership) (西藏福旭創業投資管理合夥企業(有限合夥)), a limited liability partnership established in the PRC on January 17, 2017 and owned by Mr. Fu Xi as to 37.74%, Mr. Yang Yuquan as to 15.01%, Mr. Liu Lufeng as to 3.78%, Ms. Shen Yaling as to 3.09%, Mr. Wang Qiang as to 2.81%, Ms. Guo Chenxi as to 2.81%, Mr. Zhang Yuguo as to 2.02%, Mr. Zhao Bihao as to 15.09%, Mr. Tian Xuan as to 4.19%, Mr. Xu Jian as to 0.11%, Mr. Ding Chao as to 1.72%, Mr. Mei Qiaojun as to 2.44%, Mr. Chen Tianjun as to 7.43% and Mr. Li Jun as to 1.75%. Mr. Fu Xi, Mr. Zhang Yuguo and Mr. Zhao Bihao are our Controlling Shareholders and executive Directors. Mr. Chen Tianjun and Mr. Xu Jian are members of our senior management. Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our employees. Mr. Tian Xuan is a former employee of the Group. Mr. Fu Xi is the sole general partner of Tibet Fuxu

DEFINITIONS

“Tibet Huluwa”	Tibet Huluwa Network Technology Co., Ltd. (西藏葫蘆娃網絡科技有限公司), a limited liability company established in the PRC on May 15, 2019, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Track Record Period”	the three financial years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“VIE” or “VIEs”	variable interest entity or variable interest entities
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s own name
“ White Form eIPO ”	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 White Form eIPO Service Provider at www.eipo.com.hk
“ White Form eIPO Service Provider ”	Computershare Hong Kong Investor Services Limited
“Wuhan Fulu”	Wuhan Fulu Network Technology Co., Ltd. (武漢福祿網絡科技有限公司), a limited liability company established in the PRC on March 24, 2009, and one of our PRC Holdcos

DEFINITIONS

“Wuhan Lishuo”	Wuhan Lishuo Technology Co., Ltd. (武漢立碩科技有限公司), a limited liability company established in the PRC on January 6, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Souka”	Wuhan Souka Technology Co., Ltd. (武漢搜卡科技有限公司), a limited liability company established in the PRC on June 8, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Tianshi”	Wuhan Tianshi Technology Co., Ltd. (武漢天識科技有限公司), a limited liability company established in the PRC on July 24, 2014, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Xunyue”	Wuhan Xunyue Technology Co., Ltd (武漢訊悅科技有限公司), a limited liability company established in the PRC on April 17, 2015. Wuhan Xunyue is owned as to 60% by Mr. Fu Xi and 40% by Mr. Zhang Yuguo (both of whom are our executive Directors and Controlling Shareholders) and therefore a connected person of the Company
“Wuhan Yilu”	Wuhan Yilu Network Technology Co., Ltd. (武漢億祿網絡科技有限公司), a limited liability company established in the PRC on November 19, 2015, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Kashgan Yiqiwan
“Wuhan Yiqiyou”	Wuhan Yiqiyou Network Technology Co., Ltd. (武漢一起遊網絡科技有限公司), a limited liability company established in the PRC on June 4, 2012, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Zhongteng”	Wuhan Fulu Zhongteng Consulting Services Co., Ltd. (武漢福祿眾騰諮詢服務有限公司), a limited liability company established in the PRC on October 25, 2018 and a wholly-owned subsidiary of Wuhan Fulu. The company voluntarily dissolved on June 15, 2020
“Wuxuliang Holdings”	Wuxuliang Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019 and wholly owned by Mr. Wu Xuliang, a former employee of the Group

DEFINITIONS

“Xinjiang Fulu”	Xinjiang Fulu Network Technology Co., Ltd. (新疆福祿網絡科技有限公司), a limited liability company established in the PRC on December 27, 2016, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Xinjiang Huluwa”	Xinjiang Huluwa Network Technology Co., Ltd. (新疆葫蘆娃網絡科技有限公司), a limited liability company established in the PRC on February 25, 2019, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“Zhangyuguo Holdings”	Zhangyuguo Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“Zhaobihao Holdings”	Zhaobihao Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“%”	per cent.

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

Certain amounts and percentage figures included in this prospectus have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“API”	application programming interface, an interface between a client and a server, which allows the client to receive a response to its request in a specific format or initiate a defined action
“Apps”	mobile application(s) and software designed to run on smartphones and other mobile devices
“artificial intelligence”	intelligence exhibited by machines in the area of computer science that emphasizes the creation of intelligent machines that work and react like humans or other natural intelligence
“big data analytics”	the use of advanced analytic techniques against large, diverse data sets to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful information that can help organizations make more informed business decisions
“CAGR”	compound annual growth rate
“consumer”	a unique end consumer who purchases goods and services for his or her personal use, as identified by a unique user account. The aggregate number of consumers at the end of a given month is calculated by (A) adding the number of consumers in that month to the aggregate number of consumers at the end of the previous month, and (B) eliminating duplicate consumers who placed orders in the previous month
“e-commerce”	electronic commerce, which draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, internet marketing, online transaction processing, electronic data interchange, inventory management systems, and automated data collection systems

GLOSSARY OF TECHNICAL TERMS

“GMV”	gross merchandize value, which equals the sales price per item (inclusive of VAT) multiplied by the number of items sold. The GMV of virtual goods transactions we facilitated as disclosed in this prospectus excludes the GMV of virtual goods transactions that occur in online stores we operate for virtual goods vendors
“H5”	a mark-up language used for structuring and presenting content on the Internet, which is the fifth and current major version of the HTML standard
“ISV”	independent software vendor
“IT”	information technology
“MALL”	an application we offer to help virtual goods sales channels establish and operate their own online virtual goods sales platforms
“PaaS”	Platform-as-a-Service, the delivery of a computing platform and solutions to users as a service
“POP”	a model of provision of virtual goods procurement services in large quantities, featuring efficiency, convenience, safety and flexibility
“SaaS”	Software as a Service, a software deployment model under which cloud providers license software applications to users as a service
“sales channels”	individuals and entities with access to end consumers
“traffic”	the flow of consumers
“TSC”	an application that enables virtual goods vendors to place virtual goods and manage online stores on e-commerce platforms through our platform
“T+0”	transaction date
“T+1”	transaction date plus one business day

GLOSSARY OF TECHNICAL TERMS

“virtual goods vendors”	persons or companies offering non-physical objects for sale, such as e-vouchers, in-game virtual currencies, gift cards, membership cards and coupons, which can be exchanged for products and services offered by them
“Virtual goods vendor retention rate”	<p>equals to $(A-B)/A$; where</p> <p>(A) equals the number of virtual goods vendor partners at the beginning of the period, and</p> <p>(B) equals the number of virtual goods vendor partners who either terminated their contracts with or did not execute any virtual goods transactions through us during the relevant period</p>
“VPN”	Virtual Private Network

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we operate or are seeking to operate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance, achievements or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- our business and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general political, economic, legal and social conditions in the PRC and the markets in which we operate;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

FORWARD-LOOKING STATEMENTS

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in “Risk Factors” and elsewhere. We caution you not to place undue reliance on these forward-looking statements, which reflect our views only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. These risks could materially adversely affect our business, financial condition and results of operations. The trading price of our Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. We are a PRC company and are governed by a legal and regulatory environment that may differ significantly from that of other countries or regions. For more information concerning the legal and regulatory environment of the PRC and certain related matters discussed below, see “Regulatory Overview” and “Appendix III – Summary of the Constitution of Our Company and Cayman Islands Company Law”.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We face intense competition from virtual goods vendors and other third-party virtual goods and services platform operators and we may not be able to compete effectively.

We face significant competition from companies that provide virtual goods and services. Virtual goods vendors can sell virtual goods to consumers directly or through other online or offline virtual goods sales channels. New competitors may enter the virtual goods industry in China, and we may face new competitors as we expand into new industry sectors. According to Frost & Sullivan, China’s third-party virtual goods and services industry amounted to RMB406.5 billion in 2019.

Our competitors may have significantly more financial, technical, marketing and other resources than we have, and may devote greater resources to develop, promote and support their platforms and services. In addition, they may have more extensive industry relationships, longer operating histories and greater name recognition than we have. As a result, these competitors may respond more quickly to new technologies, regulatory requirements and consumer demand.

If virtual goods vendors increase their direct selling efforts (i.e. selling virtual goods directly to end consumers) after they establish a brand presence or acquire enough consumers for their services or partner with our competitors, it may be difficult for us to attract and retain platform participants or maintain the GMV of virtual goods transactions we facilitate and the commission rates we charge virtual goods vendors. This could reduce our revenues, gross profit margin and market share and materially adversely affect our business, financial condition and results of operations. During the Track Record Period, the commission rates for the leisure and entertainment and telecommunications-related virtual goods transactions we facilitated decreased from 25.8% and 0.5% in 2017 to 9.4% and 0.2% in 2019, respectively. Please see “Business – Pricing – Virtual goods-related services – Virtual goods vendors” for more details. During the Track Record Period, the GMV of virtual goods transactions we facilitated for

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games and lifestyles industries also decreased from RMB5,096.4 million and RMB568.1 million in 2017 to RMB3,648.9 million and RMB273.1 million in 2019, respectively, because of our efforts to focus on facilitating transactions with higher commission rates as these markets became more mature.

Competition may intensify as our competitors enter into business combinations or alliances or raise additional capital, or as established companies in other market segments expand into our market segments. Current and future competitors could offer a different pricing model or undercut prices to increase market share. If we cannot compete successfully against current and future competitors, our business, results of operations and financial condition could deteriorate.

We do not control the commissions offered by virtual goods vendors or charged by virtual goods sales channels. The commissions we earn from virtual goods transactions and pay to virtual goods sales channels may fluctuate or decline significantly due to factors beyond our control, which could significantly harm our business, financial condition and results of operations.

We derive most of our revenues from commissions that we charge virtual goods vendors for selling virtual goods through our platform. The commissions typically represent a percentage of GMV of the virtual goods sold during certain periods. Virtual goods vendors determine the commissions they pay us based on sales volumes, market prices, prevailing economic conditions and the types of virtual goods they sell through our platform.

Because we do not control the decisions of virtual goods vendors, the commissions we receive from them vary significantly from period to period and among different virtual goods, transactions and geographic markets. For example, the average commission rates for leisure and entertainment virtual goods transactions we facilitated were 25.8%, 13.6%, 9.4% and 8.3% in 2017, 2018, 2019 and the three months ended March 31, 2020. We cannot determine or predict the timing or extent of any changes in our commissions. As China's virtual goods and services industry becomes more mature, virtual goods vendors may reduce the commission rates they offer to us. For example, in recent years, there has been a decreasing trend of average commission rates offered by virtual goods vendors in the leisure and entertainment and telecommunications industries. The commission rates for the leisure and entertainment virtual goods transactions we facilitated decreased from 25.8% in 2017 to 13.6% in 2018 and further to 9.4% in 2019 and 8.3% in the three months ended March 31, 2020. The commission rates for the telecommunications-related transactions we facilitated decreased from 0.5% in 2017 to 0.2% in 2018 and 2019. Please see "Business – Our Business Model and Transaction Process – Pricing – Virtual goods-related services – Virtual goods vendors" for more details. Any decrease in commissions could materially adversely affect our revenues, gross margin, cash flow and results of operations. We have been continually reviewing and adjusting the mix of the virtual goods transactions we facilitate to focus on new virtual goods industries with higher commission rates. However, as these new industries mature, the commission rates for these industries tend to decline. If we fail to identify or shift our focus to other new industries with high commission rates, our business and financial results may suffer.

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We pay commissions to some virtual goods sales channels (such as e-commerce and online payment platforms) for transactions that occur through them. These sales channels may charge us higher commissions in the future, which would reduce our profit margins. If we cannot provide virtual goods and services through various sales channels at reasonable costs, our business, operating results and prospects may be materially adversely affected.

If we cannot maintain and expand our relationships with virtual goods vendors and virtual goods sales channels, our business, results of operations and financial condition could be materially adversely affected.

We generate our revenues primarily from facilitating the sale of virtual goods by virtual goods vendors through virtual goods sales channels. We also earn revenue from value-added services such as operating online stores for virtual goods vendors.

Our contracts with virtual goods vendors typically have one-year terms. Under these contracts, virtual goods vendors typically require us to pay security deposits and we agree to forfeit part or all of the deposits in the event of breach of any major terms of the contracts. Virtual goods vendors may also terminate some of these contracts upon relatively short notice under certain circumstances. During the Track Report Period, none of our virtual goods vendor partners terminated their contracts with us upon short notice or under other circumstances. We may not be able to renew any of these contracts upon their expiration on terms comparable to or better than existing contracts, if at all.

Our relationships with virtual goods vendors depend on our ability to attract virtual goods sales channels, which in turn depends on the quantity and price of virtual goods offered on our platform. Please see “Business – Our Platform and Its Participants” for more details. In addition, some major virtual goods vendors may have specific requirements and restrictions for third party virtual goods and services platform operators that concurrently deal with their competitors. These virtual goods vendors may choose to cooperate with companies that do not concurrently deal with their competitors among candidates with similar capabilities. They may also offer less favorable business terms compared to third-party virtual goods and services operators that cooperate with their competitors. If we cannot maintain relationships with virtual goods vendors and add new virtual goods vendors, we may be unable to offer end consumers the virtual goods buying experience they expect.

The foregoing risks could reduce virtual goods vendors’ confidence in our services, making us less popular with virtual goods vendors. As a result, virtual goods vendors could cease to use us, or use us at a decreasing rate, materially adversely affecting our business, results of operations and financial condition.

We collaborate with virtual goods sales channels, including e-commerce platforms, online payment platforms, banks, hotels and transportation services providers, to facilitate the sale of virtual goods by virtual goods vendors to a large consumer base. Our strong relationships with virtual goods providers and virtual goods sales channels lead to significant network effects, which we believe constitute a key factor of our success. Please see “Business – Our Platform and Its Participants” for more details.

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Virtual goods sales channels may enter into business collaborations with our competitors or virtual goods vendors and compete with our business. If we cannot maintain relationships with virtual goods sales channels, our relationships with virtual goods vendors will suffer, which would decrease the network effects generated by our platform, making our platform less attractive to virtual goods sales channels, end consumers and other platform participants. Any of the foregoing could materially and adversely affect our business, results of operations and financial condition.

We have entered into agreements with virtual goods sales channels which generally have one-year terms with automatic renewal upon expiration unless otherwise terminated by either party to the agreements. Under these agreements, we paid security deposits to certain e-commerce platforms, who agreed to return these deposits to us when the relevant contracts expire. These e-commerce platforms may not return our security deposits in full or at all. We may not renew these agreements or sign additional agreements similar to our existing agreements with virtual goods sales channels.

If we cannot procure the latest or new types of virtual goods, our operations and financial condition could be materially adversely affected.

We facilitate the sale of virtual goods offered by virtual goods vendors and do not produce virtual goods ourselves. This exposes us to the risk that we may not be able to procure the latest or new types of virtual goods from virtual goods vendors, which could make our platform less attractive to virtual goods sales channels, end consumers and other platform participants.

As China's virtual goods and services industry becomes more mature, virtual goods vendors may become less reliant on third-party virtual goods and services platform operators (such as us) to facilitate virtual goods transactions. After virtual goods vendors establish a brand presence or acquire enough consumers for their services, they may offer virtual goods directly or reduce the commission rates they offer to us. In recent years, there has been a decreasing trend of average commission rates offered by virtual goods vendors in the leisure and entertainment and telecommunications industries. We have been continually reviewing and adjusting the mix of the virtual goods transactions we facilitate to focus on new virtual goods industries with higher commission rates. However, as these new industries mature, the commission rates for these industries tend to decline. If we fail to identify or shift our focus to other new industries with high commission rates, our business and financial results may suffer. See “– We do not control the commissions offered by virtual goods vendors or charged by virtual goods sales channels. The commissions we earn from virtual goods transactions and pay to virtual goods sales channels may fluctuate or decline significantly due to factors beyond our control, which could significantly harm our business, financial condition and results of operations” for details.

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Any of the foregoing could materially and adversely affect our business, results of operations and financial condition.

If we fail to enhance and expand our services and solutions to respond to market and technological changes and the needs of our platform participants, our business may suffer.

Our success depends on our ability to anticipate and react in a timely and effective manner to changes in market trends and technologies and the needs and preferences of our platform participants. Accordingly, we must invest in new businesses, products, services and technologies to enhance our platform. We may not have the resources to make such investments.

Investments in new businesses, products, services and technologies could also involve significant risks and uncertainties. Our continued success will depend on our ability to adjust our strategy and innovate our products and services to meet the changing market dynamics, technologies and regulatory environment.

While we have historically focused on the virtual goods and services market, we are exploring opportunities in different industry sectors, such as opportunities from the games industry. We have limited experience in these new market segments and services, which may pose significant risks that we have not fully appreciated.

Our platform participants may not respond favorably to new services and solutions. If the services or solutions we introduce fail to engage platform participants, we may fail to generate sufficient revenue or other value to justify our investments.

Our success also depends on our ability to adapt to changing technologies. The development and application of new technologies involve time, substantial costs and risks. We may encounter unexpected technological difficulties in developing and implementing new technologies. As a result, we may incur substantial costs or services disruptions, which could seriously harm our business and operating results. Our ability to sustain and grow our business will suffer if we fail to respond to changes in technologies in a timely and cost-effective manner.

If we cannot penetrate new market segments, adapt to changing technologies or introduce new services and solutions successfully, our revenue may grow at a slower rate than we anticipate. Any of the foregoing could damage our reputation and materially adversely affect our business, financial condition and results of operations.

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Our business is subject to risks relating to China’s virtual goods and services industry and the industries in which our platform participants operate.

Our business depends on the growth of China’s virtual goods and services industry, which is relatively new and may not develop as we anticipate. According to Frost & Sullivan, China’s virtual goods and services market grew from RMB645.6 billion in 2014 to RMB1,293.5 billion in 2019 by GMV, representing a CAGR of 14.9%. China’s virtual goods and services industry may not increase at the same rate in future periods.

A downturn in general economic conditions in China could reduce consumer spending, negatively impacting the growth rates of China’s virtual goods and services industry. Consumers may become unwilling or less willing to purchase virtual goods via internet for a variety of reasons, including congestion of traffic on the internet, internet outages or delays, increases in the cost of accessing the internet, security and privacy risks, or the perception of the foregoing risks. Any of the foregoing could affect the growth of China’s virtual goods and services industry.

The regulatory framework governing the industry is also evolving and is expected to remain uncertain for the foreseeable future. A change in regulations, or reversal of, or a slowdown in, China’s virtual goods and services industry could reduce demand for our services and solutions and adversely affect our growth prospects and profitability. In addition, adverse changes in general economic conditions or the regulatory environment in the industries in which our platform participants operate could reduce demand for our services, increase customer attrition and materially adversely affect our business, financial condition and results of operations.

Prepayments to virtual goods vendors may adversely affect our liquidity and cash flows and expose us to the credit and default risks of virtual goods vendors. If we fail to maintain appropriate levels of prepayments in line with the approximate level of demand for virtual goods, our business and operating results could suffer.

As is typical for a third-party virtual goods and services platform operator in China, we generally make prepayments to virtual goods vendors for virtual goods sold through different virtual goods sales channels connected to our platform. This requires that we maintain certain levels of working capital to fund our operations. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we made prepayments of RMB134.9 million, RMB242.5 million, RMB237.4 million and RMB277.0 million to virtual goods vendors, respectively. If our cash outflows for prepayments significantly exceed our cash inflows during any period, our liquidity and cash position will be adversely affected. See “– We had negative net cash flows from operating activities in 2017 and the three months ended March 31, 2020. If we have negative operating cash flows in the future, our liquidity and financial condition may be materially adversely affected.” for details. We expect that as our business grows, we will need additional working capital. If we do not have sufficient working capital, we may not be able to pursue our growth strategy, respond to competitive pressures or fund key strategic initiatives, which may harm our business, financial condition and results of operations.

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We generally make prepayments to virtual goods vendors for virtual goods transactions we facilitate based on our estimate of the volume of virtual goods transactions that will occur on our platform during certain periods ranging between several days to a few months. See “Business – Our Business Model and Transaction Process – Our Working Capital Cycle” for details. Demand for virtual goods, however, can change significantly between the time we make the prepayments and the dates of virtual goods transactions. In addition, when we begin facilitating the sale of new virtual goods, it may be difficult to accurately forecast demand. We could overestimate future virtual goods transactions that occur on our platform and make excess prepayments to virtual goods vendors, in which case our business, liquidity and operating results could be adversely affected. Conversely, if we underestimate demand for virtual goods and fail to make sufficient prepayments to virtual goods vendors, we may lose revenue opportunities and market share to our competitors.

Prepayments provided to virtual goods vendors also expose us to the credit and default risks of such virtual goods vendors and may not be recovered. If a virtual goods vendor fails to deliver virtual goods to end consumers through different virtual goods sales channels connected to our platform or we have disputes with any virtual goods vendors and are unable to reach an agreement on terms acceptable to us, we may not recover prepayments made to such virtual goods vendors. Prepayments to virtual goods vendors also expose us to the credit risks of virtual goods vendors in the event of their insolvency or bankruptcy. We could incur substantial losses related to the write down or write off of prepayments made to virtual good vendors. For example, we made impairments on other receivables of RMB16.0 million in 2017 due to failure by a third-party virtual goods and services platform operator to provide virtual goods after receiving prepayments from us. See “Financial Information – Period-to-period Comparison of Results of Operations – Year Ended December 31, 2018 compared to Year Ended December 31, 2017 – Impairment Losses on Financial and Contract Assets” for details. Any of the foregoing could materially and adversely affect our financial condition and results of operations.

We depend on a limited number of customers for a significant portion of our revenues and the loss of any major customer could materially adversely affect our revenues and cash flows.

Our customers primarily include virtual goods vendors, from whom we earn commissions on facilitating sales of their products through our platform. We depend on a limited number of customers for a significant portion of our revenues. Revenue from our largest and top five customers accounted for 24.8%, 40.5%, 21.9%, 49.8%, 27.4%, 64.5%, 22.3% and 65.3% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2020, in each case respectively.

Our contracts with virtual goods vendors typically have one-year terms. If any contract with our major customers terminates, our customers renew contracts on terms less favorable than those currently in effect, or a principal customer decreases the amount of transactions facilitated through our platform, our operating results could be materially adversely affected. See “– Risks Relating to Our Business and Industry – If we cannot maintain and expand our

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relationships with virtual goods vendors and virtual goods sales channels, our business, results of operations and financial condition could be materially adversely affected.” In addition, if any of our key customers fails to make timely payments of our commissions, our cash flows may be materially adversely affected.

If we fail to offer satisfactory services to consumers, our business and reputation could suffer.

Our ability to ensure a convenient, efficient and comprehensive virtual goods buying experience for consumers is crucial to our success. The quality of our services depends on a variety of factors, including our ability to anticipate and effectively respond to changing consumer interests and preferences, anticipate and respond to changes in the competitive landscape, and develop and offer services to address the needs of consumers.

To ensure the quality of our services to consumers, we must devote significant resources to enhance the functionality and reliability of our platform and the speed with which we process virtual goods-related requests. If our efforts are unsuccessful, consumers and the virtual goods and services we provide may not increase at the rate we anticipate or decrease. Any material disruption or slowdown in our systems resulting from labor disputes, telephone or internet failures, power or service outages, natural disasters or other events could make it difficult or impossible to provide adequate customer service and support. As a result, our business, prospects, financial condition and results of operations may be materially adversely affected.

In addition, we may be unable to attract and retain adequate numbers of competent customer service representatives, each of which is essential in creating a favorable customer experience. If we cannot provide adequate staffing and training for our customer service team, our reputation could suffer. In addition, if our e-mail and telephone call volumes exceed our system capacities, we could experience delays in processing virtual goods-related requests, responding to customer inquiries and addressing customer concerns. Because our success depends largely on keeping our customers satisfied, any failure to provide high levels of customer service would likely impair our reputation and decrease our revenues.

The PRC government may promulgate new laws or regulations and considerable uncertainties exist with respect to the interpretation and implementation of existing and future laws and regulations governing our business activities. Failure to comply with laws, rules and regulations, or to obtain and maintain required licenses or permits, could materially and adversely affect our business, financial condition and results of operations.

Our business is subject to regulation by various governmental agencies in China, including the MOFCOM, the MIIT and the MCT. These regulations relate to games, e-commerce, foreign direct investment, intellectual property rights, consumer protection and data privacy, foreign exchange and taxation and related areas of law. We must also obtain and maintain licenses, authorizations and permits from various government agencies to conduct our business. See “Regulatory Overview” for more details.

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During the Track Record Period, because certain employees responsible for licenses application were not familiar with local government requirements, certain of our subsidiaries did not obtain an ICP license or Games-related ICB license, which they were required to obtain to provide internet information services or operate an online games virtual currency trading business. Please see “Business – Licenses, Permits, and Approvals”. These subsidiaries may be deemed to have provided internet information and games-related virtual goods and services without the required licenses. We have proactively taken measures to apply for the required licenses and as of the Latest Practicable Date, we had obtained all material licenses, approvals and permits required for our operations under the PRC laws and regulations. Nevertheless, the relevant governmental authorities may penalize us for these subsidiaries’ past failure to obtain the ICP license or Games-related ICB license. We may be subject to fines of up to RMB90,000 for these subsidiaries’ past failure to obtain Games-related ICB licenses. We may also be subject to confiscation of illegal gains and fines of up to five times illegal gains for these subsidiaries’ past provision of internet information services without obtaining the ICP licenses.

As the internet industry in China remains at a relatively early stage of development, considerable uncertainties exist with respect to the interpretation and implementation of existing and future laws and regulations governing our business activities. For example, substantial uncertainties exist with respect to the application of laws and regulations relating to games-related virtual goods and services in China. In May 2019, the MCT released the Notice on Adjusting the Scope of Examination and Approval regarding the <Internet Culture Operation License> to Further Regulate the Approval Work (《關於調整<網絡文化經營許可證>審批範圍進一步規範審批工作的通知》) (the “**Notice on Adjusting the Scope**”). In July 2019, the MCT further issued the Decision on the Abolition of the Interim Measures on Administration of Online Games and the Administrative Measures for Tourism Development Plan (《關於廢止<網絡遊戲管理暫行辦法>和<旅遊發展規劃管理辦法>的決定》) (the “**Decision**”). Pursuant the Notice on Adjusting the Scope and the Decision, (1) the MCT is no longer responsible for regulating the online games industry in China (including the online games virtual currency/tools trading business) and has stopped granting or renewing any games-related ICB licenses; and (2) a currently valid games-related ICB license will remain valid until the term of the license expires. As of the Latest Practicable Date, the PRC government had not enacted laws, regulations or official guidelines or designated any government authorities to regulate China’s online games virtual currency/tools trading services industry. However, the PRC government may promulgate new laws, regulations or guidelines or designate government authorities to regulate this industry in future.

If we are unable to renew our Games-related ICB Licenses or to obtain any necessary licenses after the promulgation of any new laws and regulations, we may be required to cease our online games virtual currency/tools trading business, which could adversely affect our business, results of operations or financial condition. In 2019, based on unaudited financial information, our revenue and gross profit would have been RMB200.9 million and RMB164.8 million, excluding any revenue from businesses that require a Games-related ICB license (i.e. our facilitation of games-related virtual goods transactions other than sale of virtual pre-paid cards that do not involve online trading of games virtual currency or tools).

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We could be found in violation of the laws and regulations currently in effect and future laws and regulations due to changes in the relevant authorities' interpretation of these laws and regulations. Non-compliance with applicable regulations or requirements may subject us to investigations, sanctions, fines and other penalties, limitations and restrictions on our business, which could materially adversely affect our business, results of operations or financial condition.

We have a limited operating history in a highly competitive and rapidly evolving market.

We operate in China's virtual goods and services industry, which is highly competitive and rapidly evolving. As our industry and business develop, we may modify our business model, platform or services. These changes may not achieve expected results and may materially adversely affect our financial condition and results of operations.

Our revenue decreased from RMB243.8 million in 2017 to RMB208.9 million in 2018, primarily due to decreases in revenue from the telecommunications and leisure and entertainment segments. See "Financial Information – Period-to-period Comparison of Results of Operations – Year Ended December 31, 2018 compared to Year Ended December 31, 2017" for details.

We may not successfully maintain our growth or profitability rate. Failure to do so may materially adversely affect our business, financial condition, results of operations and prospects.

We may not be able to effectively manage our expansion, control our expenses or implement our business strategies.

We intend to expand our business by implementing the strategies and plans described under "Business – Our Strategies" and "Future Plans and Use of Proceeds". We believe that our expansion will depend on our ability to:

- attract and maintain relationships with platform participants;
- develop new sources of revenue;
- capture growth opportunities in new market segments and geographic markets, including overseas markets;
- improve our operational and financial systems, procedures and controls;
- expand, train, manage and motivate our workforce;
- implement our marketing strategies; and
- compete against our existing and future competitors.

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For example, on June 30, 2020, we formed a company with Guangtou Capital (a state-owned investment company in Guangxi). As of the Latest Practicable Date, we held a 40% equity interest in the company. On July 1, 2020, we also entered into a strategic cooperation framework agreement with Guangtou Capital to explore business opportunities in the virtual goods and services market in Guangxi and Southeast Asia. Please see “History, Reorganization and Corporate Structure – Our Strategic Cooperation with Guangtou Capital and the Incorporation of an Associated Company” and “Business – Our Strategies” for details. Our expansion may divert our management, operational or technological resources from our existing operations. We may not implement our expansion strategies effectively within expected time frames, or at all and may incur significant expenses in doing so. In 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, we incurred depreciation charges of RMB2.2 million, RMB3.6 million, RMB3.6 million, RMB1.0 million and RMB0.8 million and staff costs of RMB55.9 million, RMB70.6 million, RMB73.4 million, RMB13.8 million and RMB16.1 million, in each case respectively. We expect to incur depreciation charges of RMB4.1 million and staff costs of RMB91.6 million in connection with our expansion plans in 2020. Any of the foregoing could materially adversely affect our business, financial condition, results of operations and prospects.

We face risks relating to the outbreak of COVID-19.

Since December 2019, the disease caused by a novel strain of coronavirus, later named COVID-19, has severely impacted China (including Wuhan, Hubei where our headquarters are located) and the rest of the world. On January 30, 2020, the World Health Organization declared that the COVID-19 outbreak constituted a Public Health Emergency of International Concern. In an effort to contain the spread of COVID-19, many countries, including China, have imposed unprecedented restrictions on travel, business closures, quarantines and lock-downs, resulting in a substantial reduction in economic activity. This outbreak has caused, and may continue to cause, an adverse effect on our business and operations.

Our employees worked remotely during the quarantine period imposed by the PRC government. On April 8, 2020, the PRC government lifted the quarantine on travel in and out of Hubei province (including Wuhan). If any of our employees is infected or suspected of being infected with COVID-19, we may need to quarantine our employees and/or disinfect our offices, negatively impacting our business. In addition, our results of operations could be materially adversely affected if a protracted or more widespread epidemic of COVID-19 causes a severe slowdown in the Chinese and global economy.

We face risks relating to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may cause server interruptions, breakdowns, system failures or internet failures. These incidents could cause the loss or corruption of data or malfunctions of software or hardware and adversely affect our ability to provide our services.

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A protracted or more widespread epidemic of communicable disease, such as COVID-19, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu or Severe Acute Respiratory Syndrome, could adversely affect our business. If any of our employees is infected or suspected of being infected with contagious diseases or conditions, we may need to quarantine our employees and/or disinfect our offices, negatively impacting our business. In addition, our results of operations could be adversely affected if these epidemics harm the Chinese economy in general.

Our revenues and financial results may be adversely affected by any economic slowdown in China and globally.

Our revenues and financial results may be impacted to a significant extent by economic conditions in China and globally. The global macroeconomic environment is facing numerous challenges. The growth rate of the Chinese economy has slowed since 2010 and the trend may continue in the future, especially in light of the challenges the global economy is facing due to the COVID-19 outbreak. See “– We face risks relating to the outbreak of COVID-19.” In addition, there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

We operate in a capital intensive industry. Our ability to raise capital may be limited, and our failure to raise capital could prevent us from growing.

Our operations are capital intensive. For example, we generally make prepayments to our customers for virtual goods sold through our platform. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we made prepayments to virtual goods providers of RMB134.9 million, RMB242.5 million, and RMB237.4 million and RMB277.0 million, respectively. See “– Prepayments to virtual goods vendors may adversely affect our liquidity and cash flows and expose us to the credit and performance risks of virtual goods vendors. If we fail to maintain appropriate levels of prepayments in line with the approximate level of demand for virtual goods, our business and operating results could suffer” for details. On the other hand, some virtual goods sales channels (such as e-commerce platforms and online payment platforms) pay us purchase prices of virtual goods (after deducting their commissions) after the completion of virtual goods transactions. See “Business – Our Business Model and Transaction Process – Key Contractual Terms with Our Business Partners” for details. This time lag requires that we maintain certain levels of working capital to fund our operations. We must also invest in

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technology and infrastructure to enhance the functionality and reliability of our platform. We may also require additional cash because of changed business conditions or other developments, including investments or acquisitions we may pursue.

We expect that as our business grows, we will need additional working capital. If we cannot satisfy our cash requirements, we may seek to sell additional equity, equity-linked or debt securities or enter into a credit facility. The sale of additional equity securities could dilute our shareholders. The incurrence of indebtedness would result in increased debt service obligations that could include operating and financing covenants that would restrict our operations. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

Government agencies may modify, suspend, terminate or revoke our licenses, authorizations and permits if we violate relevant laws and regulations. In addition, we may be required to obtain additional licenses or approvals or make additional filings in the future. Failure to obtain, maintain and renew licenses, authorizations and permits to conduct our business could result in fines or other penalties on our operations, which could materially adversely affect our business, financial condition and results of operations.

We may face certain risks in collecting our receivables, and the failure to collect could adversely effect on our business, financial condition and results of operation.

As of December 31, 2017, 2018 and 2019 and March 31, 2020, our trade receivables and contract assets were RMB46.2 million and RMB41.3 million, RMB31.8 million and RMB35.0 million, RMB53.4 million and RMB54.7 million, and RMB74.3 million and RMB42.6 million, in each case respectively. We make provisions for impairment of trade receivables and contract assets when we determine that the chances of recovering the relevant amounts due are remote. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we made provisions for the impairment of trade receivables of RMB0.2 million, RMB1.4 million, RMB2.0 million and RMB2.2 million, respectively. As of the same dates, we made provisions for the impairment of contract assets of RMB6,000, RMB50,000, RMB154,000 and RMB180,000, respectively.

As our business grows, our trade receivables and contract assets balance may grow, which may increase our risks for uncollectible receivables. Actual losses on receivables balance could differ from those that we anticipate and exceed reserves in our allowance for doubtful accounts. As a result, we might need to adjust our allowance. Macroeconomic conditions could also result in financial difficulties for our customers, including limited access to the credit markets, insolvency or bankruptcy, and as a result could cause clients to delay payments to us, request modifications to their payment arrangements or default on their payment obligations to us. If we are unable to collect our trade receivables and contract assets from our customers, our business, financial condition and results of operation may be materially and adversely affected.

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Improper access to, use or disclosure of data could harm our reputation and adversely affect our business.

Our platform generates and processes a large quantity of data. As a result, we face risks inherent in accessing and handling large volumes of data, including those associated with:

- protecting the data hosted on our technology systems, including against attacks on our systems by outside parties or employee error or malfeasance;
- addressing concerns related to data privacy, sharing and security; and
- complying with laws, rules and regulations governing the use and disclosure of personal information.

Cybersecurity and data privacy and security issues have become subject to increasing legislative and regulatory focus in China. For example, on May 28, 2019, the Cyberspace Administration of China promulgated the Consultation draft of the new Measures for Data Security Management (《數據安全管理辦法(徵求意見稿)》) (the “**Consultation Draft**”) regarding the protection of important data and personal information. On July 3, 2020, the SCNPC promulgated the Data Security law (Draft) (《數據安全法(草案)》) (the “**Draft**”). The Draft reiterated that entities and individuals must obtain a license to engage in data processing activities. As of the Latest Practicable Date, the contents of the Consultation Draft and the Draft were still under discussion and it remained uncertain 1) if and when the Consultation Draft and the Draft will be promulgated, and 2) if the Consultation Draft and the Draft, once promulgated, will stipulate additional data security protection obligations. In addition, many of the existing laws and regulations are subject to frequent modification and differing interpretations. Complying with these evolving regulatory requirements could require significant expense and effort and require us to change our business practices and data privacy and security policies in a manner adverse to our platform participants and business. Failure to comply with existing or future cybersecurity and data privacy and security laws and regulations could result in litigation, fines, penalties, regulatory enforcement actions and reputational harm. Any of the foregoing could and materially adversely affect our business, financial condition and results of operations.

Changes in our platform participants’ expectations and requirements regarding privacy and data protection could restrict our ability to collect and use information collected on our platform, which in turn could harm our ability to serve platform participants. Any of the foregoing could materially adversely affect our business, reputation or financial results.

We have limited ability to protect and defend our intellectual property rights, and unauthorized parties may infringe upon or misappropriate our intellectual property, which could harm our business and competitive position.

Our success depends on our ability to protect our proprietary technology. We have developed know-how and technologies in the provision of our services and solutions.

RISK FACTORS

We cannot protect our intellectual property if we cannot enforce our rights or detect unauthorized use of our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology and adversely affect our business.

We rely on copyrights, trademarks, domain names, trade secret laws, confidentiality procedures and contractual restrictions to establish and protect our proprietary rights. However, the steps we take to protect our intellectual property may be inadequate.

Any patents, trademarks or other intellectual property rights that we obtain may be challenged by others or invalidated through administrative processes or litigation. We enter into confidentiality agreements with our employees. These agreements might not provide adequate protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. If any of our trade secrets, know-how or other proprietary information is disclosed, the value of our trade secrets, know-how and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights remain uncertain. Legal protections provided by intellectual property rights and legal procedures for enforcement of intellectual property rights may be inadequate in China. Accordingly, despite our efforts, we may not prevent third parties from infringing upon or misappropriating our intellectual property.

We may expend significant resources in monitoring and protecting our intellectual property rights. We may also pursue litigation to protect our intellectual property rights and protect our trade secrets. Litigation to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management. Litigation could also result in the impairment or loss of portions of our intellectual property.

Our efforts to enforce our intellectual property rights may face defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could:

- impair the functionality of our services and solutions;
- delay introductions of new services or solutions;
- result in our substituting less effective or more costly technologies into our solutions; or
- injure our reputation.

RISK FACTORS

We may be subject to third-party claims of intellectual property infringement.

Considerable patent, copyright, trademark, trade secret and other intellectual property development activities occur in our industry. Our success depends in part on not infringing on the intellectual property rights of others.

Our competitors or other third parties may claim that we are infringing upon their intellectual property rights. Any claims or litigation, regardless of merit, could cause us to incur significant expenses. If successfully asserted against us, these claims could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our solutions or require that we comply with other unfavorable terms.

Even if the claims do not result in litigation or resolve in our favor, these claims, and the time and resources spent in resolving them, could divert management resources and adversely affect our business and operating results. We expect that infringement claims will increase as the market grows. Accordingly, our exposure to damages resulting from infringement claims could increase and divert our financial and management resources.

Any significant disruption in our technology systems, including events beyond our control, could prevent us from offering our services or reduce their attractiveness and result in a loss of our platform participants.

The performance, reliability and availability of our platform and underlying technology infrastructure are critical to our operations, reputation and our ability to attract and retain platform participants. A system outage, malfunction or data loss could hamper our ability to provide services.

Third-party cloud providers host our websites and supporting services. Our operations depend on the service providers' ability to protect our systems and their own systems against damage or interruption from natural disasters, power or telecommunications failures, environmental conditions, computer viruses or attempts to harm our systems, criminal acts and similar events. Many of these factors remain beyond our control.

If our arrangements with these service providers terminate or if the services are no longer cost-effective, we could experience interruptions in our solutions and services, delays and additional expense to serve platform participants. Our ability to exchange information with virtual goods vendors and other platform participants could also face interruptions.

Any interruptions or delays in our technology systems or services, whether as a result of third-party errors, our errors, natural disasters or security breaches, whether accidental or willful, could harm our relationships with consumers and virtual goods vendors and other platform participants and our reputation. We may not have sufficient capacity to recover all data and services lost in the event of an outage.

RISK FACTORS

These factors could:

- prevent us from providing virtual goods and services;
- damage our brand and reputation;
- divert our employees' attention;
- reduce our revenue;
- subject us to liability; and
- cause consumers and virtual goods vendors and other platform participants to abandon our solutions and services.

Any of the foregoing could adversely affect our business, financial condition and results of operations.

Our operations depend on the performance of the internet infrastructure and fixed telecommunications networks and cloud services in China.

Substantially all access to the internet in China is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the MIIT. Third-party cloud providers host our websites and supporting services. These service providers may have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or fixed telecommunications networks.

As our business expands, we may need to upgrade our technology and infrastructure to handle the increasing number and variety of transactions on our platform. Our technology systems and the underlying internet infrastructure and fixed telecommunications networks in China may not support the continued growth in internet usage.

We do not control the costs of the services provided by telecommunications service providers, which may affect the cost of data center services. If the prices we pay for data center services rise significantly, our results of operations may be adversely affected.

Misconduct or other improper activities by our employees, platform participants, business partners and other third parties could harm our business and reputation.

Our employees, platform participants, business partners and other third parties may engage in misconduct or other illegal or improper activities, which could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct could include unauthorized activities resulting in unknown risks or losses, improper use of confidential or privacy information or fraudulent and other illegal or improper activities. The precautions we

RISK FACTORS

take to prevent and detect these activities may not be effective, since our internal controls are subject to inherent limitations, including human error, and could be circumvented or become inadequate because of changed conditions.

Misconduct or other improper activities by our employees, platform participants, business partners and other third parties could damage our brand and reputation, subject us to claims or potential lawsuits, discourage platform participants from using our services and require us to take additional steps to reduce improper and illegal activities on our platform. These steps could significantly increase our costs and reduce our profitability. Any of the foregoing could materially adversely affect our business, financial condition and results of operations.

If we fail to develop and maintain our brand, we may not attract sufficient platform participants to grow our business.

Maintaining and enhancing our brand is critical to expanding our business. Maintaining and enhancing our brand largely depend on providing useful, reliable and innovative services and we may not do so successfully.

We may introduce new services or terms of service that our platform participants do not like, which may negatively affect our brand. We may also fail to provide adequate customer service, which could erode confidence in our brand. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business and financial results may be adversely affected.

We had negative net cash flows from operating activities in 2017 and the three months ended March 31, 2020. If we have negative operating cash flows in the future, our liquidity and financial condition may be materially adversely affected.

We had negative net cash flows from operating activities of RMB23.5 million 2017 and RMB11.1 million in the three months ended March 31, 2020, which primarily resulted from increases in prepayments and other receivables and other assets and trade receivables and contract assets, primarily reflecting the growth of business. We cannot assure you that we can generate positive cash flows from operating activities.

Negative cash flows may materially adversely affect our liquidity and financial condition. We cannot assure you that we will have sufficient cash from other sources to fund our operations. If we use other financing activities to generate additional cash, we will incur financing costs and we cannot guarantee that we can obtain financing on terms favorable to us, or at all.

RISK FACTORS

We may acquire other companies or assets, which could divert our management’s attention, disrupt our operations and harm our operating results.

We may acquire assets, technologies or businesses complementary to our business. In addition to possible shareholder approval, we may have to obtain approvals and licenses from government authorities for the acquisitions. These approvals and licenses could result in delays and increased costs, and may derail our business strategy if we fail to obtain them.

Acquisitions and the integration of new assets and businesses into our own require significant attention from management. Acquisitions could divert resources from our existing business, which could adversely affect our operations.

Acquired assets or businesses may not generate the financial results we expect. Acquisitions could require substantial amounts of cash, potentially dilutive issuances of equity securities, goodwill impairment charges, amortization expenses for other intangible assets and exposure to unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant.

We have received government grants in the past, but such grants may not be available in the future.

We have in the past, and may continue in the future to, receive government grants for research and development activities and other business initiatives. In 2017, 2018, 2019 and the three months ended March 31, 2020, we received government grants of RMB1.0 million, RMB3.7 million and RMB7.5 million and RMB2.1 million, respectively. Please see “Financial Information – Description of Major Components of Our Results of Operations – Other income and gains”.

Our ability to obtain grants or incentives from government entities is subject to the availability of funds under applicable government programs and approval of our applications to participate in such programs. The application process for these grants and other incentives is highly competitive. We may not be successful in obtaining any additional grants or other incentives. If we do not receive additional government grants in the future, we will lose a potential source of income.

We have incurred and may continue to incur substantial share-based compensation expenses. The issuance of share-based payment awards may cause dilution to our existing stockholders and may affect the market price of our Shares.

In 2017, 2018, 2019 and the three months ended March 31, 2020, we recognized share-based payment expenses of RMB10.3 million, RMB13.5 million and RMB19.9 million and nil in connection with (1) our grant of shares of a subsidiary to key employees without vesting conditions and (2) the purchase of shares of a subsidiary by key employees at a price lower than fair value in 2018 and 2019.

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We have not established an employee incentive scheme and only granted shares to our key employees on a case-by-case basis during the Track Record Period. We may adopt a formal employee incentive scheme in the future, under which we may issue options and shares to our Directors, senior management and key employees to incentivize their performance and align their interests with ours. As a result, we may incur share-based compensation expenses, which could have a material adverse effect on our net profits. Furthermore, the grant of share-based compensation will result in an immediate and potentially substantial dilution to our existing Shareholders and could result in a decline in the value of our Shares.

Impairment losses relating to goodwill and other intangible assets could materially affect our profits.

As of December 31, 2017, 2018 and 2019 and March 31, 2020, we had goodwill and other intangible assets of RMB674,000 and RMB22,000, RMB674,000 and RMB845,000, RMB674,000 and RMB5.8 million, and RMB674,000 and RMB5.7 million, in each case respectively.

There are inherent uncertainties in the estimates, judgments and assumptions used in assessing recoverability of goodwill and intangible assets. Economic, legal, regulatory, competitive, reputational, contractual, and other factors could result in future declines in the operating results of our business or market values that do not support the carrying value of the goodwill and other intangible assets. Any reduction in or impairment of the value of goodwill or intangible assets will result in a charge against our profits, which could have a material adverse impact on our results of operations and financial condition.

Our business fluctuates seasonally.

Our revenue and results of operations could vary significantly from period to period and may fail to match expectations as a result of a variety of factors, some of which remain outside our control. Our results may vary as a result of fluctuations in the number of consumers and virtual goods vendors using our platform and seasonal promotions offered by virtual goods vendors and virtual goods sales channels. In addition, the virtual goods industry is subject to cyclical trends and uncertainties.

Our results of operations are typically better during virtual goods vendors' promotional periods, particularly during the "Double Eleven" and "Double Twelve" Shopping Festivals and the Chinese New Year holiday in China. Accordingly, we typically generate more revenue when virtual goods vendors conduct promotional activities each year.

These fluctuations are likely to continue and operating results for any period may not be indicative of our performance in any future period. In addition, our liquidity may suffer during periods in which receive lower cash flows. If our operating results for any quarterly period fall below investor expectations or estimates by securities research analysts, the trading price of our Shares may decline.

RISK FACTORS

Our success depends on our ability to retain our senior management and other key personnel, and our operations may suffer if we fail to attract and retain highly competent senior management.

Our success and future growth depend largely upon the continued services of our executive officers and other key employees in research and development, marketing, sales, services and other functions. The loss of one or more of our executive officers, particularly our co-founder, chief executive officer and chairman, Mr. Fu Xi, or the failure of our executive team to work with our employees and lead our Company effectively, could adversely affect our business.

We must also attract and retain highly qualified personnel to execute our growth plan. Competition for these personnel is fierce. We have from time to time experienced difficulty in hiring and retaining employees with appropriate qualifications.

Many of our competitors are larger and have more resources to attract qualified personnel. If we hire employees from competitors or other companies, their former employers may assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources.

Prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines or experiences significant volatility, it may be more difficult to recruit and retain key employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

Our leased property interests may be defective and our rights to use the leased properties affected by such defects may be challenged, which could disrupt our operations.

As of March 31, 2020, we leased 17 properties with a total GFA of approximately 4,736.66 square meters, which we primarily used for office space. We may need to relocate for a number of reasons. For example, we may not be able to renew our leases, and may move to more premium locations or relocate our operations due to PRC laws and regulations. We may not be able to locate desirable alternative sites for our offices under favorable terms.

We have not received from lessors of 5 leased properties copies of title certificates or proof of authorization to lease the properties to us, representing approximately 5.90% of the total GFA of our leased properties. If these lessors are not the legal owners of the leased properties and have not been duly authorized by the legal owners of the leased properties to lease the properties to us, the relevant lease agreements may be deemed invalid. As a result, we may face challenges from the legal owners of the properties or other third parties and be forced to vacate the relevant properties and seek other office premises. In addition, we have not registered our lease agreements with relevant government authorities as required by PRC law.

RISK FACTORS

Our PRC Legal Advisor has advised us that we may be imposed a maximum penalty of RMB190,000 for non-registration of our lease agreements. Please see “Business – Properties – Leased Properties” for more details.

If any of our leases terminates as a result of challenges by third parties or governmental authorities due to lack of title certificates or proof of authorization to lease, we may relocate the affected offices and incur additional expenses. We could also face penalties or other disciplinary actions for failure to register leases and other past and future non-compliance with PRC property laws.

Litigation could distract management, increase our expenses or subject us to material money damages and other remedies.

From time to time we may be party to litigation and other legal proceedings commenced by or against us. The outcome of any legal proceeding is uncertain.

If any legal proceeding resulted in an unfavorable outcome, it could materially adversely affect our business, financial position and results of operations. Even if we successfully defend ourselves, we may incur substantial costs, time and efforts to defend against legal actions. In addition, any adverse publicity resulting from actual or potential litigation may adversely affect our reputation, which in turn could harm our business.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

PRC laws and regulations require us to participate in various government sponsored employee benefit plans. These benefit plans include social insurance, housing provident fund and other welfare-oriented payment obligations. According to applicable PRC laws and regulations, employers must open social insurance registration accounts and housing provident fund accounts and pay social insurance premiums and housing provident fund contributions for employees. PRC laws require that we contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to maximum amounts specified by the local government at locations where we operate our business. Local governments in China have not consistently implemented requirements regarding employee benefit plans.

During the Track Record Period, due to our unfamiliarity with the local regulations and practices, we failed to make full contributions to social insurance plans and housing provident fund for our employees based on the actual wages of employees, which we were required to make under PRC regulations. We had accrued provisions of RMB6.1 million for the unpaid contributions to social insurance plans and RMB1.9 million for unpaid contributions to housing provident funds as of December 31, 2019.

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According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), we may be required to pay all outstanding social insurance contributions within a prescribed time limit, plus a late fee at a daily rate of 0.05% of the outstanding amount, accruing from the date when the social insurance contributions were due. If we fail to make such payment within the prescribed time, we may be subject to an additional fine ranging from one to three times of the total outstanding balance. In addition, according to the Regulations Concerning the Administration of Housing Provident Fund (住房公積金管理條例), we may be ordered to pay the outstanding balance within a prescribed time, and if we fail to do so, the local housing provident fund management centers may make an application for compulsory enforcement to the People's Court of the PRC.

In addition, some of our PRC subsidiaries make contributions to social insurance plans and housing provident funds through third-party human resource agencies. We may be subject to penalties of up to RMB50,000 for these subsidiaries' failure to open or register accounts with local social insurance authorities and local housing fund management centers to pay contributions to social insurance and housing provident funds. Some of these subsidiaries make social insurance and housing provident contributions through non-local third party human resource agents to regulatory authorities where these third party human resource agents are located. If the human resource agencies fail to pay the social insurance premiums or housing fund contributions for and on behalf of our employees as required under applicable PRC laws and regulations, we may be subject to penalties imposed by local social insurance authorities and local housing provident fund management centers for failing to discharge our obligations in relation to payment of social insurance premiums and housing provident fund contributions as an employer.

On 20 July 2018, the General Office of the Communist Party of China Central Committee and the General Office of the State Council issued the Reform Plan on Collection and Management of National Tax and Local Tax. According to the plan, starting January 1, 2019, local tax authorities will be responsible for collecting social insurance contributions. Given the recent implementation of the plan, certain aspects of the interpretation and implementation of the plan remain uncertain. We could be subject to stricter regulatory requirements relating to employee benefit plans, which could adversely affect our business and results of operations.

We may not fully recover our deferred tax assets, which may affect our financial positions in the future.

As of December 31, 2017, 2018 and 2019 and March 31, 2020, our deferred tax assets amounted to approximately RMB4.0 million, RMB3.9 million, RMB4.0 million and RMB4.1 million, respectively. Please see Note 18 to the Accountants' Report in Appendix I to this prospectus for the movements of our deferred tax assets during the Track Record Period.

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Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant judgment on the tax treatments of certain transactions and an assessment of the probability that adequate future taxable profits will be available for the deferred tax assets to be utilized. We cannot guarantee we can recover or predict the movement of our deferred tax assets. Failure to recover deferred tax assets may adversely affect our financial position in the future.

Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional compliance obligations and costs. The Contractual Arrangements between our WFOE and our PRC Holdcos may subject us to increased income tax due to the different income tax rates applicable to our WFOE and our PRC Holdcos. We have received government grants in the past, but such grants may not be available in the future.

During the Track Record Period, we enjoyed certain preferential tax treatments in China, including “High-and-New-Technology Enterprise” and “Key Software Enterprise” preferential tax treatment. One of our PRC Holdcos and some subsidiaries of our PRC Holdco also enjoyed reduced income tax rates or tax exemptions because they are incorporated in China’s western development zone or operate in encouraged industries in Kashgar or Tibet. Because of an increase in profit contributed by subsidiaries that enjoyed preferential tax treatment, our effective income tax rate decreased from 16.9% in 2017 to 8.2% in 2018 and 5.5% in 2019 and from 10.2% in the three months ended March 31, 2019 to 2.9% in the same period in 2020. Please see “Financial Information – Description of Major Components of Our Results of Operations – Income Tax”. In order to retain the preferential tax rates, we must meet certain operating conditions, businesses location requirements and maintain certain research expenditures.

In addition, under the Contractual Arrangements, our PRC Holdcos may be required to pay our WFOE service fees equal to 100% of their consolidated profits (after deducting certain accumulated deficits, reasonable operating profits, operating costs, expenses, taxes and other statutory contributions). Our WFOE is subject to a statutory enterprise income tax rate of 25%. Because our WFOE is subject to a higher income tax rate than our PRC Holdcos, the transfer of profits by our PRC Holdcos to our WFOE could increase our income tax expenses, which may materially and adversely affect our results of operations.

We have in the past, and may continue in the future to, receive government grants for research and development activities and other business initiatives. Please see “Financial Information – Description of Major Components of Our Results of Operations – Other income and gains”. Our ability to obtain grants or incentives from government entities is subject to the availability of funds under applicable government programs and approval of our applications to participate in such programs. The application process for these grants and other incentives is highly competitive. We may not be successful in obtaining any additional grants or other incentives. If we do not receive additional government grants in the future, we will lose a potential source of income.

RISK FACTORS

The preferential tax rates that we enjoy are subject to review by the PRC government authorities and could be modified or discontinued altogether at any time. Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could materially increase our effective tax rate, decrease our net income and materially adversely affect our financial condition and results of operations.

We may not have sufficient insurance coverage.

We do not maintain property insurance or business interruption insurance, nor do we maintain product liability insurance or key-man life insurance. Any business disruption or litigation, or any liability or damage to, or caused by, our facilities or our personnel beyond our insurance coverage may result in substantial costs and may divert our resources.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC government determines that the contractual arrangements in relation to our business do not comply with PRC regulatory restrictions on foreign investment in certain industries, or if these regulations or the way they are interpreted change, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

The PRC government regulates value-added telecommunications and internet culture businesses through strict business licensing requirements and other government regulations. These laws and regulations include prohibitions on foreign ownership in PRC companies that engage in internet culture business (excluding music) and limitations on foreign ownership of PRC companies that engage in value-added telecommunications-related businesses.

Foreign investors generally may not own more than a 50% equity interest in any PRC company engaging in value-added telecommunications businesses (excluding e-commerce services, domestic multi-party communication services, storage and forwarding services and call center services). The primary foreign investor must also have experience and a good track record in providing value-added telecommunications services, or VATS, overseas.

Because we are an exempted company incorporated in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiary, Fulu Technology, is a foreign-invested enterprise, or an FIE. To comply with PRC laws and regulations, we conduct our business in China through Wuhan Fulu and Kashgar Yiqiwan, or PRC Holdcos, and their subsidiaries. Fulu Technology has entered into a series of contractual arrangements with PRC Holdcos and/or their respective registered shareholders. For a description of these contractual arrangements, see “Contractual Arrangements – Our Contractual Arrangements – Summary of the Material Terms under the Contractual Arrangements”.

We believe that our corporate structure and contractual arrangements comply with PRC laws and regulations. Based on its understanding of the relevant laws and regulations, our PRC legal counsel, CM Law Firm, is of the opinion that except for certain clauses regarding the

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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 and liquidation arrangements of our Consolidated Affiliated Entities, the Contractual Agreements, taken individually or collectively, are valid, legally binding and enforceable against each party of such agreements in accordance with their terms.

However, substantial uncertainties remain regarding the interpretation and application of PRC laws and regulations. PRC government authorities may not agree that our corporate structure or any of the foregoing contractual arrangements comply with PRC licensing, registration or other regulatory requirements or policies.

If regulators or any judgement deem our corporate structure and contractual arrangements to be illegal, either in whole or in part, we may lose control of our PRC Holdcos and their subsidiaries. We have to modify our corporate structure to comply with regulatory requirements. We may not be able to achieve this without materially disrupting our business.

If our corporate structure and contractual arrangements violate existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- shutting down our servers or blocking our websites;
- requiring us to change our corporate structure and contractual arrangements;
- restricting our right to collect revenue;
- restricting or prohibiting our use of the proceeds from overseas offering to finance operations of the PRC Holdcos and their subsidiaries; and
- taking other regulatory or enforcement actions that could harm our business.

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New PRC laws, rules and regulations may impose additional requirements on our corporate structure and contractual arrangements, which could materially adversely affect our business, financial condition and results of operations. If any of these penalties or requirements causes us to lose the rights to direct the activities of the PRC Holdcos and their subsidiaries or our right to receive their economic benefits, we will no longer be able to consolidate their financial results in our consolidated financial statements.

We rely on contractual arrangements with our PRC Holdcos and their equity holders to operate our business, which may not be as effective as direct ownership in providing operational control.

We rely on contractual arrangements with our PRC Holdcos and their equity holders to operate our business. These contractual arrangements may not be as effective as direct ownership in providing us with control over our PRC Holdcos.

Because we do not have a direct ownership interest in our PRC Holdcos, we exercise control by relying on the performance by our PRC Holdcos and their equity holders of their respective obligations under our contractual arrangements with them. The equity holders of our PRC Holdcos may not act in our best interests or otherwise fail to perform their contractual obligations.

We may replace the equity holders of our PRC Holdcos pursuant to our contracts with our PRC Holdcos and their equity holders. However, if any dispute relating to these contracts or the replacement of our PRC Holdcos' equity holders remains unresolved, we must enforce our rights under these contracts under PRC laws and be subject to uncertainties in the PRC legal system.

Our contractual arrangements with our PRC Holdcos may result in adverse tax consequences to us.

We could face material and adverse tax consequences if PRC tax authorities determine that our contractual arrangements with our PRC Holdcos were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment.

A transfer pricing adjustment could adversely affect us by:

- increasing the tax liabilities of our PRC Holdcos without reducing the tax liability of our PRC subsidiary, which could result in late payment fees and other penalties to our PRC Holdcos for underpaid taxes; or
- limiting our PRC Holdcos' ability to obtain or maintain preferential tax treatments and other financial incentives.

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The equity holders of our PRC Holdcos may have potential conflicts of interest with us, which may materially adversely affect our business and financial condition.

The interests of the equity holders of our PRC Holdcos may differ from the interests of our Company as a whole. When conflicts of interest arise, these individuals may not act in the best interests of our Company and any conflicts of interest may not resolve in our favor. In addition, these individuals may breach or cause our PRC Holdcos and their subsidiaries to breach or refuse to renew existing contractual arrangements with us.

We rely on these equity holders to abide by the laws of the Cayman Islands and China. These laws provide that directors owe a fiduciary duty to the company to act in good faith and in the best interests of the company and not to use their respective positions for personal gain.

However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflict of interest or dispute between us and the equity holders of our PRC Holdcos, we will likely rely on legal proceedings, which could disrupt our business and subject us to substantial uncertainty as to the outcome of such proceedings.

Any failure by our PRC Holdcos or their shareholders to perform their obligations under contractual arrangements with us would materially adversely affect our business, financial condition and results of operations.

If our PRC Holdcos or their shareholders fail to perform their respective obligations under their contractual arrangements with us, we may incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages. Such remedies may not be effective.

Our contracts with our PRC Holdcos and their shareholders are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law, and any disputes arising from these contracts would be resolved in accordance with PRC legal procedures.

The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. Please see “– Risks Relating to Doing Business in China – Uncertainties in the interpretation and enforcement of PRC laws, rules and regulations could materially adversely affect our business” for more details.

Uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. If we cannot enforce these contracts, or suffer significant delays or other obstacles in enforcing these contracts, we may not be able to exert effective control over our PRC Holdcos. As a result, our ability to conduct our business and our financial condition and results of operations may be materially adversely affected.

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We face uncertainties with respect to the implementation of the Foreign Investment Law.

On March 15, 2019, the National People's Congress published the Foreign Investment Law, which became effective on January 1, 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Foreign Owned Enterprise Law to become the legal foundation for foreign investment in the PRC. Although the Foreign Investment Law stipulates three forms of foreign investment, it does not explicitly stipulate the contractual arrangements as a form of foreign investment.

The Foreign Investment Law stipulates that the concept of a foreign investment includes foreign investors investing in China through “any other methods” under laws, administrative regulations, or provisions prescribed by the State Council. Future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time the contractual arrangements may be deemed to violate foreign investment access requirements and the interpretation of the above-mentioned contractual arrangements.

Changes in PRC laws and regulations could materially adversely affect the contractual arrangements and our business. If future laws, administrative regulations or provisions prescribed by the State Council mandate further actions by companies with existing contractual arrangements, we may face substantial uncertainties as to the timely completion of such actions. We could potentially be required to unwind the contractual arrangements and/or dispose of our business, which could materially adversely affect our business, financial condition and results of operations.

We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business if any of our Consolidated Affiliated Entities declares bankruptcy or becomes subject to a dissolution or liquidation proceedings.

Our Consolidated Affiliated Entities hold assets that are material to the operation of our business, including licenses and permits, domain names and intellectual property rights, among others. If any of our Consolidated Affiliated Entities goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations.

Under the Contractual Arrangements, the Consolidated Affiliated Entities may not enter into any transaction, except in the ordinary course of business, which affect their assets, obligations, rights or operation without prior written consent from the WFOE. If any of such Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, the independent third-party creditors or its shareholders may claim rights to some or all of these assets, hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

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We are subject us to certain limitations and may incur substantial costs if we exercise the option to acquire equity ownership of the PRC Holdcos.

As part of the contractual arrangements among Fulu Technology, the PRC Holdcos and/or the respective registered shareholders of the PRC Holdcos, the WFOE or its designated person(s) have exclusive right to purchase from the shareholders of Wuhan Fulu and Kashgar Yiqiwan all or part of their equity interests in Wuhan Fulu or Kashgar Yiqiwan at a nominal price or the lowest price permitted by applicable PRC laws. The WFOE or its designated person(s) also have the exclusive right to purchase all or any part of the assets in Wuhan Fulu or Kashgar Yiqiwan at the lowest price permitted by applicable PRC laws. See “Contractual Arrangements – Exclusive Option Agreements” for details.

Equity interest transfers from the shareholders of Wuhan Fulu and Kashgar Yiqiwan to the WFOE or its designated person(s) are subject to approval by, filings with or reporting to the MOFCOM, the MIIT, the SAIC and/or their local counterparts. If such transfer takes place, the competent tax authorities may review and adjust the transfer price, and Wuhan Fulu and Kashgar Yiqiwan could be subject to substantial enterprise income tax on the consideration they receive from the ownership transfer.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in economic and political policies of the PRC government could negatively impact China’s overall economic growth, which could materially adversely affect our business.

We conduct substantially all of our operations in China. Accordingly, our business, financial condition, results of operations and prospects depend significantly on economic developments in China. China’s economy differs from the economies of most other countries in many respects, including the amount of government involvement in the economy, the general level of economic development, growth rates and government control of foreign exchange and the allocation of resources.

While the PRC economy has grown significantly over the past few decades, this growth has remained uneven across different periods, regions and economic sectors. The PRC government also exercises significant control over China’s economic growth by allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any actions and policies adopted by the PRC government could negatively impact the Chinese economy, which could materially adversely affect our business.

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Uncertainties in the interpretation and enforcement of PRC laws, rules and regulations could materially adversely affect our business.

The PRC legal system is based on written statutes. Unlike under common law systems, decided legal cases retain little value as precedents in subsequent legal proceedings. In 1979, the PRC government began to publish a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular.

These laws, regulations and legal requirements are relatively new and often change, and their interpretation and enforcement may raise uncertainties that could limit the reliability of the legal protections available to us. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the violation occurs.

We cannot predict future developments in the PRC legal system. For example, in May 2019, the General Office of the MCT released the Notice on Adjusting the Scope of Examination and Approval regarding the <Internet Culture Operation License> to Further Regulate the Approval Work (《關於調整<網絡文化經營許可證>審批範圍進一步規範審批工作的通知》), which stated that MCT is no longer responsible for regulating the online games industry. As of the Latest Practicable Date, the PRC government had not enacted laws, regulations or official guidelines to designate any government authorities to regulate the online games industry. We may need to procure additional permits, authorizations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorizations may materially adversely affect our business, financial condition and results of operations.

Administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities retain significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce contracts and could materially adversely affect our business, financial condition and results of operations.

We may be required to obtain prior approval of the CSRC, before the Listing and trading our Shares on the Hong Kong Stock Exchange.

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the State Administration of Foreign Exchange, or SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. The New M&A Rules require an

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offshore special purpose vehicle formed for purposes of overseas listing and controlled directly or indirectly by PRC companies or individuals to obtain CSRC approval prior to listing and trading its securities on an overseas stock exchange.

In September 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by a special purpose vehicle seeking approval of its overseas listing. The interpretation and application of the New M&A Rules remains unclear.

As a result, we did not seek prior CSRC approval for this offering. However, PRC government authorities, including the CSRC, may not reach the same conclusion as our PRC legal counsel. If the CSRC or other PRC government authorities determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities.

These regulatory authorities may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC, or take other actions that could materially adversely affect our business or the trading price of our Shares.

The CSRC or other PRC regulatory authorities may also require us, or make it advisable for us, to halt this offering before settlement and delivery of Shares offered under this prospectus. If you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

The New M&A Rules imposed additional procedures and requirements on M&A transactions by foreign investors in China, which are expected to make such transactions more time-consuming and complex. Please see “Regulatory Overview” for more details.

We may grow our business by acquiring other companies operating in our industry. Complying with the requirements of the New M&A Rules may inhibit our ability to conduct M&A transactions in China, which could in turn affect our ability to expand our business and maintain our market share.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary or limit our PRC subsidiary’s ability to increase its registered capital or distribute profits.

In recent years, the SAFE promulgated a series of regulations which require PRC residents corporate entities to register with and obtain approval from local branches of the SAFE in connection with direct or indirect offshore investment activities. On July 4, 2014, SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or Circular 37. Circular 37 replaced the Notice on Issues Relating

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to the Administration of Foreign Exchange in Fund-Raising and Reverse Investment Activities of Domestic Residents Conducted Through Offshore Special Purpose Companies, or Notice 75, which became effective on November 1, 2005.

Circular 37 stipulates that prior to establishing or assuming control of an offshore company, or an Offshore SPV, for financing that Offshore SPV with assets of, or equity interests in, an enterprise in the PRC, each PRC resident (whether a natural or legal person) who is a beneficial owner of the Offshore SPV must complete prescribed registration procedures with the local branch of SAFE. Pursuant to Circular 37, PRC residents must amend their SAFE registrations under certain circumstances, including upon any injection of equity interests in, or assets of, a PRC enterprise to the Offshore SPV or upon any material change in the capital of the Offshore SPV (including a transfer or swap of shares, merger or division).

On February 13, 2015, SAFE issued the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment, or Notice 13. Notice 13 states that local PRC banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, from June 1, 2015. However, since the notice came into force in recent years, substantial uncertainties remain with respect to its interpretation and implementation by governmental authorities and banks.

On December 26, 2017, the NDRC issued the Measures for the Administration of Overseas Investment of Enterprises, or Measures 11, which became effective from March 1, 2018. Measures 11 states that PRC residents (whether natural or legal persons) must obtain approval from the NDRC or file with the NDRC their offshore investments made through offshore entities controlled by the PRC resident. Measures 11 apply to offshore entities controlled by our Shareholders who are PRC residents and may apply to our future overseas acquisitions.

We may not be aware of the identities of all our beneficial owners who are PRC residents. We do not control our beneficial owners and cannot guarantee that all of beneficial owners who are PRC residents will comply with the requirements under Circular 37 or related SAFE rules or Measures 11, or other outbound investment related regulations.

If any of our beneficial owners who are PRC residents fails to comply with Circular 37 or related SAFE rules or other outbound investment related regulations, our PRC subsidiary could be subject to fines and legal penalties. Failure to comply with Circular 37 or related SAFE rules or other outbound investment related regulations could be deemed as evasion of foreign exchange controls and subject us to liability under PRC laws. As a result, SAFE could restrict our foreign exchange activities, including dividends and other distributions made by our PRC subsidiary to us and our capital contributions to our PRC subsidiary.

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If any of our beneficial owners who are PRC residents fails to comply with Measures 11, the investments of such beneficial owners in us could be subject to suspension or termination, while our beneficial owners could be subject to warnings or applicable criminal liabilities. Any of the foregoing could materially adversely affect our operations, acquisition opportunities and financing alternatives.

We may rely on dividends and other distributions from our PRC subsidiary to fund our cash and financing requirements, and any limitation on the ability of our PRC subsidiary to make payments to us could materially adversely affect our ability to conduct our business.

As an offshore holding company, we will rely principally on dividends from our subsidiary in China for our cash requirements, including to pay dividends, make other distributions to our Shareholders or service our debt. PRC regulations permit our PRC subsidiary to pay dividends to us only out of its accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations.

In addition, a wholly foreign-owned enterprise must set aside at least 10% of the accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. A wholly foreign-owned enterprise may, at its discretion, allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These funds are not distributable as cash dividends.

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

Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE if certain procedural requirements are fulfilled. Therefore, our PRC subsidiary may pay dividends in foreign currencies to non-PRC shareholders without prior approval from SAFE, subject to the condition that the remittance of such dividends outside the PRC complies with certain procedures under PRC foreign exchange regulations, such as the overseas investment registrations by the beneficial owners of our Company who are PRC residents. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In response to the persistent capital outflow and depreciation of Renminbi against U.S. dollar, in the fourth quarter of 2016, the PBOC and SAFE implemented a series of capital control measures, including more tightened vetting procedures for PRC enterprises to remit

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foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. The PRC government may strengthen capital controls and our PRC subsidiary's dividends and other distributions may be subject to more tightened scrutiny in the future. Any limitation on the ability of our PRC subsidiary to pay dividends or make other distributions to us could materially adversely affect our ability to fund our investments, acquisitions and operations and pay dividends.

We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and therefore be subject to PRC income tax on our global income.

Under the PRC Enterprise Income Tax Law and its implementing rules (as amended), an enterprise established outside the PRC with a “de facto management body” in the PRC is considered a resident enterprise and will be subject to a 25% enterprise income tax on its global income. The implementation rules define the term “de facto management body” as an establishment that carries out substantial and overall management and control over the manufacturing and operations, personnel, accounting and properties of an enterprise.

The State Administration of Taxation has issued guidance, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those, such as us, controlled by foreign enterprises or individuals.

However, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation's general position on how the “de facto management body” test should determine the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises. We may be considered a PRC tax resident under the new tax law and become subject to the uniform 25% enterprise income tax on our global income, which could materially adversely affect our results of operations.

Dividends payable to our foreign investors and gains on the sale of our Shares by our foreign investors may become subject to PRC tax law.

Under the PRC Enterprise Income Tax Law and its implementing rules, in general, a 10% PRC withholding tax is applicable to dividends payable to investors that are non-resident enterprises that:

- do not have an establishment or place of business in the PRC; or
- have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business,

in each case to the extent such dividends are derived from sources within the PRC.

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Similarly, any gain realized on the transfer of our Shares by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in relevant tax treaties, if such gain is regarded as income derived from sources within the PRC.

If we are deemed a PRC resident enterprise, dividends paid on our Shares, and any gain realized from the transfer of our Shares, will be treated as income derived from sources within the PRC and be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of our Shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties.

If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether our Shareholders can claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors or gains from the transfer of our Shares by such investors are subject to PRC tax, the value of your investment in our Shares may decline significantly.

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

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation on December 10, 2009, where a non-resident enterprise conducts an “indirect transfer” by transferring the equity interests of a PRC resident enterprise indirectly via disposing of the equity interests of an overseas holding company, and such overseas holding company is located in a tax jurisdiction that:

- has an effective tax rate less than 12.5%; or
- does not tax foreign income of its residents;

then the non-resident enterprise, as the transferor, shall report to the relevant tax authority of the PRC resident enterprise such indirect transfer.

Using a “substance over form” principle, PRC tax authorities may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, currently at a rate of 10%.

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On February 3, 2015, the State Administration of Taxation issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Circular 7, which replaced or supplemented certain previous rules under Circular 698. Circular 7 sets out a wider scope of indirect transfer of PRC assets that might be subject to PRC enterprise income tax. Circular 7 also includes detailed guidelines regarding when such indirect transfer is considered to lack a bona fide commercial purpose and thus regarded as avoiding PRC tax.

The conditional reporting obligation of the non-PRC investor under Circular 698 is replaced by a voluntary reporting by the transferor, the transferee or the underlying PRC resident enterprise transferred. Furthermore, if the indirect transfer is subject to PRC enterprise income tax, the transferee has an obligation to withhold tax from the sale proceeds.

Gains from the sale of shares by investors through a public stock exchange are not subject to PRC enterprise income tax pursuant to Circular 7 where such shares were acquired in a transaction through a public stock exchange. Please see “Regulatory Overview” for more details.

As newly implemented, there is uncertainty as to the application of Circular 7. PRC tax authorities may determine that Circular 7 applies to our offshore restructuring transactions or sale of the shares of our offshore subsidiaries where non-resident enterprises, as the transferors, were involved. PRC tax authorities may pursue such non-resident enterprises with respect to a filing regarding the transactions and request our PRC subsidiary to assist in the filing.

As a result, we and our non-resident enterprises in such transactions may risk being subject to filing obligations or being taxed under Circular 7. We may be required to expend valuable resources to comply with Circular 7 or to establish that we and our non-resident enterprises should not be taxed under Circular 7 for our restructuring or disposal of shares of our offshore subsidiaries. As a result, our financial condition and results of operations may be materially adversely affected.

Governmental control of currency conversion may limit our ability to use our revenues effectively and affect the value of your investment.

Substantially all of our revenue is denominated in Renminbi. The Renminbi is convertible under the “current account”, which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account”, which includes foreign direct investment and loans, including loans we may secure from or for our PRC subsidiary or our PRC Holdcos. Our PRC subsidiary may purchase foreign currency for settlement of “current account transactions” without the approval of SAFE by complying with certain procedural requirements.

However, PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies for current account transactions. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

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Since a significant amount of our revenue is denominated in Renminbi, existing and future restrictions on currency exchange may limit our ability to utilize cash generated in Renminbi to fund our business activities outside the PRC or pay dividends in foreign currencies to our shareholders. These restrictions may also limit our ability to obtain foreign currency through debt or equity financing for our PRC subsidiary and PRC Holdcos.

Fluctuations in the value of the Renminbi may materially adversely affect your investment.

The value of the RMB fluctuates and is subject to changes in the PRC's political and economic conditions. Since July 2005, the PRC has started to adopt an adjustable and managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies, to allow the value of RMB to fluctuate within a regulated band. In March 2014, the PBOC enlarged the floating band of RMB against the U.S. dollar on the interbank spot foreign exchange market to 2.0%. There remains significant international pressure on the PRC government to adopt more flexible currency policies. In the fourth quarter of 2016, the Renminbi depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows from China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar in 2017. In 2018, however, the RMB depreciated approximately 6% against the U.S. dollar. In 2019, the RMB depreciated approximately 1% against the U.S. dollar.

As dividends on the Shares will be declared in RMB and paid in Hong Kong dollars, Shareholders of the Shares in countries or regions other than China are subject to adverse movements in the value of the RMB against the Hong Kong dollar, which may reduce dividends paid on the Shares. Following the Global Offering, our exposure to foreign exchange risks may increase, as the net proceeds from the Global Offering are expected to be denominated in currencies other than RMB.

As of the Latest Practicable Date, we had not entered into any hedging transactions to manage our exposure to foreign exchange risks. Fluctuations in exchange rates between the RMB and other currencies may materially adversely affect our business, financial condition and results of operations.

The enforcement of the PRC Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and results of operations.

The Standing Committee of the National People's Congress enacted the Labor Contract Law in 2008, and amended it on December 28, 2012. The Labor Contract Law introduced specific provisions related to fixed-term employment contracts, part-time employment, probationary periods, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining to enhance previous PRC labor laws.

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Under the Labor Contract Law, an employer must sign an unlimited-term labor contract with an employee who has worked for the employer for ten consecutive years. Furthermore, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract, with certain exceptions, must have an unlimited term, subject to certain exceptions.

With certain exceptions, an employer must pay severance to an employee where a labor contract is terminated or expires. In addition, PRC governmental authorities have introduced various new labor-related regulations since the effectiveness of the Labor Contract Law.

Under the PRC Social Insurance Law and the Administrative Measures on Housing Fund, employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing provident funds. Employers must apply for social insurance registration and open housing provident fund accounts for the employees and are required, together with their employees or separately, to pay social insurance premiums and housing funds for their employees.

If we violate the PRC Social Insurance Law and the Administrative Measures on Housing Fund, we may be subject to fines and legal sanctions, including a late charge and a fine ranging from one to three times the amount due, materially adversely affecting our business, financial condition and results of operations. These laws designed to enhance labor protection tend to increase our labor costs.

In addition, as the interpretation and implementation of these regulations are evolving, our employment practices may not be at all times be deemed in compliance with the regulations. As a result, we could be subject to penalties or incur significant liabilities in connection with labor disputes or investigations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no public market for our Shares prior to the Global Offering. The trading volume and market price of our Shares may fluctuate.

Prior to the Global Offering, there was no public market for our Shares. The initial Offer Price range for our Shares was the result of negotiations between us and the Sole Global Coordinator, and the market price for our Shares following the Global Offering may significantly differ from the Offer Price.

We have applied to list and trade our Shares on the Hong Kong Stock Exchange. However, the Global Offering does not guarantee that an active and liquid public trading market for our Shares will develop. In addition, the price and trading volumes of our Shares may fluctuate. Fluctuations in our results of operations, general market conditions or other developments affecting us or the industry in which our Company operates may affect the trading volume and price at which our Shares will trade.

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Holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, net profit and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products or fluctuations in market prices for other soft beverage companies could cause the market price of our Shares to change substantially. Any such developments may result in significant and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. 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, which could occur between the time of sale and the time trading begins.

As the Offer Price of our Share is higher than the net tangible asset value per Share, purchasers of our Shares in the Global Offering will experience immediate dilution upon the purchase of our Shares.

The Offer Price of our Shares is higher than the net tangible asset value per Share of our Shares immediately prior to the Global Offering. As a result, purchasers of our Shares in the Global Offering will experience immediate dilution in pro forma adjusted net tangible assets of HK\$4.51 per Share (assuming an Offer Price of HK\$6.90, the low end of the indicative Offer Price range, and assuming the Over-allotment Option is not exercised). Purchasers of our Shares may experience additional dilution if the Underwriters exercise the Over-allotment Option or if we issue additional Shares in the future.

Dividends paid in the past may not be indicative of our dividend policy in the future.

We distributed cash dividends of nil, RMB11.2 million, RMB17.7 million and RMB6.6 million in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. However, dividends paid in prior periods may not be indicative of future dividend payments. We cannot assure you when, if and in what form or size we will pay dividends in the future.

Our Board of Directors determines the frequency and amount of dividend distributions mainly based on our results of operations, cash flow and financial position, capital adequacy ratios, business prospects, regulatory restrictions on the payment of dividends and other factors that our Board of Directors deems relevant. Please see “Financial Information – Dividend” for more details. We may not adopt the same dividend policy that we have adopted in the past.

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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 use the net proceeds of the Global Offering in ways with which you may disagree with or that do not yield a favorable return to the Shareholders. For details of our intended use of proceeds, please see “Future Plans and Use of Proceeds” for more details. However, our management will have the discretion as to the actual use of the net proceeds. You are entrusting your funds to our management with respect to the specific use of the net proceeds from the Global Offering.

Certain facts, forecasts and statistics in this prospectus are derived from official or third party sources and may not be accurate, reliable, complete or up to date.

We have derived certain facts, forecasts and statistics in this prospectus from various government or other third party sources. Neither we nor any other parties involved in the Global Offering have prepared or independently verified these facts, forecasts and statistics, which may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside China.

We cannot assure you of the accuracy or reliability of the information derived from official government or other third party sources. Accordingly, you should not place undue reliance on such information as a basis for investing in our Shares.

Since there will be several days between pricing and trading of our Shares, the price of our Shares could fall during this period.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several business days after the Price Determination Date.

As a result, investors may not be able to sell or otherwise trade our Shares during that period. Accordingly, the price of our Shares could fall before trading begins due to adverse market conditions or other adverse developments between Price Determination Date and the date on which trading begins.

You should rely only on this prospectus, and not place any reliance on any information contained in press articles or other media, in making your investment decision.

We have not authorized anyone to provide you with information that is not contained in, or is different from information contained in, this prospectus. Prior or subsequent to the publication of the prospectus, there has been press and media coverage regarding us and the Global Offering, in addition to marketing materials we have published in compliance with the

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Hong Kong Listing Rules. We have not authorized any such press and media reports, and the financial information, financial projections, valuations and other information about us in unauthorized press and media coverage may be untrue and may not reflect the information in this prospectus.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. If any information in the press and media is inconsistent or conflicts with the information in this prospectus, we disclaim it, and you should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the information included in this prospectus and the Application Forms.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, our Company has applied for the following waivers from strict compliance with the relevant provisions of the Listing Rules:

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with (i) the announcement, (ii) independent Shareholders' approval requirement, (iii) the annual cap requirement and (iv) the requirement of limiting the term of the continuing connected transactions as set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, see the section headed "Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong, which normally means that at least two executive directors must be ordinarily resident in Hong Kong. Given that (i) our core business operations are principally located, managed and conducted in the PRC and the Company's head office is situated in Wuhan, the PRC; (ii) our executive Directors and senior management team principally reside in the PRC; and (iii) the management and operations of the Company have mainly been under the supervision of our executive Directors and senior management, who are principally responsible for the overall management, corporate strategy, planning, business development and control of the Group's businesses and it is important for them to remain in close proximity to the Group's operations located in the PRC, our Company considers that it would be more practical for our executive Directors and senior management to remain ordinarily resident in the PRC where the Group has substantial operations. For the above reasons, we do not have, and do not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules. We will ensure that there are adequate and efficient arrangements to achieve regular and effective communication between us and the Stock Exchange as well as compliance with the Listing Rules by way of the following arrangements:

1. **Authorized representatives:** we have appointed Mr. Mao Feng ("**Mr. Mao**"), an executive Director, a vice president, the chief financial officer and a joint company secretary of our Company, and Ms. Lam Yuk Ling, a joint company secretary, ("**Ms. Lam**") as the authorized representatives ("**Authorized Representatives**") for the purpose of Rule 3.05 of the Listing Rules. The Authorized Representatives will act as our principal channel of communication with the Stock Exchange and would be readily contactable by phone and email to deal promptly with enquiries from the

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Stock Exchange. Ms. Lam ordinarily resides in Hong Kong whereas Mr. Mao ordinarily resides in the PRC, and Mr. Mao possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, the Authorized Representatives will be able to meet with the relevant members of the Stock Exchange to discuss any matters in relation to our Company within a reasonable period of time. The Company will also inform the Stock Exchange promptly in respect of any change in the Authorized Representatives. Please see “Directors and Senior Management” for more information about our Authorized Representatives.

2. **Directors:** to facilitate communication with the Stock Exchange, we have provided the Authorized Representatives and the Stock Exchange with the contact details (such as mobile phone numbers, office phone numbers, e-mail addresses, to the extent possible) of each of our Directors such that the Authorized Representatives would have the means for contacting all our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. In the event that any Director expects to travel or otherwise be out of office, he or she will provide the phone number of the place of his/her accommodation to the Authorized Representatives. To the best of our knowledge and information, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period after requested by the Stock Exchange.
3. **Compliance advisor:** we have appointed First Shanghai Capital Limited as our compliance advisor (the “**Compliance Advisor**”) in compliance with Rule 3A.19 of the Listing Rules. The Compliance Advisor will, among other things and in addition to the Authorized Representatives, provide us with professional advice on continuing obligations under the Listing Rules and act as additional channel of communication of the Company with the Stock Exchange during the period from the Listing Date to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year immediately after the Listing. The Compliance Advisor will be available to answer enquiries from the Stock Exchange and will act as the principal channel of communication with the Stock Exchange when the Authorized Representatives are not available.
4. **Hong Kong legal advisor:** we will retain a Hong Kong legal advisor to advise us on the on-going compliance requirements, any amendment or supplement to and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Rule 8.17 of the Listing Rules provides that our Company must appoint a company secretary who satisfies the requirements under Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, the Company must appoint an individual, who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- a. a Member of The Hong Kong Institute of Chartered Secretaries;
- b. a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- c. a certified public accountant (as defined in the Professional Accountants Ordinance).

In addition, pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- a. length of employment with the issuer and other issuers and the roles he/she played;
- b. familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- c. relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- d. professional qualifications in other jurisdictions.

We have appointed Mr. Mao Feng (“**Mr. Mao**”) as one of the joint company secretaries of the Company. Please see “Directors and Senior Management” for further biographical details of Mr. Mao.

Mr. Mao has nearly 20 years of experience in accounting and finance. He joined the Company in July 2018 and since then has been the chief financial officer of the Group. He is also appointed as an executive Director and vice president of the Company on January 11, 2020, responsible for the Group’s financial management, financing, and investor relations. Mr. Mao has also been actively involved in the proposed Listing since its preparatory period. However, Mr. Mao personally does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Despite that Mr. Mao does not possess the qualifications set out in Rule 3.28 of the Listing Rules, the Company has appointed him as one of the joint company secretaries of the

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Company due to his extensive experience in accounting, internal control and corporate finance matters, and his familiarity with the Company's businesses and operations. The Company considers that it is for the benefit of the Company to appoint a person who has been a member of the senior management for a period of time and are familiar with the Company's business and affairs as company secretary.

The Company has appointed Ms. Lam Yuk Ling ("**Ms. Lam**"), an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as one of our joint company secretaries and to provide assistance to Mr. Mao for a period of three years from the Listing Date to enable Mr. Mao to acquire the "relevant experience" under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

The following arrangements have been, or will be, put in place to assist Mr. Mao in acquiring the qualifications and experience as the company secretary of our Company required under Rule 3.28 of the Listing Rules:

- a. Ms. Lam, one of the joint company secretaries who meets all the requirements under Rule 3.28 of the Listing Rules, will assist and guide Mr. Mao so that he is able to acquire the relevant knowledge and experience as required under the Listing Rules in order to discharge his functions as a joint company secretary. The Company has also appointed Ms. Lam as an authorized representative of the Company.
- b. The Company undertakes to re-apply to the Stock Exchange for a waiver in the event that Ms. Lam ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to serve as a joint company secretary of our Company.
- c. The Company will further ensure that Mr. Mao has access to the relevant training and support to enable him to familiarize himself with the Listing Rules and the duties required of a company secretary of an issuer listed on the Stock Exchange. The Company's Hong Kong legal advisors have provided training to Mr. Mao on the principal requirements of the Listing Rules and the Hong Kong laws and regulations applicable to the Company after its Listing. In addition, Mr. Mao will endeavor to familiarize himself with the Listing Rules, including any updates thereto, during the three-year period from the Listing Date.
- d. Mr. Mao has confirmed that he will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investor relation as well as the functions and duties of a company secretary of a Hong Kong listed issuer during each financial year as required under Rule 3.29 of the Listing Rules.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Our Company expects that Mr. Mao, having had the benefit of Ms. Lam's assistance during the three-year period, will acquire the qualifications or relevant experience required under Rule 3.28 of the Listing Rules prior to the end of the three-year period after the Listing.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules on the following conditions:

- a. Mr. Mao must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary throughout the three-year period; and
- b. the waiver can be revoked if there are material breaches of the Listing Rules by the Company.

Prior to the expiry of the three-year period, the qualification and experience of Mr. Mao will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus 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) (as amended) and the Listing Rules for the purpose of giving information to the public with regards to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. 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 in this prospectus misleading.

GLOBAL OFFERING

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

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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

DETERMINATION OF THE PRICE

The Offer Price is expected to be determined between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, September 11, 2020 and, in any event, not later than Tuesday, September 15, 2020 (unless otherwise determined between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company. If, for whatever reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Tuesday, September 15, 2020, the Global Offering will not become unconditional and will lapse immediately.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around September 11, 2020, subject to the Offer Price being agreed.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong 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 of the Offer Shares described in this prospectus and the Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or Application Forms 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 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 Hong Kong Offer Shares have not been publicly offered or sold directly or indirectly in the PRC or the United States.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, September 18, 2020. No part of our Shares 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. All Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 of the Hong Kong Public Offering, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

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 list is being or proposed to be sought in the near future.

ADMISSION OF THE SHARES INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance 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 Listing Date 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.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. Investors should seek the advice of their stock broker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

Our Company's principal register of members will be maintained by our principal registrar and transfer office, Harneys Fiduciary (Cayman) Limited, in the Cayman Islands. All of the Shares allocated pursuant to the Global Offering will be registered on the Company's register of members to be maintained in Hong Kong by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.

Dealings in the Shares registered in the register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice. Unless otherwise determined by our Board, dividends will be paid to Shareholders whose names are listed on our register of members in Hong Kong, by ordinary post, at the Shareholders' risk in Hong Kong dollars.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in, our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors 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, dealing in, or the exercise of any rights in relation to, our Shares.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under “Underwriting”.

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this prospectus includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated, or at all.

Unless indicated otherwise: (a) the conversion between Renminbi and Hong Kong dollars was made at the rate of RMB0.8917 to HK\$1.00, being the prevailing exchange rate on August 21, 2020 published by the PBOC; (b) the conversion between Hong Kong dollars and U.S. dollars was made at the rate of HK\$7.7502 to US\$1.00, being the prevailing exchange rate on August 21, 2020 set forth in H.10 statistical release of the Board of Governors of the Federal Reserve System; and (c) the translation between Renminbi and U.S. dollars was made at the rate of RMB6.9179 to US\$1.00, being the prevailing exchange rate on August 21, 2020 set forth in H.10 statistical release of the Board of Governors of the Federal Reserve System. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities, enterprises (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese names will prevail.

ROUNDING

Any discrepancies between totals and sums of amounts listed in any table or chart are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. Fu Xi (符熙)	Room 351-1-1701, Wankehongjun 1 Daxueyuan Road Hongshan District Wuhan PRC	Chinese
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Mr. Zhang Yuguo (張雨果)	Room 351-1-1501, Wankehongjun 1 Daxueyuan Road Hongshan District Wuhan PRC	Chinese
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Mr. Shui Yingyu (水英聿)	Room 351-1-1201, Wankehongjun 1 Daxueyuan Road Hongshan District Wuhan PRC	Chinese
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Mr. Zhao Bihao (趙筆浩)	No. 1101, 11/F, Unit 2 489 Xionghudadao Hongshan District Wuhan PRC	Chinese
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Mr. Mao Feng (茅峰)	Room B14-1-1101, Wankehongjun 1 Daxueyuan Road Hongshan District Wuhan PRC	Chinese
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Independent non-executive Directors

Mr. Li Wai Chung (李偉忠)	Flat C, 55/F, Tower 3 The Palazzo 28 Lok King Street Sha Tin Hong Kong	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Ms. Wang Yuyun (王雨雲) (alias Wang Yuyun (王雨蘊))	Room 302, Unit 2, Building 303 Shuianzhuangyuan Chaoyang District Beijing PRC	Chinese
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Mr. Wong Sincere (黃誠思)	Room E, 59/F, Tower 1 The Harbourside 1 Austin Road West Kowloon Hong Kong	Chinese
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For more information on our Directors, please refer to “Directors and Senior Management”.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
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Joint Bookrunners	CMB International Capital Limited 45/F, Champion Tower 3 Garden Road Central, Hong Kong
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BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

China Everbright Securities (HK) Limited
12/F, Everbright Centre
108 Gloucester Road
Wanchai, Hong Kong

**China Merchants Securities (HK)
Co., Limited**
48/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

CMB International Capital Limited

45/F, Champion Tower
3 Garden Road
Central, Hong Kong

BOCOM International Securities Limited

9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

China Everbright Securities (HK) Limited

12/F, Everbright Centre
108 Gloucester Road
Wanchai, Hong Kong

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

Crosby Securities Limited

5/F, Capital Centre
151 Gloucester Road
Wanchai, Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F
United Centre
No. 95 Queensway, Hong Kong

Legal Advisors to Our Company

As to Hong Kong law:

Latham & Watkins LLP

18th Floor, One Exchange Square
8 Connaught Place, Central
Hong Kong

As to PRC law:

CM Law Firm

Room 2805
1366 West Nanjing Road
Shanghai
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<i>As to Cayman Islands law:</i> Harney Westwood & Riegels 3501 The Center 99 Queen's Road Central Hong Kong
Legal Advisors to the Sole Sponsor and the Underwriters	<i>As to Hong Kong law:</i> Wilson Sonsini Goodrich & Rosati Suite 1509 15/F Jardine House 1 Connaught Place Central Hong Kong
	<i>As to PRC law:</i> Tian Yuan Law Firm Room 4403-4406 Jinmao Tower 88 Century Avenue, Pudong district Shanghai PRC
Reporting Accountants and Auditor	Ernst & Young <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditor</i> 22/F CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Industry Consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. 1018 Tower B, Greenland Hui Center 500 Yunjin Road Shanghai PRC
Receiving Bank	CMB Wing Lung Bank Limited 45 Des Voeux Road Central Hong Kong
Compliance Advisor	First Shanghai Capital Limited 19/F, Wing On House 71 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered Office in the Cayman Islands	4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
Head Office and Principal Place of Business in the PRC	2nd Floor, Building B2 Phase II, Financial Backstage Service Center No. 77, Guanggu Avenue Wuhan East Lake High-tech Development Zone Wuhan PRC
Principal Place of Business in Hong Kong	31/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
Company's Website	<u>www.fulu.com</u> <i>(The contents on this website do not form part of this prospectus)</i>
Joint Company Secretaries	<p>Mr. Mao Feng (茅峰) Room B14-1-1101, Wankehongjun 1 Daxueyuan Road Hongshan District Wuhan PRC</p> <p>Ms. Lam Yuk Ling (林玉玲) (ACS, ACIS) 31/F, Tower Two Times Square 1 Matheson Street, Causeway Bay Hong Kong</p>
Authorized Representatives	<p>Mr. Mao Feng (茅峰) Room B14-1-1101, Wankehongjun 1 Daxueyuan Road Hongshan District Wuhan PRC</p> <p>Ms. Lam Yuk Ling (林玉玲) (ACS, ACIS) 31/F, Tower Two Times Square 1 Matheson Street, Causeway Bay Hong Kong</p>

CORPORATE INFORMATION

Audit Committee

Mr. Li Wai Chung (李偉忠) (*Chairman*)

Ms. Wang Yuyun (王雨雲)

Mr. Wong Sincere (黃誠思)

Remuneration Committee

Ms. Wang Yuyun (王雨雲) (*Chairman*)

Mr. Fu Xi (符熙)

Mr. Wong Sincere (黃誠思)

Nomination Committee

Mr. Fu Xi (符熙) (*Chairman*)

Mr. Wong Sincere (黃誠思)

Mr. Li Wai Chung (李偉忠)

**Principal Share Registrar and
Transfer Office**

Harneys Fiduciary (Cayman) Limited

4th Floor, Harbour Place

103 South Church Street

P.O. Box 10240

Grand Cayman KY1-1002

Cayman Islands

Hong Kong Share Registrar

**Computershare Hong Kong Investor
Services Limited**

Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East, Wan Chai

Hong Kong

Principal Bankers

**China Merchants Bank Co., Ltd. Wuhan
Financial Port Branch**

120 Guanggu Avenue

East Lake High-tech Development Zone

Wuhan

PRC

Industrial Bank Co., Ltd. Wuhan Branch

Industrial Bank Building

No. 108 Shuiguohuzhongbei Road

Wuchang District

Wuhan

PRC

INDUSTRY OVERVIEW

The information presented in this section is derived from official or publicly available publications, as well as from Frost & Sullivan. We believe that the sources of the information in this section 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 in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect.

The Company, the Sole Sponsor and the Underwriters, their respective directors, officers, employees, agents, representatives, affiliates and advisors, and any other parties involved in the Global Offering (other than Frost & Sullivan) have not independently verified, and make no representation as to, the accuracy, completeness or fairness of the information from official government or other third-party sources. Such information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside China, and accordingly, should not be unduly relied upon.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent industry consultant, to prepare a report on China's virtual goods and services industry. We paid Frost & Sullivan fees of RMB500,000, which we believe are consistent with market rates.

Frost & Sullivan is an independent global consulting firm founded in New York in 1961. Frost & Sullivan provides industry research and market strategies and growth consulting and corporate training to companies in a wide range of industries, including technology, media, telecommunications, consumer products, healthcare, industrial automation and electronics.

Frost & Sullivan conducted primary and secondary research using a variety of resources. Primary research involved discussing market developments with leading industry participants. Secondary research involved reviewing company reports, independent research reports and data in Frost & Sullivan's research database.

Frost & Sullivan prepared its report based on the following assumptions:

- China's social, economic and political environment will remain stable during the forecast period; and
- Key industry drivers will continue to drive China's virtual goods and services industry during the forecast period.

Our Directors confirm that, to the best of their knowledge, after taking reasonable care, there has been no adverse change in market information since the date of the Frost & Sullivan report, which may qualify, contradict or impact the information disclosed in this section.

OVERVIEW OF CHINA'S VIRTUAL GOODS AND SERVICES INDUSTRY

Overview

Virtual goods are non-physical objects exchanged in the virtual or non-physical realm. Virtual goods include e-vouchers, in-game virtual currencies and items, accounts, gift cards, membership cards and coupons, which can be exchanged for products and services offered by virtual goods vendors.

China is one of the world's largest and fastest growing virtual goods and services markets by GMV. According to Frost & Sullivan, leisure and entertainment, games, telecommunications and lifestyle services were four principal virtual goods and services categories in China in 2019.

- *Leisure and Entertainment.* Leisure and entertainment virtual goods vendors offer virtual goods such as membership services and in-app virtual currencies to access audio, musical, paid-knowledge, live streaming, education, sports and other content on their platforms. Membership services allow subscribed members to access premium content or download exclusive content such as music and literature after paying virtual goods and service vendors non-refundable upfront membership fees.

INDUSTRY OVERVIEW

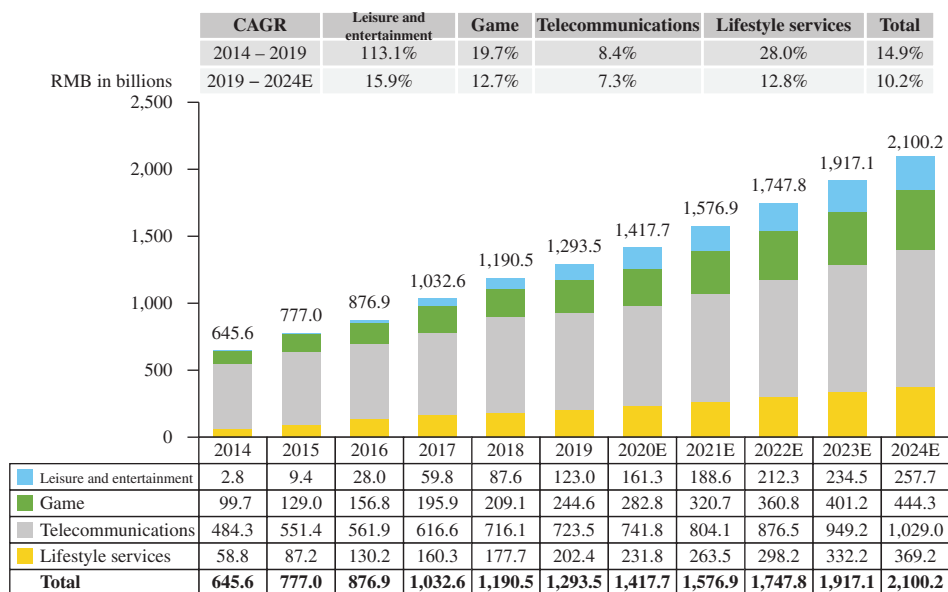
Virtual currencies in the leisure and entertainment market can be used to purchase gifts used to tip streamers on live streaming platforms or to purchase in-app functions, such as special effects for their costumes and appearance.

- **Games.** Game producers offer virtual goods that players can use in games to upgrade game characters or buy virtual accessories, such as costumes, skills, tools, equipment or other in-game consumables or functions. Games virtual goods are typically distributed through games companies' proprietary sales channels, such as official websites, or through third-party virtual goods and services platform operators. Gamers have a variety of payment options for in-game virtual goods, including prepaid virtual cards, online payments through application stores and other online payment channels. Virtual cards include one-cards and exclusive cards. One-cards enable consumers to purchase all the games published by a game company using a single card. Exclusive cards are cards that can be used only in a particular game. Consumers can use game currencies to acquire additional levels, equipment, outfits, apparel or abilities in games.
- **Telecommunications.** Telecom operators charge telephone fees and sell data usage packages to consumers. Telephone fees include charges to consumers for calls and text messages. Data usage packages are used for accessing the mobile internet.
- **Lifestyle.** Lifestyle services primarily include food, clothing, housing and transportation services. Lifestyle services providers offer virtual goods such as prepaid cards, gift cards and digital coupons used in a variety of contexts, such as restaurants, hotels and shops. Consumers can exchange virtual goods for physical products, discounts or other benefits offered by lifestyle services providers. Consumers must top up prepaid cards before using the cards to purchase goods or services. Gift cards can be exchanged for goods or services with a predetermined cash value in online or offline stores. Digital coupons are vouchers that grant consumers discounts for products. Consumers can top-up digital vouchers in their accounts, and subsequently receive discounts when making purchases.

According to Frost & Sullivan, in terms of GMV, China's virtual goods and services market grew from RMB645.6 billion in 2014 to RMB1,293.5 billion in 2019, representing a CAGR of 14.9%.

The following chart sets forth the historical and projected size and growth of China's virtual goods and services market in terms of GMV by industry for the periods indicated.

**Size of Virtual Goods and Services Market
by Industry, the PRC, 2014-2024E**



Source: Frost & Sullivan

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Market Drivers

According to Frost & Sullivan, the key drivers of the growth of China's virtual goods and services industry include the following:

- *Growth of China's economy and consumption.* China's real GDP grew from RMB64.1 trillion in 2014 to RMB89.8 trillion in 2019, representing a CAGR of 7.0%, according to the PRC National Bureau of Statistics. China's economic growth has resulted in significantly higher disposable incomes. From 2014 to 2019, China's disposable income per capita grew at a CAGR of 8.8%, and is expected to grow at a CAGR of 4.3% between 2019 and 2024, according to Frost & Sullivan. With more money to spend, Chinese consumers have been buying more virtual products and services.
- *Increasing penetration of mobile payments and shift in consumption habits online.* The growing popularity of smartphones has resulted in mobile phones becoming the primary means of accessing the internet. The development of mobile internet and mobile payments technology makes it more efficient and convenient for consumers to access virtual goods and services through mobile devices. Mobile transactions also make it easier for virtual goods vendors and services providers in China to track and analyze consumer data to gain insights into consumer preferences and behavior and offer products that appeal to consumers.
- *The development of China's online pan-entertainment industry.* The online pan-entertainment industry encompasses various digital content such as online games, online video, online music, live streaming and online paid knowledge. According to Frost & Sullivan, China's online pan-entertainment industry increased from RMB274.7 billion in 2014 to RMB775.5 billion in 2019 by revenue, representing a CAGR of 23.1%. China's online pan-entertainment industry remains at an early stage of development with strong growth potential, driven by rapidly improving internet infrastructure and increasing consumer demand.
- *Improvement of intellectual property protection.* The implementation of China's National Intellectual Property Strategy has increased the number and value of copyrights and patents granted or issued in China. Developing a variety of entertainment content protected by intellectual property rights has become an important industry trend.
- *Technological developments.* Our platform participants benefit from technological developments, such as the development of 5G mobile technology, to grow their businesses. Technological developments also enable third-party virtual goods and services platform operators to provide one-stop services to customers, including establishing virtual goods sale platforms and providing other value-added services.

Market Landscape

According to Frost & Sullivan, China's leisure and entertainment, games, and telecommunication-related virtual goods and services industries are concentrated and dominated by leading virtual goods vendors, while China's lifestyle-related virtual goods and services market is relatively fragmented:

- *Leisure and entertainment:* iQiyi, Tencent and Youku are the leading players in China's leisure and entertainment-related virtual goods and services market with a combined market share of over 60% in China's internet video related virtual goods market by GMV in 2019.
- *Games:* games-related virtual goods and services market is also concentrated. Top 10 virtual goods and services vendors such as Tencent, Netease, 37 Games, Century Huatong Group accounted for over 80% of total market by GMV in China in 2019.
- *Telecommunications:* China Unicom, China Mobile and China Telecom are China's three largest telecommunications virtual goods vendors.

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Consumers can purchase virtual goods and services through (1) sales channels owned by virtual goods vendors, such as iQiyi's mobile app, (2) sales channels connected to third-party virtual goods and services platform operators, such as the Company and (3) other virtual goods sales channels (not involving third-party virtual goods and services platform operators), such as Tencent virtual goods marketplace on WeChat. Historically, consumers purchased virtual goods primarily from channels owned by virtual goods vendors. As China's virtual goods and services market develops, consumers typically expect a comprehensive buying experience. However, virtual goods vendors are often only able to offer limited services and homogenous products through their own sales channels. Virtual goods vendors are increasingly seeking to diversify their virtual goods sales channels to enhance profitability. Some virtual goods vendors started to jointly offer membership cards that can be used on all of these vendors' platforms.

This situation has led to the emergence of third-party virtual goods and services platform operators, who help virtual goods vendors broaden consumer reach and better meet consumers' needs. Third-party virtual goods and services platform operators have been capitalizing on opportunities arising from China's virtual goods and services market.

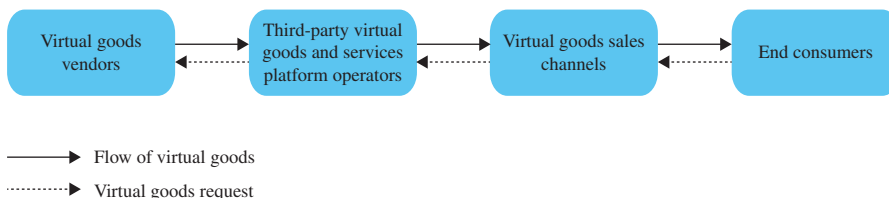
In 2019, the market share of third-party virtual goods and services platform operators in China's leisure and entertainment, games, telecommunications and lifestyle virtual goods and services industries was 13.1%, 22.5%, 40.6%, and 20.5%, respectively.

OVERVIEW OF CHINA'S THIRD-PARTY VIRTUAL GOODS AND SERVICES INDUSTRY

Overview

Third-party virtual goods and services platform operators are platforms that connect virtual goods vendors and virtual goods sales channels. Third-party virtual goods and services platform operators typically offer both virtual goods-related services and value-added services, such as online sales platform setting-up, online store operations and marketing and IT services.

The following flowcharts illustrate how third-party virtual goods and services platform operators connect virtual goods vendors and virtual goods sales channels:



Source: Frost & Sullivan

Third-party virtual goods and services platform operators are well positioned to capitalize on the growth of China's virtual goods and services industry. They can broaden the scope of consumers that virtual goods vendors can reach and help virtual goods sales channels deepen customer relationships. Third-party virtual goods and services platform operators usually bundle virtual goods in packages at prices lower than if the products were purchased separately.

Technological developments have enabled third-party virtual goods and services platform operators to provide one-stop services to virtual goods vendors and virtual goods sales channels, including facilitating the sale of virtual goods, establishing virtual goods sale platforms and providing other value-added services. Third-party virtual goods and services platform operators have also increasingly integrated virtual goods resources and cooperated with multiple virtual goods vendors to increase operating efficiency.

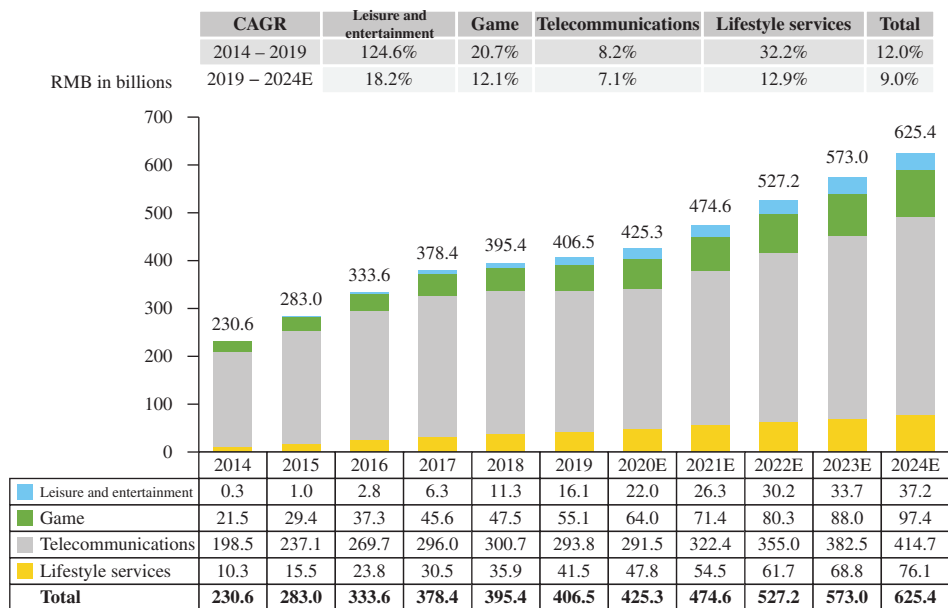
Third-party virtual goods and services platform operators have gained vast consumer data and extensive operating experience in a number of industries by providing one-stop services to a wide range of virtual goods vendors and virtual goods sales channels. This enables third-party virtual goods and services platform operators to provide tailored solutions to consumers based

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on their needs, which in turn increases consumer satisfaction and the monetization potential of users for virtual goods vendors and virtual goods sales channels. As a result, virtual goods vendors and virtual goods sales channels have increasingly relied on third-party virtual goods and services platform operators to attract and retain users and boost user activity.

The following chart sets forth the historical and projected size and growth of China's third-party virtual goods and services market (i.e. market of virtual goods transactions involving third-party virtual goods and services platform operators) in terms of GMV by industry for the periods indicated.

**Size of Third-party Virtual Goods and Services Market
by Industry, the PRC, 2014-2024E**



Source: Frost & Sullivan

Third-party virtual goods and services in the leisure and entertainment industry achieved the highest growth from 2014 to 2019. In 2019, leisure and entertainment accounted for approximately 4.0% of total third-party virtual goods and services platform operator market, with a GMV of RMB16.1 billion. The market share of the leisure and entertainment industry is expected to grow rapidly from 2019 to 2024 due to the estimated increase in the number of paying users and enhanced intellectual property protection in China. As online entertainment companies launch membership systems and require consumers to pay fees for accessing exclusive content, consumers gradually develop the habit of paying for high quality virtual products.

Third-party virtual goods and services in the games industry have experienced steady growth in the past decade. The virtual goods and services market in the games industry is expected to grow steadily but at a relatively slower rate in the near future, which is in line with the expected growth of China's games industry, according to Frost & Sullivan.

Third-party virtual goods and services in the telecommunications industry remained relatively stable from 2017 to 2019. The expansion of 4G and 5G networks, the popularity of smartphones and the improvement of mobile telecommunications services in China increased the demand for virtual goods and services in the telecommunications industry. However, third-party virtual goods and services in the telecommunications industry did not grow at the same rate, primarily due to telecommunications companies' efforts to increase direct sales.

The growth rate of third-party virtual goods and services in the telecommunications industry is expected to remain stable in the future. The virtual telecommunications services industry has become a relatively mature industry, featuring high transaction frequency and

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GMV, low commission rates, a concentrated market and standardized services. As a result, the demand for value-added services in the telecommunications industry is not as strong as that of other virtual goods and services industries.

Third-party virtual goods and services in the lifestyle industry grew quickly from 2014 to 2019, driven by increased online sales by traditional offline companies. For example, consumers that could previously only top up their gas cards at gas stations can now top up their gas cards online. Similarly, the extensive coverage of 4G high-speed networks allows offline companies to provide and consumers to purchase lifestyle services online, including food, clothing, housing and transportation, which were traditionally served by offline marketplaces. Third-party virtual goods and services in the lifestyle industry are expected to grow in the near future as more offline companies bring their businesses online.

According to Frost & Sullivan, in 2019, the average commission rates charged by third-party virtual goods and services platform operators for virtual goods transactions in the leisure and entertainment, games, telecommunications and lifestyle industries in China ranged between 5.0% and 20.0%, 1.2% and 2.8%, 0.2% and 0.5%, and 0.5% and 1.3%, respectively. According to Frost & Sullivan, the commission rates offered by virtual goods vendors are expected to remain stable between these ranges for the next five years.

Entry Barriers and Key Factors for Success

According to Frost & Sullivan, the following are the entry barriers and the key factors for success for third-party virtual goods and services platform operators:

- *Industry experience.* Third-party virtual goods and services platform operators must have a deep understanding of consumer needs and market trends to establish a competitive advantage. New entrants often lack sufficient industry experience to compete effectively against more established third-party virtual goods and services platform operators.
- *Business relationships.* Successful third-party virtual goods and services platform operators typically have strong business relationships with virtual goods vendors and virtual goods sales channels, enabling them to establish a network to share resources, obtain a stable supply of virtual goods on more favorable terms and attract more virtual goods consumers. New players to the market often find it difficult to establish business relationships with industry-leading virtual good vendors.
- *Full spectrum of services and innovation capabilities.* As competition intensifies, third-party virtual goods and services platform operators who can provide a full spectrum of services to virtual good vendors and virtual goods sales channels are more likely to succeed. As the industry consolidates, third-party virtual goods and services platform operators must meet evolving consumer preferences and diversify revenue sources by innovating products and services.
- *Operating Capabilities.* Third-party virtual goods and services platform operators typically must have strong operating capabilities and professional operating teams, which enables them to help virtual goods vendors and virtual goods sales channels increase operating efficiency. Virtual goods vendors typically cooperate with third-party virtual goods and services platform operators that possess strong financial resources and large scale operating capabilities. New entrants must expend substantial time and invest significant funds to increase operating capabilities and build their reputations.

Market Challenges

We believe the following are the major challenges faced by China's third-party virtual goods and services vendors.

- *Working capital requirements.* Third-party virtual goods and services platform operators typically need to maintain certain levels of working capital to fund their operations and investments in new services and technologies. Smaller market players typically find it difficult to compete effectively against competitors who have more financial, technical, marketing and other resources.

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- *Homogeneous competition.* China's third-party virtual goods and services platform operator market is competitive. Many third-party virtual goods and services platform operators offer similar virtual goods and services at similar prices, which usually leads to low consumer loyalty. Accordingly, developing innovative products and services has become a major challenge for third-party virtual goods and services platform operators to stay competitive in the market.
- *Potential restrictions from vendors.* Some major virtual goods vendors may have specific requirements and restrictions for third party virtual goods and services platform operators that concurrently deal with their competitors. These virtual goods vendors may choose to cooperate with companies that do not concurrently deal with their competitors among candidates with similar capabilities. They may also offer less favorable business terms compared to third-party virtual goods and services operators that cooperate with their competitors. Larger third-party virtual goods and services platform operators are generally less affected by this trend because of their strong relationships with major virtual goods vendors in China. On the other hand, smaller third-party virtual goods and services platform operators may offer fewer types of virtual goods due to these requirements and restrictions.

Competitive Landscape

According to Frost & Sullivan, China's third-party virtual goods and services industry is relatively concentrated, with the top 10 participants accounting for approximately 48.1% of the total GMV in 2019. In 2019, Fulu ranked No. 1 in terms of revenue and No. 6 in terms of GMV among third-party virtual goods and services platform operators.

The following table sets forth the top five third-party virtual goods and services platform operators in China by revenue in 2019.

**Ranking of Third-party Virtual Goods and Services Platform Operators
by Revenue, the PRC, 2019**

No.	Company name	Revenue (RMB in millions)	Market share by revenue
1	The Company	241.9	7.7%
2	A ⁽¹⁾	184.3	5.9%
3	D ⁽²⁾	153.2	4.9%
4	F ⁽³⁾	122.1	3.9%
5	B ⁽⁴⁾	112.0	3.6%
Top 5		813.6	25.9%
Total		3,141.5	100.0%

Notes:

- (1) Company A is a games, leisure and entertainment, lifestyle services and telecommunications virtual goods and services platform operator. Company A is not listed on any stock exchange.
- (2) Company D is a games, leisure and entertainment, lifestyle services and telecommunications virtual goods and services platform operator. Company D is not listed on any stock exchange.
- (3) Company F is a lifestyle services and telecommunications virtual goods and services platform operator. Company F is not listed on any stock exchange.
- (4) Company B is a lifestyle services and telecommunications virtual goods and services platform operator. Company B is not listed on any stock exchange.

Source: Frost & Sullivan

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The following table sets forth the top ten third-party virtual goods and services platform operators in China by GMV in 2019.

Ranking of Third-party Virtual Goods and Services Platform Operators by GMV, the PRC, 2019

No.	Company name	GMV (RMB in billions)	Market share by GMV
1	A	38.3	9.4%
2	B	34.0	8.4%
3	D	26.1	6.4%
4	C ⁽¹⁾	24.6	6.0%
5	E ⁽²⁾	20.7	5.1%
6	The Company	12.8	3.2%
7	F	11.4	2.8%
8	K ⁽³⁾	10.7	2.6%
9	G ⁽⁴⁾	10.1	2.5%
10	J ⁽⁵⁾	7.1	1.7%
Top 10		195.6	48.1%
Total		406.5	100.0%

Notes:

- (1) Company C is a games, lifestyle services and telecommunications virtual goods and services platform operator. Company C is not listed on any stock exchange.
- (2) Company E is a telecommunications, games and leisure and entertainment virtual goods and services platform operator. Company E is not listed on any stock exchange.
- (3) Company K is a lifestyle services and telecommunications virtual goods and services platform operator. Company K is not listed on any stock exchange.
- (4) Company G is a games, leisure and entertainment, lifestyle services and telecommunications virtual goods and services platform operator. Company G is not listed on any stock exchange.
- (5) Company J is a telecommunications, games and leisure and entertainment virtual goods and services platform operator. Company J is listed on the Hong Kong Stock Exchange.

Source: Frost & Sullivan

Since the characteristics of the virtual telecommunications industry are different from those of other virtual goods and services industries, according to Frost & Sullivan, it is a generally accepted industry practice to separately rank third-party virtual goods and services platform operators based on telecommunications-related GMV and total GMV (excluding telecommunications-related revenue and GMV). The following table sets forth the top five third-party virtual goods and services platform operators in China by revenue and GMV (excluding telecommunications-related revenue and GMV) in 2019.

Ranking of Third-party Virtual Goods and Services Platform Operators (excluding Telecommunications) by Revenue and GMV, the PRC, 2019

No.	Company name	Revenue (RMB in millions)	GMV (RMB in billions)	Market share by revenue	Market share by GMV
1	The Company	226.3	5.1	10.4%	4.6%
2	F	97.9	3.8	4.5%	3.4%
3	C	28.4	2.2	1.3%	1.9%
4	G	94.6	2.1	4.4%	1.9%
5	D	105.4	2.1	4.9%	1.9%
Top 5		552.5	15.4	25.5%	13.6%
Total		2,166.8	112.7	100.0%	100.0%

Source: Frost & Sullivan

INDUSTRY OVERVIEW

The total GMV of third-party virtual goods and services in China's leisure and entertainment and games industries accounted for 17.5% of the total GMV of China's third-party virtual goods and services industry in 2019. Fulu ranked No. 1 by revenue and GMV in 2019:

Ranking of Third-party Virtual Goods and Services Platform Operators in the Leisure and Entertainment Industry by Revenue and GMV, the PRC, 2019

No.	Company name	Revenue (RMB in millions)	GMV (RMB in billions)	Market share by revenue	Market share by GMV
1	The Company	130.5	1.2	11.7%	7.6%
2	D	86.0	0.9	7.7%	5.3%
3	G	68.9	0.7	6.1%	4.4%
4	F	66.7	0.7	6.0%	4.1%
5	A	52.0	0.5	4.6%	3.2%
Top 5		404.1	4.0	36.1%	24.6%
Total		1,117.4	16.1	100.0%	100.0%

Source: Frost & Sullivan

Ranking of Third-party Virtual Goods and Services Platform Operators in the Games Industry by Revenue and GMV, the PRC, 2019

No.	Company name	Revenue (RMB in millions)	GMV (RMB in billions)	Market share by revenue	Market share by GMV
1	The Company	93.4	3.6	11.8%	6.6%
2	I ⁽¹⁾	42.0	2.1	5.3%	3.8%
3	D	19.4	1.3	2.4%	2.3%
4	K	13.3	1.1	1.7%	2.0%
5	H ⁽²⁾	22.9	1.0	2.9%	1.8%
Top 5		191.0	9.1	24.1%	16.5%
Total		792.4	55.1	100.0%	100.0%

Note:

- (1) Company I is a games-related virtual goods and services platform operator. Company I is not listed on any stock exchange.
- (2) Company H is a games, leisure and entertainment and telecommunications virtual goods and services platform operator. Company H is listed on the National Equities Exchange and Quotations.

Source: Frost & Sullivan

Fulu ranked No. 7 among third-party virtual goods and services platform operators in the telecommunications industry in China by revenue and GMV in 2019:

Ranking of Third-party Virtual Goods and Services Platform Operators in the Telecommunications Industry by Revenue and GMV, the PRC, 2019

No.	Company name	Revenue (RMB in millions)	GMV (RMB in billions)	Market share by revenue	Market share by GMV
1	A	129.4	37.5	13.3%	12.8%
2	B	101.9	34.0	10.4%	11.6%
3	E	47.9	23.9	4.9%	8.1%
4	D	76.1	22.4	7.8%	7.6%
5	C	44.1	20.1	4.5%	6.8%
6	K	27.7	9.0	2.8%	3.1%
7	The Company	15.6	7.7	1.6%	2.6%
Top 5		355.3	117.8	36.4%	40.1%
Total		975.7	293.8	100.0%	100.0%

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Fulu ranked No. 5 among third-party virtual goods and services platform operators in the lifestyle industry in China by revenue and GMV in 2019:

Ranking of Third-party Virtual Goods and Services Platform Operators in the Lifestyle Industry by Revenue and GMV, the PRC, 2019

No.	Company name	Revenue (RMB in millions)	GMV (RMB in billions)	Market share by revenue	Market share by GMV
1	F	31.2	3.1	12.1%	7.5%
2	C	16.7	1.5	6.5%	3.7%
3	K	10.8	1.0	4.2%	2.3%
4	A	5.7	0.5	2.2%	1.3%
5	The Company	2.3	0.3	0.9%	0.7%
Top 5		66.8	6.4	26.0%	15.4%
Total		257.0	41.5	100.0%	100.0%

Source: Frost & Sullivan

MARKET OPPORTUNITIES

Cloud Services

The cloud service market caters to the demands of virtual goods vendors and virtual goods sales channels by providing them with comprehensive, easily deployable and intelligent business solutions. The sales value of China's e-commerce market increased from RMB2.8 trillion in 2014 to RMB10.6 trillion in 2019, representing a CAGR of 30.5%. This has led to increased demand for cloud services, and in particular, PaaS (Platform as a Service) and SaaS (Software as a Service) services, which allow users to develop, run and manage applications without building and maintaining the infrastructure typically associated with developing and launching applications.

With PaaS, virtual goods vendors and virtual goods sales channels can develop and manage applications throughout the e-commerce value chain, including commodity procurement, inventory management, applet malls and distribution management, without building and maintaining a heavy IT infrastructure. With SaaS, virtual goods vendors and virtual goods sales channels can adopt ready-for-use and advanced software technologies to improve efficiency without incurring the time and costs required to develop these strategies on their own.

In 2019, the Chinese government introduced the concept of "Internet Plus public services", encouraging public service organizations to use cloud technology in digital transformation. With supportive government policy, it has become a growing trend for enterprises to establish "one-stop" cloud service platforms.

Southeast Asia Market

Driven by a growing consumer base and improved internet infrastructure, Southeast Asia's virtual goods and services industry has significant growth potential. According to Frost & Sullivan, the market size of Southeast Asia's virtual goods and services industry (i.e. the scale of virtual goods and services transactions conducted through (1) virtual goods vendors' own channels, such as Garena's game platform, (2) sales channels connected to third-party virtual goods and services platform operators, such as Payssion's online payment platform, and (3) other virtual goods sales channels (not involving third-party goods and services platform operators), such as Unpin's top-up platform) grew from a GMV of US\$16.3 billion in 2014 to US\$39.5 billion in 2019 and is expected to further grow to US\$70.2 billion in 2024.

Certain third-party virtual goods and services platform operators are cooperating with Internet giants to seek expansion in Southeast Asia Markets. Third-party virtual goods and services platform operators who possess strong services and operating capabilities are well positioned to capitalize on the growth of Southeast's virtual goods and services industry.

REGULATIONS ON FOREIGN INVESTMENT

Investments conducted by foreign investors in the PRC are subject to the Catalogue of Industries for Encouraging Foreign Investment (《鼓勵外商投資產業目錄》) (the “**Catalogue**”) and the Special Administrative Measures (Negative List) for Foreign Investment Access (《外商投資准入特別管理措施》(負面清單)) (the “**Negative List**”) which were jointly issued by the NDRC and the MOFCOM. The version of the Catalogue that is currently in force was amended in 2019 and became effective on July 30, 2019, which further reduce restrictions on the foreign investment. On June 23, 2020, the NDRC and MOFCOM jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Revision)(《外商投資准入特別管理措施》(負面清單)(2020年版)), which further reduces restrictions on foreign investment and took effect from July 23, 2020. The Negative List sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the Negative List for investment in restricted industries. According to the Negative List and the Catalogue, the proportion of foreign investments in entities engaged in value-added telecommunications business (excluding e-commerce services, domestic multi-party communication services, storage and forwarding services and call center services) shall not exceed 50% and the internet culture business (excluding music) remains as prohibited areas for foreign investment.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**FIL**”) was adopted by the National People’s Congress on March 15, 2019, which became effective on January 1, 2020 and replaced the major existing laws and regulations governing foreign investment in the PRC, including the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《外資企業法》). The FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the FIL, China adopts a system of national treatment plus Negative List with respect to foreign investment administration, and the Negative List will be issued by, amended or released upon approval by the State Council, from time to time. Foreign investment and domestic investment in industries outside the scope of the Negative List would be treated equally. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法實施條例》) (the “**Implementation Regulations**”) which became effective on January 1, 2020. Under the Implementation Regulations, in the event of any discrepancy between the requirements for foreign investment and the FIL and the Implementation Regulations promulgated prior to January 1, 2020, the FIL and the Implementation Regulations shall prevail. The Implementation Regulations also indicated that foreign investors that invest in sectors on the Negative List in which foreign investment is restricted shall comply with special management measures with respect to shareholding, senior management personnel and other matters in the Negative List.

REGULATIONS ON VALUE-ADDED TELECOMMUNICATIONS SERVICES

Value-added Telecommunications Services

On September 25, 2000, the State Council promulgated the Telecommunications Regulations of PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), as amended on July 29, 2014 and February 6, 2016, to regulate telecommunications activities and related operations in China. 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, where value-added telecommunications services is defined as the telecommunications and information services provided through public networks. Pursuant to the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT, or its provincial level counterparts before operation.

The Catalogue of Telecommunications Business (《電信業務分類目錄》), which was issued as an attachment to the Telecommunications Regulations, was promulgated by the Ministry of Information Industry of the PRC (the “**MIIT**”, the predecessor of the MIIT) on February 21, 2003 and last amended by the MIIT on June 6, 2019, further categorizes value-added telecommunications services into two classes Class 1 value-added telecommunications services and Class 2 value-added telecommunications services where Internet information services falls within Class 2 value-added telecommunications services.

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, further regulated the internet information services as a subsector of the telecommunications industry. “Internet information services” are defined as services that provide information to online users through the Internet. Internet information service providers that provide commercial services are required to obtain an operating license with the business scope of internet information service (i.e. the **ICP license**) and service providers that provide online data processing and transaction processing services (for-profit e-commerce) are required to obtain an operating license with the business scope of online data processing and transaction processing service (i.e. the **EDI license**) from the MIIT or its provincial level counterparts.

Restrictions on Foreign-invested Telecommunications Services

The Foreign-invested telecommunications enterprises must comply with 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)) (the “**Foreign Investment Telecommunications Rules**”) issued by the State Council on December 11, 2001 and further amended on February 6, 2016, which requires foreign-invested telecommunications enterprises to be established as sino-foreign equity joint ventures in which the ultimate proportion of capital contribution from foreign investors shall not exceed 50%. In addition, the main foreign

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investor of a foreign-invested telecommunications enterprise engaging in value-added telecommunications business shall demonstrate a good track record and operation experience in operating value-added telecommunications business. Moreover, the establishment of foreign-invested telecommunications enterprises must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts.

On July 13, 2006, the MIIT issued the Circular 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 “**Circular**”), pursuant to which a PRC company that holds an ICP license is prohibited from leasing, transferring or selling the ICP license to foreign investors in any form, and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Moreover, the domain names and registered trademarks used by an operating company providing value-added telecommunications service shall be legally owned by such company and/or its shareholders. The relevant government regulatory authorities have not yet made or issued further interpretation, guidance or implementation rules in respect of the application and implementation of the Circular.

According to the Circular on Loosening the Restrictions on Shareholding by Foreign Investors in Online Data Processing and Transaction Processing Business (for-profit E-commerce) (《關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告》) promulgated by the MIIT on June 19, 2015, foreign investors are allowed to hold up to 100% of all equity interest in the online data processing and transaction processing business (operational e-commerce) in China, while other requirements provided by the Foreign Investment Telecommunications Rules shall still apply. The Negative List also states that foreign investors are allowed to hold up to 100% equity interest in the domestic multi-party communications, storage and forwarding and call center businesses.

REGULATIONS ON VIRTUAL CURRENCY AND VIRTUAL ITEMS

The MOC, the PBOC and 12 other PRC governmental authorities jointly issued the Notice on the Reinforcement of the Administration of Internet Cafés and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》) (the “**Internet Cafés Notice**”) on February 15, 2007, which aimed to strengthen the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system. Strict limits are placed on the total amount of virtual currency issued by online game operators and the amount purchased by individual players pursuant to the Internet Cafés Notice, and a clear division between virtual transactions and real transactions carried out by way of e-commerce is also required. The Internet Cafés Notice also provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

The Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Virtual Currency Notice**”) was promulgated by the MOC and the MOFCOM on June 4, 2009 and came into effect on the same day. Pursuant to the Virtual Currency Notice, the “Enterprises that provide online game virtual currency

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trading services” shall refer to enterprises that provide platform services for trading online game virtual currency between users, and such enterprises shall satisfy the relevant requirements for establishing an operating internet culture organization, and file an application with the provincial culture administrative department where the enterprise is located.

On June 3, 2010, the MOC promulgated the Interim Measures on Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”), which came into effect on August 1, 2010 and was further amended on December 15, 2017. The Online Game Measures governs the research, development and operation of online games and the issuance and trading services of virtual currency. Pursuant to the Online Game Measure, providers of virtual currency trading services are required to obtain ICB licenses. An ICB license is valid for three years and in case of renewal, the renewal application should be submitted 30 days prior to the expiry date of such license.

On February 17, 2011, the MOC promulgated the Internet Culture Administration Tentative Measures (《互聯網文化管理暫行規定》) (the “**Internet Culture Measures**”), which was most recently amended in December 2017. The Internet Culture Measures require operators engaging in “internet culture activities” to obtain a permit from the MCT. The term “internet culture activities” includes, among other things, online dissemination of internet culture products (such as audio-video products, gaming products, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, publication and broadcasting of internet culture products. The Internet Culture Measures provided further that any entity engaging in issuance and transaction service of virtual currencies used for online games shall obtain the ICB licenses.

The online games virtual currency/tools trading business in which our Consolidated Affiliated Entities operate constitutes “internet culture activities” as defined under the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) promulgated by the then PRC Ministry of Culture on February 17, 2011. Under these provisions, an entity carrying out internet culture activities shall obtain an internet culture business license (網絡文化經營許可證) (“**ICB license**”). In May 2019, the MCT issued the Notice on Adjusting the Scope of Examination and Approval regarding the <Internet Culture Business License> to Further Regulate the Approval Work (《關於調整<網絡文化經營許可證>審批範圍進一步規範審批工作的通知》) (the “**Notice on Adjusting the Scope**”). In July 2019, the MCT further issued the Decision on the Abolition of the Interim Measures on Administration of Online Games and the Administrative Measures for Tourism Development Plan (《關於廢止<網絡遊戲管理暫行辦法>和<旅遊發展規劃管理辦法>的決定》) (the “**Decision**”). Pursuant to the Notice on Adjusting the Scope and the Decision:

- (1) the MCT is no longer responsible for regulating the online games businesses in China (including the online games virtual currency/tools trading business) (the “**Online Games Business**”) and has ceased granting or renewing the ICB licenses regulating the Online Games Business (the “**Games-related ICB License**”); and
- (2) a currently valid Games-related ICB License will remain valid until it expires.

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As of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated regarding whether another governmental authority will regulate online games virtual currency/tools trading services. The PRC Legal Advisor has confirmed that it is still unclear as to whether MCT's supervisory responsibility will be transferred to another governmental authority and which governmental authority will officially assume such responsibility to regulate the Online Games Business in China. See "Risk Factors – Risks Relating to Doing Business in China – Uncertainties in the interpretation and enforcement of PRC laws, rules and regulations could materially adversely affect our business" for more details.

We set forth below the relevant Games-related ICB License held by our Consolidated Affiliated Entities:

No.	Name of entities	Period of validity of the ICB license held
1.	Wuhan Fulu	From April 18, 2019 till April 17, 2022
2.	Wuhan Yiqiyou	From November 2, 2018 till November 1, 2021
3.	Wuhan Lishuo	From January 13, 2019 till January 12, 2022
4.	Tibet Fulu	From April 17, 2019 till April 16, 2022
5.	Wuhan Souka	From September 22, 2017 till September 21, 2020
6.	Wuhan Tianshi	From October 23, 2018 till October 22, 2021
7.	Hubei Kejin	From September 22, 2017 till September 21, 2020
8.	Wuhan Yilu	From December 5, 2017 till December 4, 2020

All these eight operating entities are providing online games virtual currency/tools trading services.

The PRC Legal Advisor, the Company's Hong Kong legal advisor, the Sole Sponsor and the Sole Sponsor's PRC Legal Advisor conducted the following verbal consultations:

- (a) on April 2, 2020, they conducted a verbal consultation with an officer of the relevant department of the Enforcement Bureau of Culture-related Market of Lhasa (拉薩市文化市場綜合執法支隊), a government entity responsible for law enforcement in relation to cultural-related activities, including broadcasting, press publication, cultural relics, and internet culture activities, with the power to impose administrative penalties on violation of cultural-related laws and regulations (including the laws and regulations regulating ICB licenses) in Lhasa, where Tibet Fulu was incorporated; and
- (b) on April 11, 2020, they conducted a verbal consultation with two officers of the relevant departments of the Wuhan Culture and Tourism Bureau (武漢市文化和旅遊局), a government entity regulating internet cultural activities (including the ICB licence) and supervising law enforcement in relation to cultural-related activities in Wuhan, where Wuhan Fulu, Wuhan Yiqiyou, Wuhan Lishuo, Wuhan Souka, Wuhan Tianshi, Hubei Kejin and Wuhan Yilu were incorporated.

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During the above verbal consultations, the relevant officers confirmed that, until the promulgation of new laws and regulations:

- (1) the ICB Entities will not be subject to penalties if they continue operating online games virtual currency/tools trading businesses after the expiration of their respective Games-related ICB Licenses; and
- (2) the ICB Entities will not be required to cease operating their online games virtual currency/tools trading businesses due to the expiration of their respective Games-related ICB Licenses.

Our PRC Legal Advisor confirmed that the above officers consulted have competent authority to make the confirmations above. As advised by our PRC Legal Advisor, with the Notice on Adjusting the Scope and the Decision, the Games-related ICB License is no longer applicable for carrying out the Online Games Business. Based on the consultations above, our PRC Legal Advisor has also confirmed to us that, until the promulgation of new laws and regulations:

- (1) the ICB Entities can continue operating online game virtual currency/tools trading businesses as usual after the expiration of their Games-related ICB License; and
- (2) the ICB Entities will not be subject to penalties or a request to cease their online games virtual currency/tools trading business after the expiration of their Games-related ICB Licenses solely because such licenses have expired and have not been renewed.

Based on the review of the latest legislation agenda issued and published by the State Council, which outlines the plans of (a) legislating and formulating new laws and regulations; and (b) proposed amendments to the existing laws and regulations by the State Council and state administrations for a certain period in future, our PRC Legal Advisor is not aware of any plans by the State Council or the state administrations to promulgate new laws or regulations, or amend existing laws or regulations in respect of the online games industry (including the online games virtual currency/tools trading business). As of the Latest Practical Date, our PRC Legal Advisor understood that there were no material changes to the laws or regulations in respect of the online games virtual currency/tools trading business. Based on the circumstances known to our Directors, as of the Latest Practicable Date, our Directors did not expect that the licensing requirement in respect of our online games virtual currency/tools trading business would materially change or our Group would be required to comply with additional requirements for obtaining necessary licenses for our online games virtual currency/tools trading business. In addition, since our Consolidated Affiliated Entities currently engaging in the online games virtual currency/tools trading business have satisfied the licensing requirements of a Games-related ICB License and obtained a valid Games-related ICB License, our Directors are of the view that the Group should be able to comply with additional requirements for obtaining the necessary licenses if any new laws and regulations are promulgated.

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Based on public searches of the latest PRC laws, regulations and policies, as of the Latest Practicable Date, we were not aware of (a) promulgation of new laws, regulations or policies; or (b) issuance of notices of draft laws or regulations which impose additional requirements for obtaining the necessary licenses for the online games business (including the online games virtual currency/tools trading business). Our Directors are of the view that (a) the uncertainty of being unable to renew the Group's Games-related ICB Licenses arising from the Notice on Adjusting the Scope and the Decision is due to the current regulatory vacuum; and (b) considering valid Games-related ICB Licenses were required for all PRC companies carrying out the online games-related business (including online games virtual currency/tools trading business), companies in the online game industry will face the same uncertainty of being unable to renew their Games-related ICB Licenses. We will closely monitor the latest regulatory developments and use our best endeavours to comply with new regulations and policies. We will also disclose the latest regulatory landscape and our compliance with new regulatory requirements in the announcements, interim reports and/or annual reports to be issued after the Listing according to the Listing Rules.

REGULATIONS ON ONLINE COMMERCE

On August 31, 2018, the Standing Committee of the National People's Congress (the "SCNPC") promulgated the E-commerce Law of the PRC (《中華人民共和國電子商務法》), which came into effect on January 1, 2019. The E-commerce Law imposes a series of requirements on e-commerce operators including e-commerce platform operators, merchants operating on the platform and the individuals and entities carrying out business online. According to the E-commerce Law, e-commerce platform operators are required to assume joint liability with the merchants and may be subject to warnings and fines up to RMB2 million where (i) they fail to take necessary actions when they know or should have known that the products or services provided by the merchants on the platform do not meet personal and property security requirements, or otherwise infringe upon consumers' legitimate rights; or (ii) they fail to take necessary actions, such as deleting and blocking information, disconnecting, terminating transactions and services, when they know or should have known that the merchants on the platform infringe upon the intellectual property rights of others.

REGULATIONS ON INTERNET SECURITY AND PRIVACY PROTECTION

On December 28, 2000, the SCNPC enacted the Decision on the Protection of Internet Security (《關於維護互聯網安全的決定》), as amended on August 27, 2009, which provides that the following activities conducted through the internet are subject to criminal liabilities: (a) gaining improper entry into any of the computer information networks relating to state affairs, national defensive affairs, or cutting-edge science and technology; (b) spreading rumor, slander or other harmful information via the internet for the purpose of inciting subversion of the state political power; (c) stealing or divulging state secrets, intelligence or military secrets via internet; (d) spreading false or inappropriate commercial information; or (e) infringing on the intellectual property.

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The Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), promulgated on December 13, 2005 by the Ministry of Public Security, require all internet information services operators to take proper measures to control computer viruses, back up data, and keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days. Under these measures, value-added telecommunications services license holders must regularly update information security and content control systems for their websites and must also report any public dissemination of prohibited content to local public security authorities.

Under the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT on December 29, 2011, internet information services operators are also prohibited from collecting any personal user information or providing any information to third parties without the consent of the user.

In addition, the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) (the “**Decision**”) promulgated by the SCNPC on December 28, 2012 emphasizes the need to protect electronic information that contains individual identification information and other private data. The Decision requires internet information services operators to establish and publish policies regarding the collection and use of personal electronic information and to take necessary measures to ensure the security of the information and to prevent leakage, damage or loss. Furthermore, MIIT’s Rules on Protection of Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》) promulgated on July 16, 2013 and came to effective on September 1, 2013 contain detailed requirements on the use and collection of personal information, under which telecommunications business operators and internet information service providers are required, in the course of providing services, to collect and use the personal information of users in a lawful and proper manner by following the principle that information collection or use is necessary and to be responsible for the security of the personal information of users collected and used in the course of providing services.

On November 7, 2016, the SCNPC promulgated the Cybersecurity Law (《中華人民共和國網絡安全法》), which came into effect on June 1, 2017, and applies to the construction, operation, maintenance and use of networks as well as the supervision and administration of cybersecurity in China. The Cybersecurity Law defines “networks” as systems that are composed of computers or other information terminals and relevant facilities used for the purpose of collecting, storing, transmitting, exchanging and processing information in accordance with certain rules and procedures. Under the Cybersecurity Law, network operators are generally obligated to protect their networks against disruption, damage or unauthorized access, and to prevent data leakage, theft or tampering. In addition, network operators will also be subject to specific rules depending on their classification under the multi-level network security protection scheme. Providers of network products and services must comply with national standards and ensure the security of their products. The critical network equipment and network security products must be tested by accredited evaluation centers before being marketed in China. The Cybersecurity Law provides an exception to the consent requirement

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where the information is anonymous, not personally identifiable and unrecoverable. Internet information services operators must expressly inform the users of the method, content and purpose of the collection and processing of user personal information and may only collect information necessary for its services. Internet information services operators are also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, Internet information services operators must take remedial measures immediately and report any material leak to the telecommunications regulatory authority.

On May 28, 2019, the Cyberspace Administration of China promulgated the Consultation draft of the new Measures for Data Security Management (《數據安全管理辦法(徵求意見稿)》) (the “**Consultation Draft**”) based on the Cybersecurity Law regarding the protection of important data and personal information. On July 3, 2020, the SCNPC promulgated the Data Security law (Draft) (《數據安全法(草案)》) (the “**Draft**”). The Draft reiterated that entities and individuals must obtain a license to engage in data processing activities. As of the Latest Practicable Date, the contents of the Consultation Draft and the Draft were still under discussion and it remained uncertain 1) if and when the Consultation Draft and the Draft will be promulgated, and 2) if the Consultation Draft and the Draft, once promulgated, will stipulate additional data security protection obligations.

REGULATIONS ON INTELLECTUAL PROPERTY RIGHT

Trademark

On August 23, 1982, the SCNPC promulgated the PRC Trademark Law (《中華人民共和國商標法》) (the “**Trademark Law**”), amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019, and the Implementation Regulations for the Trademark Law (《商標法實施條例》) promulgated by the State Council on April 29, 2014 and as of effect since May 1, 2014. The Trademark Law and its implementation regulations set forth an application for trademark registration shall be filled in based on the published classification of commodities and services. The description of commodities or services shall be filled in based on the class number and description in the classification of commodities and services; where the commodities or services are not listed in the classification of commodities and services, a statement on the commodities or services shall be attached.

According to the Trademark Law and its implementation regulations, the period of validity for a registered trademark is 10 years, from the date of registration. Upon expiry of the period of validity, the registrant shall go through the formalities for renewal within twelve months prior to the date of expiry as required if the registrant needs to continue to use the trademark. Where the registrant fails to do so, a grace period of six months may be granted. The period of validity for each renewal of registration is 10 years, from the day immediately after the expiry of the preceding period of validity for the trademark. In the absence of a renewal upon expiry, the registered trademark shall be cancelled.

Copyright law

On September 7, 1990, the SCNPC promulgated the PRC Copyright Law (《中華人民共和國著作權法》), promulgated, and amended in 2001 and 2010 (the “**Copyright Law**”), and its related implementing regulations, promulgated in 2002 and amended in 2013, are the principal laws and regulations governing the copyright related matters. The amended Copyright Law covers internet activities, products disseminated over the internet and software products, among the subjects entitled to copyright protections. Registration of copyright is voluntary, and it is administrated by the China Copyright Protection Center. Under the Copyright Law, the term of protection for copyrighted software is 50 years.

On February 20, 2002, the National Copyright Administration promulgated the Computer Software Copyright Registration Measures (the “**Software Copyright Measures**”) (《計算機軟件著作權登記辦法》), which regulates software copyright registration, software copyright exclusive license contracts, and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the “**CPCC**”), is designated as the software registration authority. The Computer Software Protection Regulations (2013 Revision) (《計算機軟件保護條例(2013年修訂)》) (the “**Computer Software Protection Regulations**”) issued by the State Council, which stipulates that software copyright owners and relevant matters associated with the protection, registration, licensing and transfer of software copyright, and stipulates that software copyright owners may obtain registration from the software registration authority acknowledged by the copyright administrative department under the State Council. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which complies with the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations 《計算機軟件保護條例》 (as amended in 2013).

Patents

The National People’s Congress promulgated the PRC Patent Law (《中華人民共和國專利法》) in 1984 and subsequently amended in 1992, 2000 and 2008, and the State Council promulgated its Implementation Rules (《中華人民共和國專利法實施細則》) in 2001 and last amended in 2010. The Patent Law of the PRC and its implementation rules stipulates that a patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention and a ten-year term for a utility model or design, starting from the application date. 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, the patent will be granted to the person who files the application first. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

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According to the Patent Law, if the Patent Office finds the application of an invention conforms to the legal requirements after its preliminary examination of such application documents, it shall publish the application promptly within 18 full months after the filing date. According to the Guidelines of Patent Examination (《專利審查指南》) issued on May 24, 2006 and effective on July 1, 2006, the examination of patent shall include the preliminary examination, the substantive examination, examination of international applications entering the national phase and review. However, the above-mentioned regulations do not explicitly state how long it takes for a patent application to be approved or denied.

Domain name

On August 24, 2017, the MIIT promulgated the Administrative Measures for Internet Domain Names(《互聯網域名管理辦法》) (the “**Domain Name Measures**”), effective as of November 1, 2017. The Domain Name Measures replaced the Administrative Measures on China Internet Domain Names promulgated by the MIIT on November 5, 2004. The principle of “first apply, first register” applies to domain name registration service in accordance with the Domain Name Measures. In the event that there is any change to the contact information of a domain name holder, the holder shall go through formalities for changes to the registered information of its domain name with the domain name registrar concerned within 30 days after such change arises. In addition, the corresponding permit shall be obtained pursuant to the Domain Name Measures from the MIIT or the communication administrative bureau of the province, autonomous region or centrally-administered municipality for establishment of domain name root servers and domain name root server operating organizations, domain name registration management organizations and domain name registration service organizations.

According to the Notice on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》) issued by the MIIT on November 27, 2017, effective as of January 1, 2018, the domain name used by an internet-based information service provider in providing internet-based information services shall be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant shall be the entity (or any of the entity’s shareholders), the entity’s principal or the senior manager.

REGULATIONS ON CONSUMER PROTECTION

Our business is subject to a variety of consumer protection laws, including the Law of the People’s Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), which was revised and took effect on March 15, 2014, On January 26, 2014, and State Administration for Industry and Commerce Promulgated Administrative Measures on Online Transactions (《網絡交易管理辦法》), which impose strict requirements and obligations on business operators.

If we do not comply with these consumer protection laws, we may be subject to administrative penalties such as warning, confiscation of illegal income, fine, suspension of business, revocation of business license, as well as potential civil or criminal liabilities.

REGULATIONS ON FOREIGN EXCHANGE

Regulations on Foreign currency exchange

The core regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (《外匯管理條例》), as amended in August 2008. Certain organizations in the PRC, including FIEs, may purchase, sell and/or remit foreign currencies at certain banks authorized to conduct foreign exchange businesses upon providing valid commercial documents. However, an approval of the PRC State Administration of Foreign Exchange (“SAFE”) is required for capital account transactions.

In March 2015, SAFE released the Notice on the Reform of the Administration Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), which allows FIEs to settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation and provides the procedures for foreign invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments. Nevertheless, Circular 19 also reiterates the principle that Renminbi converted from foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope.

SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》), or Circular 16 in June 2016, which provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding Renminbi obtained from foreign exchange settlement are not restricted from extending loans to related parties or repaying the inter-company loans (including advances by third parties).

On January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《關於進一步推進外匯管理改革完善真實合規性審核的通知》), which relaxing the policy restriction on foreign exchange inflow to further enhance trade and investment facilitation and tightening genuineness and compliance verification of cross-border transactions and cross-border capital flow.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

The SAFE issued the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through 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》) (the “SAFE Circular No. 37”) on July 4, 2014. On the same day, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment with respect to the procedures for SAFE registration under the SAFE Circular No. 37, which became effective on July 4, 2014 as an attachment to SAFE Circular No. 37.

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SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on 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》) on February 13, 2015 and effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment, it simplifies the procedure of registration of foreign exchange. However, remedial registration applications made by PRC residents that previously failed to comply with the SAFE Circular No. 37 continue to fall under the jurisdiction of the relevant local branch of the SAFE. If the Chinese shareholder holding the interest in the special purpose instrument does not complete the required registration of the SAFE, the Chinese subsidiary of the special purpose instrument may be prohibited from distributing profits to the overseas parent company and conducting subsequent cross-border foreign exchange transactions, the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Ultimately, non-compliance with the various registration requirements of the SAFE, may result in liability to evade foreign exchange control under PRC law.

Regulations on Stock Incentive Plans

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or Circular 7, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign-owned subsidiaries in China and limit these subsidiaries' ability to distribute dividends to us. The PRC agents shall, 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 PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches. We and our PRC citizen employees who have been granted share options, or PRC optionees, are subject to the Stock Option Rules. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rule and the Stock Option Rules, we and our PRC optionees may be subject to fines and other legal sanctions. See "Risk Factors – Risks Relating to Doing Business in China – PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary or limit our PRC subsidiary' ability to increase its registered capital or distribute profits".

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In addition, the State Administration for Taxation has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.

REGULATIONS ON TAXATION

Regulations on Enterprise Income Tax

On March 16, 2007, the SCNPC promulgated the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which was amended on February 24, 2017 and December 29, 2018. On December 6, 2007, the State Council enacted the Regulations for the Implementation of the Enterprise Income Tax Law (《企業所得稅法實施條例》) amended on April 23, 2019, or collectively, the EIT Law. The EIT Law came into effect on January 1, 2008. Under the EIT Law, both resident enterprises and non-resident enterprises are subject to tax in the PRC. 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 are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have 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 applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment 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, enterprise income tax is set at the rate of 10% with respect to their income sourced from inside the PRC.

Notice of the State Administration of Taxation on Issues Concerning the Determination of Chinese-Controlled Enterprises Registered Overseas as Resident Enterprises on the Basis of Their Bodies of Actual Management (《國家稅務總局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》) issued by the State Administration of Taxation (the “SAT”) in April 2009 and most recently amended in December 2017, which provides guidance on the determination of the tax residence status of a Chinese-controlled offshore incorporated enterprise, defined a Chinese-controlled offshore incorporated enterprise as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC enterprise or enterprise group as its primary controlling shareholder.

REGULATORY OVERVIEW

According to Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) was issued by the SAT on October 17, 2017 and became effective as of December 1, 2017, if a non-PRC resident fails to comply with the tax payment obligations, the tax authority may seek the payment of tax arrears and late fees payable from other income of the non-PRC resident within the territory of China.

According to the EIT Law and the EIT Regulations, enterprises identified as a high and new technology enterprise can enjoy a preferential corporate income tax rate of 15%. According to the Measures for Administration of Recognition of High and New Technology Enterprise (《高新技術企業認定管理辦法》) effective from January 1, 2008 and amended on January 29, 2016, an enterprise identified as a high and new technology enterprise is subject to review by the relevant PRC authorities and shall submit the information about the relevant intellectual property, scientific and technical personnel, research and development expense, operating revenue of previous year and other annual status on the required official website.

The Notice on Income Tax Policies for Further Encouraging the Development of 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》), promulgated by the Ministry of Finance of the PRC (the “MOF”) and the SAT on April 20, 2012 and effective on January 1, 2011, provides that key software enterprises and integrated circuit design enterprises included in the national plan that have not enjoyed tax exemption preferences in the current year may pay enterprise income tax at a reduced rate of 10%.

On July 27, 2011, Ministry of Finance, General Administration of Customs and State Administration of Taxation jointly promulgated Notice on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy (《關於深入實施西部大開發戰略有關稅收政策問題的通知》), which provided that from January 1, 2011 to December 31, 2020, the enterprise income tax imposed upon any enterprise established in western regions and included among the encouraged industries shall be collected at the reduced rate of 15%.

The Public Announcement from the State Administration of Taxation on Corporate Income Tax Issues Relating to In-depth Implementation of the Western China Development Strategies (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》) and the Announcement of the State Administration of Taxation on Issues Relating to Enterprise Income Tax Pertaining to Implementation of the Catalogue of Encouraged Industries in Western Region (《國家稅務總局關於執行<西部地區鼓勵類產業目錄>有關企業所得稅問題的公告》) were promulgated by the SAT on April 6, 2012 and March 10, 2015 respectively. With effect from October 1, 2014, enterprises established in the Western region whose principal business is any of the newly-added encouraged industry listed in the Catalogue of Encouraged Industries in Western Region and whose revenue from principal business accounts for more than 70% of its total revenue of the given year may pay enterprise income tax at the reduced rate of 15%.

REGULATORY OVERVIEW

Regulations on Value-Added Tax

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009 and most recently amended on February 6, 2016. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) (Revised in 2011) was promulgated by the MOF on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, or collectively, VAT Law. On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax (the “**Order 691**”). According to the VAT Law and the Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT. The VAT tax rates generally applicable are simplified as 13%, 9%, 6% and 0%, and the VAT tax rate applicable to the small-scale taxpayers is 3%.

On November 16, 2011, the MOF and the SAT jointly promulgated the Pilot Plan for Levying Value-Added Tax in lieu of Business Tax (《營業稅改徵增值稅試點方案》). Since January 1, 2012, the Chinese government has gradually implemented a pilot program in some provinces and cities, levying a 6% value-added tax on revenue generated by certain services in place of business tax.

On May 6, 2016, the State Administration of Taxation promulgated The Measures for the Exemption of Value-Added Tax from Cross-Border Taxable Activities in the Collection of Value-Added Tax in Lieu of Business Tax (《營業稅改徵增值稅跨境應稅行為增值稅免稅管理辦法(試行)》) (for Trial Implementation) and revised on June 15, 2018, provides that if domestic enterprises provide cross-border taxable activities such as professional technical services, technology transfer, software services, the above-mentioned cross-border taxable activities are exempt from VAT.

On March 23, 2016, the MOF and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (《關於全面推開營業稅改徵增值稅試點的通知》), came into effect on May 1, 2016, business tax will be replaced by value-added tax.

According to the Adjustment to Value-added Tax Rates issued by the Ministry of Finance and the State Administration of Taxation (《財政部、國家稅務總局關於調整增值稅稅率的通知》), promulgated on April 4, 2018, and came into effect on May 1, 2018, the deduction rates applicable to taxpayers of VAT are 17% and 11% sales activities or imported goods are adjusted to 16% and 10%, respectively.

According to the Circular on Policies in Relation to the Deepening of Value-added Tax Reforms (《關於深化增值稅改革有關政策的公告》) issued on March 20, 2019 and became effective on April 1, 2019, the tax rate of 16% and 10% originally applicable to general VAT taxpayers' VAT taxable sales or goods import shall be adjusted to 13% and 9%, respectively.

Regulations on Dividend Withholding Tax

Individual Investors

On September 10, 1980, the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) was promulgated, and was amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007, June 30, 2011, August 31, 2018. The latest amendments came into effect on January 1, 2019.

On January 28, 1994, the Provision for Implementation of the Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》) was promulgated, and was amended on December 19, 2005, February 18, 2008, July 19, 2011 and December 18, 2018 and the latest amendments took effect on January 1, 2019. Pursuant to the Individual Income Tax Law and its implementation, dividends declared by Chinese companies to individuals are usually subject to a PRC withholding tax levied at a flat rate of 20%. For foreign individuals who are not Chinese residents, dividends received from Chinese companies are usually subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or the applicable tax reduction treaty.

Enterprises

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which 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.

Tax Treaties

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 Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**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 Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretions, 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.

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On October 14, 2019, Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》) (the “**SAT Circular 35**”) was promulgated by the SAT and came into effect on January 1, 2020. Under SAT Circular 35, non-resident taxpayers who make their own declarations shall make self-assessments regarding whether they are entitled to tax treaty benefits and submit the relevant reports, statements and materials stipulated in Article 7 of the SAT Circular 35, and the declaration shall be subject to the subsequent administration by the tax authorities.

According to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties (《關於稅收協定中「受益所有人」有關問題的公告》), which was issued on February 3, 2018 by the SAT and took effect on April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

The principle laws that govern employment include: (i) Labor Law of the People’s Republic of China(《中華人民共和國勞動法》), promulgated by the SCNPC on July 5, 1994, effective since January 1, 1995 and last amended on December 29, 2018; and (ii) Labor Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》), promulgated by the SCNPC on June 29, 2007 and amended on December 28, 2012.

According to the Labor Law and Labor Contract Law, employers must execute written labor contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly comply with state rules and standards and provide employees with workplace safety training. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative penalties. For serious violations, criminal liability may arise.

In accordance with the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended in 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 January 1, 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

REGULATORY OVERVIEW

的決定》) promulgated on July 16, 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 December 14, 1998, the Unemployment Insurance Measures promulgated on January 22, 1999, the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011 and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) promulgated on January 22, 1999 and amended on March 24, 2019, enterprises are obliged to provide benefits to their employees in China, including pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. These payments will be paid to the local administration, and any employer who fails to pay can be fined and ordered to make additional payments within a specified period.

According to the Provisions on the Management of Housing Provident Funds (《住房公積金管理條例》), which was promulgated by the State Council in 1999 and recently revised in 2019, enterprises must be registered with the Housing Provident Fund Management Center and reviewed. These enterprises should complete the procedures for opening an employee housing fund deposit account with the relevant bank through the Housing Fund Management Center. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

REGULATIONS ON PREPAID COUPONS/MEMBERSHIPS

The principal PRC laws and regulations relating to prepaid coupons/memberships include (i) the Opinions on Regulating the Administration of Commercial Prepaid Cards (關於規範商業預付卡管理的意見), (ii) the Prepaid Card Business of Payment Institutions (支付機構預付卡業務管理辦法) and (iii) the Administrative Measures for Single-purpose Commercial Prepaid Cards (for Trial Implementation) (單用途商業預付卡管理辦法(試行)). Pursuant to these regulations, real-name prepaid cards are valid indefinitely, while anonymous prepaid cards are valid for at least three years. However, prepaid card issuers and entities that operate within the same group or under the same brand franchise as the card issuers are obligated to extend, activate or replace cards with remaining balances after the validity periods of the cards expire.

As advised by our PRC advisers, because we do not engage in the issuance of prepaid cards or operate within the same group or under the same brand franchise as any card issuers, the laws and regulations described above would not materially impact our business and we do not need to comply with the relevant regulations for card issuers and entities that operate within the same group or under the same brand franchise as the card issuers. Accordingly, we are not liable for unused coupons/memberships pursuant to the foregoing regulations.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on October 31, 2019. As part of the Reorganization, our Company became the holding company of our Group for the purpose of the Listing with our businesses conducted through our subsidiaries and Consolidated Affiliated Entities. Please see “– Reorganization” below for more details.

Our Group’s history can be traced back to 2009 when Wuhan Fulu was incorporated in the PRC as a limited liability company by Mr. Fu Xi and an independent third party. Upon incorporation, Wuhan Fulu primarily engaged in virtual goods-related services for the online games industry. Subsequently, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao joined the Group during 2009 to 2013 and each contributed to the development of the Group by performing key management duties. They have also contributed their own funds to subscribe to the share capital of Wuhan Fulu to support its development. Mr. Fu Xi, Mr. Zhang Yuguo and Mr. Shui Yingyu were high school classmates. Being interested in IT and having recognized the business opportunities in virtual goods-related services, Mr. Zhang Yuguo and Mr. Shui Yingyu decided to join the Group in 2009 and 2010, respectively. Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao became acquainted later in 2012 as they had been working in the same industry. Mr. Zhao Bihao subsequently joined the Group in 2013.

Over the years, we expanded our business by innovation and venturing into new areas. In addition to serving participants in the online games industry, we now serve a wide range of virtual goods vendors, covering leisure and entertainment, games, telecommunications and lifestyle services. We have built strong relationships with virtual goods vendors and virtual goods sales channels. As a technology-driven company, we developed the Fulu Open Platform, which can be embedded into the internet systems of virtual goods vendors and virtual goods sales channels, featuring convenient, scalable and reliable performance and low latency. We are now a leading third-party virtual goods and services platform operator in China. Our primary businesses currently comprise virtual goods-related services and value-added services. For details of the background of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao and their key responsibilities, see “Directors and Senior Management – Board of Directors – Executive Directors”. For details of the shareholding changes of Wuhan Fulu and other companies of the Group, please see “– Our Major Subsidiaries and Consolidated Affiliated Entities” below.

KEY MILESTONES

The following is a summary of our key milestones and achievements in the business development of our Group:

Year	Event
2009	Wuhan Fulu was founded.
	We started to develop our own top-up system.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Event
2010	We launched our platform Kamen website (卡門網) to begin providing virtual goods and services.
2012	We began to provide mobile top-up services. We began to provide TSC services for applications.
2014	We began to provide top-up services for video platforms and mobile games. We began to provide MALL services and started operation of online stores.
2015	We began to provide virtual goods related services for music and sports platforms.
2017	We began to provide virtual goods related services for live streaming platforms, including sale of membership cards and traffic acquisition services. We began to provide user acquisition and management services, such as mini-games. We launched our Shuyu platform which provided POP and H5-based services.
2018	We began to provide virtual goods related services for lifestyle services providers such as restaurants, bakeries and online grocery stores.
2019	We expanded our virtual goods related services for the leisure and entertainment industry by beginning to provide services to online education content providers. We began to help virtual goods vendors develop mini-programs and ISV applet. We began to provide text messaging services, including verification code authentication, text message marketing, multimedia messaging and order tracking. We launched the Fulu Open Platform, which serves as a gateway for virtual goods vendors to access a wide variety of sales channels and is not open to end consumers for purchases of virtual goods (i.e. consumers do not have access to Fulu Open Platform).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR MAJOR SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES

The principal business activities, dates of establishment and commencement of business and other material information of each of our subsidiaries and Consolidated Affiliated Entities that primarily responsible for the results, assets, liabilities or businesses of the Group during the Track Record Period and up to the Latest Practicable Date are shown below:

Name of entity	Place of incorporation	Registered share capital	Principal business activities	Business License(s) Owned	Date of establishment and commencement of business	Relationship with our Company
Wuhan Fulu	PRC	RMB19,688,935	Provision of services to facilitate virtual goods transactions	ICP license EDI license ICB license	March 24, 2009	controlled by our Company through the Contractual Arrangements
Wuhan Yiqiyou	PRC	RMB10,000,000	Provision of services to facilitate virtual goods transactions	ICP license ICB license	June 4, 2012	a wholly-owned subsidiary of Wuhan Fulu and controlled by our Company through the Contractual Arrangements
Tibet Fulu	PRC	RMB10,000,000	Provision of services to facilitate virtual goods transactions	ICP license EDI license ICB license	December 8, 2016	a wholly-owned subsidiary of Wuhan Fulu and controlled by our Company through the Contractual Arrangements
Xinjiang Fulu	PRC	RMB5,000,000	Provision of services to facilitate virtual goods transactions	ICP license EDI license	December 27, 2016	a wholly-owned subsidiary of Wuhan Fulu and controlled by our Company through the Contractual Arrangements
Kashgar Yiqiwan	PRC	RMB10,000,000	Provision of services to facilitate virtual goods transactions	ICP license	March 14, 2014	controlled by our Company through the Contractual Arrangements
Fulu Technology	PRC	RMB200,000,000	Investment holding	–	December 25, 2019	a wholly-owned subsidiary of our Company

Wuhan Fulu

Wuhan Fulu was incorporated as a limited liability company in the PRC on March 24, 2009 with an initial registered capital of RMB30,000 and owned as to 50% by Mr. Fu Xi and 50% by Mr. Zhou Xuanzheng, an independent third party as of the Latest Practicable Date. Mr. Zhou Xuanzheng did not actively participate in the management of Wuhan Fulu.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On August 25, 2011, the registered capital of Wuhan Fulu was increased to RMB500,000. Mr. Fu Xi contributed RMB470,000 for the purpose of increasing the registered capital of Wuhan Fulu. Immediately after the increase of the registered capital, Wuhan Fulu was owned as to 97% by Mr. Fu Xi and 3% by Mr. Zhou Xuanzheng.

On April 22, 2013, the registered capital of Wuhan Fulu was further increased to RMB1 million. Mr. Fu Xi contributed RMB500,000 for the purpose of increasing the registered capital of Wuhan Fulu. Immediately after the increase of the registered capital, Wuhan Fulu was owned as to 98.5% by Mr. Fu Xi and 1.5% by Mr. Zhou Xuanzheng.

On July 23, 2015, due to personal reasons, Mr. Zhou Xuanzheng transferred 1.5% of the equity interest in Wuhan Fulu to Mr. Shui Yingyu, one of our Controlling Shareholders and an executive Director, for a consideration of RMB16,000.

On December 25, 2015, the registered capital of Wuhan Fulu was further increased to RMB10 million. Mr. Fu Xi and Mr. Shui Yingyu contributed RMB8,865,000 and RMB135,000 for the purpose of increasing the share capital of Wuhan Fulu, respectively. Immediately after the increase of the registered capital, Wuhan Fulu was owned as to 98.5% by Mr. Fu Xi and 1.5% by Mr. Shui Yingyu.

On December 15, 2017, Mr. Zhang Yuguo, Tibet Fuxu, Tibet Fulong, Mr. Shui Yingyu and Mr. Zhao Bihao subscribed to additional registered capital of RMB2,968,324, RMB2,504,019, RMB2,255,072, RMB1,234,998 and RMB726,522 of Wuhan Fulu, respectively. As a consequence, the registered capital of Wuhan Fulu was further increased to RMB19,688,935. Upon completion of such capital increase and up to the Latest Practicable Date, Wuhan Fulu was held as to 50.03% by Mr. Fu Xi, 15.08% by Mr. Zhang Yuguo, 12.72% by Tibet Fuxu, 11.45% by Tibet Fulong, 7.03% by Mr. Shui Yingyu and 3.69% by Mr. Zhao Bihao. For details of Tibet Fuxu and Tibet Fulong, please see “– Our Major Subsidiaries and Consolidated Affiliated Entities – Employee Shareholding Vehicles” below.

Wuhan Yiqiyou

Wuhan Yiqiyou was incorporated as a limited liability company in the PRC on June 4, 2012 with an initial registered capital of RMB100,000 and owned as to 50% by Mr. Tian Xuan and 50% by Mr. Liu Lufeng. Upon incorporation of Wuhan Yiqiyou, Mr. Tian Xuan and Mr. Liu Lufeng were both employees of the Group and they each entered into a nominee shareholder agreement with Wuhan Fulu to record and confirm that they held their respective equity interest in Wuhan Yiqiyou for the benefit and on behalf of Wuhan Fulu.

On October 30, 2014, the registered capital of Wuhan Yiqiyou was increased from RMB100,000 to RMB0.5 million. At the direction of Wuhan Fulu, Mr. Tian Xuan and Mr. Liu Lufeng each subscribed to additional share capital of RMB200,000 of Wuhan Yiqiyou. Upon completion of such capital increase, Wuhan Yiqiyou was held as to 50% and 50% by Mr. Tian Xuan and Mr. Liu Lufeng for the benefit and on behalf of Wuhan Fulu.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On November 11, 2015, the registered capital of Wuhan Yiqiyong was increased from RMB0.5 million to RMB10 million. At the direction of and on behalf of Wuhan Fulu, Mr. Liu Lufeng subscribed to additional registered share capital of RMB9.5 million of Wuhan Yiqiyong. Upon completion of such capital increase, Wuhan Yiqiyong was held as to 2.5% by Mr. Tian Xuan and 97.5% by Mr. Liu Lufeng. On the same day, Mr. Tian Xuan and Mr. Liu Lufeng each entered into a nominee shareholder agreement with Wuhan Fulu to re-confirm that they held their respective equity interest in Wuhan Yiqiyong for the benefit and on behalf of Wuhan Fulu.

On April 28, 2017, Mr. Tian Xuan and Mr. Liu Lufeng each entered into an equity transfer agreement with Wuhan Fulu to transfer the entire equity interest in Wuhan Yiqiyong to Wuhan Fulu for a consideration of RMB500,000. Wuhan Yiqiyong became a wholly-owned subsidiary of Wuhan Fulu.

Kashgar Yiqiwan

Kashgar Yiqiwan was incorporated as a limited liability company in the PRC on March 14, 2014 with an initial registered capital of RMB10 million and owned as to 50% by Mr. Zhang Yuguo, one of our Controlling Shareholders and an executive Director, and 50% by Mr. Fu Lulu, an independent third party. Upon incorporation, the corporate name of Kashgar Yiqiwan was Wuhan Yiqiwan Network Technology Co., Ltd. (武漢一起玩網絡科技有限公司), which has been changed to Kashgar Yiqiwan Network Technology Co., Ltd. (喀什一起玩網絡科技有限公司) since April 1, 2017.

On December 14, 2016, Mr. Fu Lulu transferred 50% of the equity interest in Kashgar Yiqiwan to Mr. Wu Xuliang, an employee of the Group at the time. Prior to the change of the company's name in 2017, Mr. Zhang Yuguo and Mr. Wu Xuliang had entered into nominee shareholder agreements with Wuhan Fulu to record and confirm that they held their respective equity interest in Wuhan Yiqiwan for the benefit and on behalf of Wuhan Fulu. Shortly after the change of the company's name to Kashgar Yiqiwan, Mr. Wu Xuliang and Mr. Zhang Yuguo re-entered into such nominee shareholder agreements (the “**Nominee Shareholder Agreements**”) to re-confirm that they hold their respective equity interest in Kashgar Yiqiwan for the benefit and on behalf of Wuhan Fulu.

According to the Nominee Shareholder Agreements: (a) the share capital of Kashgar Yiqiwan subscribed by Mr. Zhang Yuguo and Mr. Wu Xuliang (each a “**Nominee Shareholder**”) are contributed by Wuhan Fulu; (b) the Nominee Shareholders are not entitled to any economic benefits derived from their shares in Kashgar Yiqiwan; (c) the Nominee Shareholders are not entitled to dispose of (including by way of pledge, charge or share transfer) his shares in Kashgar Yiqiwan; and (d) the Nominee Shareholders shall exercise the voting rights in respect of his shares in Kashgar Yiqiwan in accordance with the instructions of Wuhan Fulu.

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As the then registered shareholders of Kashgar Yiqiwan, Mr. Zhang Yuguo and Mr. Wu Xuliang, at the direction of Wuhan Fulu (as the ultimate beneficial owner of the whole equity interest of Kashgar Yiqiwan) entered into a set of contractual arrangements agreements with WFOE on December 25, 2019, including the exclusive business cooperation agreement, exclusive option agreements, equity pledge agreements etc. (the “**Previous Kashgar Yiqiwan VIE Agreements**”) pursuant to which WFOE would have the right to exercise control over the operation and enjoy all the economic benefits of Kashgar Yiqiwan and its subsidiary, Wuhan Yilu. Before the Previous Kashgar Yiqiwan VIE Agreements were executed, Mr. Wu Xuliang had indicated his intention to exit from the Group and the agreement in respect of the disposal of his interests in the Group was executed on December 1, 2019. However, Mr. Wu Xuliang continued to be a registered shareholder of Kashgar Yiqiwan for the period during which the relevant commercial and industrial filing was pending completion, which occurred in January 2020. Considering the original plan to submit its listing application to the Stock Exchange in early January 2020, the Company decided to execute the agreements relating to the Contractual Arrangements by the end of 2019. In that regard, as the then registered shareholder of Kashgar Yiqiwan, Mr. Wu Xuliang agreed to enter into the Previous Kashgar Yiqiwan VIE Agreements to facilitate the Company’s Reorganization and subsequent submission of listing application, with the understanding that another set of Contractual Arrangement agreements to be entered among Kashgar Yiqiwan, its new registered shareholders and WFOE would supersede the Previous Kashgar Yiqiwan VIE Agreements immediately upon completion of the relevant commercial and industrial filing. For further details of Mr. Wu Xuliang’s exit from the Group, please see “– Reorganization – 4. Mr. Wu Xuliang’s Exit from the Group” below.

As Mr. Wu Xuliang has decided to exit from the Group prior to the Listing to pursue his other business endeavors, WFOE designated Mr. Zhang Yuguo and Ms. Shen Yaling (an employee of Wuhan Fulu and an indirect Shareholder of the Company) to hold 99% and 1% of the equity interest in Kashgar Yiqiwan as the registered shareholders respectively. Mr. Wu Xuliang entered into an equity transfer agreement (the “**Equity Transfer Agreements**”) with each of Mr. Zhang Yuguo and Ms. Shen Yaling on January 3, 2020. Prior to the execution of the Equity Transfer Agreements, WFOE had acquired the right to exercise control over Kashgar Yiqiwan under the Previous Kashgar Yiqiwan VIE Agreements executed on December 25, 2019. Based on the Previous Kashgar Yiqiwan VIE Agreements, WFOE had proper power to designate nominee shareholders and direct the transfer of shares of Kashgar Yiqiwan from Mr. Wu Xuliang to Mr. Zhang Yuguo and Ms. Shen Yaling, without endorsement or confirmation by Wuhan Fulu. Our PRC Legal Advisor is of the view that at the time when the Equity Transfer Agreements were executed, the Previous Kashgar Yiqiwan VIE Agreements were valid and legally binding.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The legal title to the entire shares of Kashgar Yiqiwan was not reverted to Wuhan Fulu, the ultimate beneficial owner of these shares, but were held by Mr. Zhang Yuguo and Ms. Shen Yaling as designated by WFOE. Such an arrangement is due to the following considerations:

- (1) In accordance with applicable PRC tax laws and regulations, if Wuhan Fulu becomes the registered shareholder of Kashgar Yiqiwan, although Wuhan Fulu is the ultimate beneficial owner of the entire equity interest of Kashgar Yiqiwan, the transfer of shares of Kashgar Yiqiwan from the existing registered shareholders to Wuhan Fulu would still be deemed as a “share transfer” for taxation purpose. Such a share transfer may result in an unnecessary tax burden to the Group, because the share transfer price per share under such circumstance payable to the individual nominee shareholders (as the transferors of these shares) shall generally not be lower than the net assets of Kashgar Yiqiwan per share, which would result in a high income tax payable by the individual nominee shareholders.

However, if the shares previously registered under Mr. Wu Xuliang’s name are held by Mr. Zhang Yuguo and Ms. Shen Yaling as currently structured, although such a change is still deemed as a “share transfer” for taxation purpose, the income tax payable for such share transfers will be lower because (a) the share transfer price under such circumstance could be set as low as the original cost when such shares were obtained because the shares are transferred to individual employees of the Group (namely, Mr. Zhang Yuguo and Ms. Shen Yaling); and (b) the number of shares for the purpose of assessing the income tax payable would be 50% of the total shares of Kashgar Yiqiwan (i.e., the shares previously registered under Mr. Wu Xuliang’s name) as opposed to the 100% of the shares of Kashgar Yiqiwan if all the shares of Kashgar Yiqiwan are reverted to Wuhan Fulu.

The Company estimated that the tax saved from transferring Kashgar Yiqiwan’s shares to the current individual nominee shareholder instead of Wuhan Fulu would amount to approximately RMB5.63 million, as compared to the reversion of shares of Kashgar Yiqiwan held by the individual nominee shareholders to Wuhan Fulu.

- (2) Kashgar Yiqiwan currently holds an ICP license. As advised by our PRC Legal Advisor, if the legal title to the shares in Kashgar Yiqiwan were to be reverted to Wuhan Fulu, which is a corporate entity, as opposed to individuals, it might take longer time for the competent authorities regulating ICP license to review the transfer documents and qualification of the ultimate shareholders of Wuhan Fulu, which would potentially cause disruption and uncertainty to the business of Kashgar Yiqiwan.
- (3) When the Company was planning the Reorganization, Kashgar Yiqiwan was in the process of negotiating the renewal of a business contract with a long-established and renowned business partner. If Wuhan Fulu, as a corporate entity, becomes the registered shareholder of Kashgar Yiqiwan, as opposed to individuals, it was envisaged that the internal approval procedures required by this business partner

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

would be complicated. In contrast, if the registered shareholders of Kashgar Yiqiwan remain to be individuals, among whom is an existing shareholder of Kashgar Yiqiwan and owns the majority of equity interest in Kashgar Yiqiwan (i.e., Mr. Zhang Yuguo), it was envisaged that the internal approval procedures would be relatively simpler, which may just be similar to annual renewal of such existing business contract.

As disclosed above, pursuant to the Measures for the Administration of Individual Income Tax on Equity Transfer Income (for Trial Implementation) (《股權轉讓所得個人所得稅管理辦法(試行)》) (the “**Measures**”) which was issued by the PRC State Taxation Administration (國家稅務總局) in December 7, 2014 and took effect from January 1, 2015, the share transfer price in respect of the transfer of the shares of Kashgar Yiqiwan (“**Kashgar Yiqiwan Share Transfer**”) from the then registered shareholders to current individual nominee shareholders instead of to Wuhan Fulu could be, and in fact was, set at as low as the original cost. The Kashgar local tax authority (the “**Kashgar Tax Authority**”) accepted the relevant filing in respect of Kashgar Yiqiwan Share Transfer and did not raise any objections. Given the share transfer price was set at the original cost of such shares, the Kashgar Tax Authority assessed and concluded that only the RMB2,500 stamp duty, but no income tax, would be payable in respect of the Kashgar Yiqiwan Share Transfer. After filing with the Kashgar Tax Authority, the stamp duty payable in respect of the Kashgar Yiqiwan Share Transfer has been duly paid and the relevant commercial and industrial filing in respect of the Kashgar Yiqiwan Share Transfer has also been completed. At our request, the Kashgar Tax Authority further reviewed the background information of the Kashgar Yiqiwan Share Transfer and the relevant filings submitted. Based on its review, the Kashgar Tax Authority issued a letter on March 31, 2020, confirming that (a) the circumstances concerning the Kashgar Yiqiwan Share Transfer are true and correct; and (b) the tax payable in respect of the Kashgar Yiqiwan Share Transfer has been fully paid. The Kashgar Tax Authority was fully aware that the transfer of the Shares of Kashgar Yiqiwan from the then registered shareholders to the current individual nominee shareholders instead of Wuhan Fulu was for the purpose of enjoying the aforesaid favorable tax treatment under the Measures, thereby lowering the associated tax payable amount. Considering (a) Kashgar Yiqiwan has filed the tax returns for the Kashgar Yiqiwan Share Transfer and submitted the requisite materials to the competent tax authority for tax assessment according to applicable laws and regulations, and (b) the Company has obtained the confirmation above in respect of the Kashgar Yiqiwan Share Transfer from the Kashgar Tax Authority, the PRC Legal Advisor has advised the Company that the transfer of shares of Kashgar Yiqiwan from the then registered shareholders to the current individual nominee shareholders, rather than to Wuhan Fulu, is a legitimate tax planning arrangement and complies with applicable PRC laws and regulations.

For the years ended December 31, 2017, 2018 and 2019, the revenue of Kashgar Yiqiwan was RMB103.8 million, RMB39.9 million and RMB33.6 million, respectively, representing approximately 42.6%, 19.1% and 13.9% of the Group’s revenue for the respective years.

Xinjiang Fulu

Xinjiang Fulu was incorporated as a limited liability company in the PRC on December 27, 2016 with an initial registered capital of RMB5 million and owned as to 57%, 20%, 12% and 11% by Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Zhao Bihao and Mr. Shui Yingyu, respectively.

On July 25, 2017, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Zhao Bihao and Mr. Shui Yingyu each entered into an equity transfer agreement with Wuhan Fulu to transfer the entire equity interest in Xinjiang Fulu to Wuhan Fulu for nil consideration. Subsequently, Xinjiang Fulu became a wholly-owned subsidiary of Wuhan Fulu.

Tibet Fulu

Tibet Fulu was incorporated as a limited liability company in the PRC on December 8, 2016 with an initial registered capital of RMB5 million and owned as to 57%, 11%, 12% and 20% by Mr. Fu Xi, Mr. Shui Yingyu, Mr. Wu Xuliang and Mr. Zhang Yuguo, respectively.

On July 10, 2017, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Wu Xuliang and Mr. Shui Yingyu each entered into an equity transfer agreement with Wuhan Fulu to transfer the entire equity interest in Tibet Fulu to Wuhan Fulu for nil consideration, as part of the preparation for a potential initial public offering of Wuhan Fulu in the PRC. Subsequently, Tibet Fulu became a wholly-owned subsidiary of Wuhan Fulu.

Fulu Technology

Fulu Technology (i.e., WFOE) was incorporated as a wholly foreign-owned enterprise in the PRC on December 25, 2019 by Fulu HK, a wholly-owned subsidiary of the Company. The registered capital of Fulu Technology was RMB10,000,000 at its incorporation. On July 2, 2020, the registered capital of Fulu Technology increased from RMB10,000,000 to RMB200,000,000. Fulu Technology is currently an indirectly wholly owned subsidiary of the Company.

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

Employee Shareholding Vehicles

To align the interest of key employees with the overall interests of Wuhan Fulu and to enable those employees to share the fruition of the development of Wuhan Fulu, Mr. Fu Xi, together with certain key employees of the Group established Tibet Fuxu and Tibet Fulong on January 19, 2017 and January 12, 2017, respectively, as employee shareholding vehicles. On

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

December 15, 2017, Tibet Fuxu and Tibet Fulong subscribed for 12.72% and 11.45% of the equity interest of Wuhan Fulu, respectively. Since then and as of the Latest Practicable Date, Tibet Fuxu and Tibet Fulong held in aggregate 24.17% of the equity interest in Wuhan Fulu.

As at the Latest Practicable Date, Tibet Fuxu had a total of 14 partners (including a sole general partner, being Mr. Fu Xi) with a total capital contribution of approximately RMB3.82 million. As at the Latest Practicable Date, Tibet Fulong had a total of 7 partners (including a sole general partner, being Mr. Fu Xi) with a total capital contribution of approximately RMB3.44 million.

Under the partnership agreements of Tibet Fuxu and Tibet Fulong, Tibet Fuxu and Tibet Fulong will distribute the profit they receive from Wuhan Fulu to their partners in proportion to the paid-up contribution of each partner.

To continue to fulfill the purpose of our employee shareholding vehicles after the Listing and as part of the Reorganization, the partners of Tibet Fuxu and Tibet Fulong incorporated Luzhi Holdings in the BVI on September 20, 2019 to substantially reflect the aggregate interest of Tibet Fuxu and Tibet Fulong in Wuhan Fulu. For details of Luzhi Holdings and its interests in the Company, see “ – Reorganization”.

OUR STRATEGIC COOPERATION WITH GUANGTOU CAPITAL AND THE INCORPORATION OF AN ASSOCIATED COMPANY

As part of our strategy to seek opportunities for strategic cooperation to enhance our technology, data and brand in virtual goods markets, as well as opportunities for expansion into the virtual goods and service industry in Southeast Asia, Fulu Technology and Guangtou Capital Management Co., Ltd. (廣投資本管理有限公司) (“**Guangtou Capital**”), a state-owned investment company based in Guangxi, the PRC set up a company – Guangxi Qinzhou Guanglu Network Technology Co., Ltd. (廣西欽州廣祿網絡科技有限公司) (“**Qinzhou Guanglu**”) on June 30, 2020, with registered share capital of RMB100,000. Guangxi Guangtou Jietong Logistics Industry Fund Partnership (Limited Partnership) (廣西廣投捷通物流產業基金合夥企業(有限合夥)) (a limited partnership 99.9% owned by Guangtou Capital) and Fulu Technology own 60% and 40% of Qinzhou Guanglu, respectively. Qinzhou Guanglu is therefore an associated company of the Company.

On July 1, 2020, Wuhan Fulu entered into a strategic cooperation framework agreement (the “**Strategic Cooperation Framework Agreement**”) with Guangtou Capital, pursuant to which the parties will jointly develop the virtual goods markets of Guangxi and explore business opportunities in the virtual goods and services markets in Guangxi and Southeast Asia. We plan to utilize Guangtou Capital’s resources to connect additional virtual goods vendors (e.g. telecom operators) and virtual goods sales channels (e.g. banks) in Guangxi’s virtual goods markets. We believe this will enable us to enlarge our business scale and enhance our competitive position. With respect to Southeast Asia’s virtual goods and services markets, we are in the process of evaluating market opportunities and conditions and operating environment in different countries in Southeast Asia.

PREVIOUS LISTING PLAN

Our Group initiated the preparation for proposed listing of its Shares on a domestic stock exchange in 2017, and we had engaged a PRC financial institution as our financial advisor to facilitate the relevant restructuring work. However, due to the uncertain and relatively prolonged listing timetable for A-share listing and a more reasonably foreseeable timeline of the proposed listing on the Hong Kong Stock Exchange, and considering that the Hong Kong Stock Exchange would provide us with an international platform to gain access to foreign capital and overseas investors, the Group suspended the preparatory work in the second half of 2018.

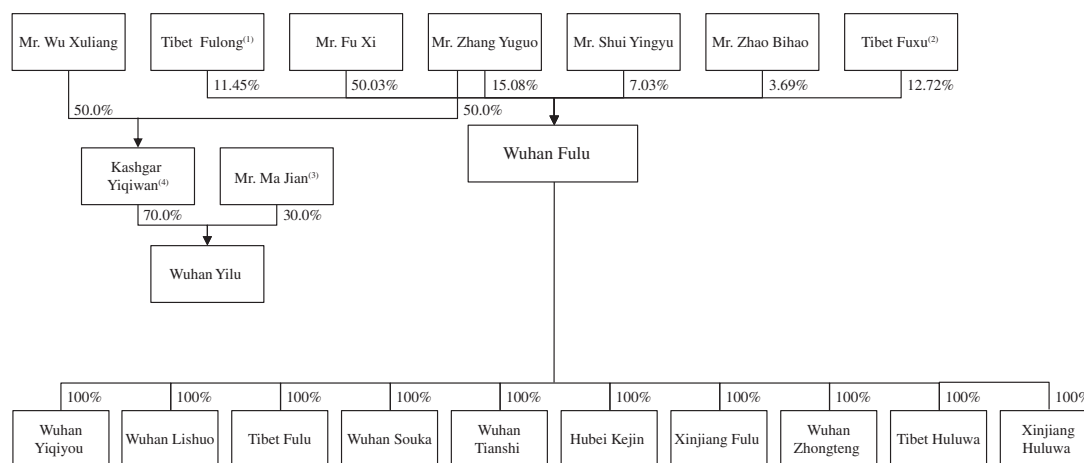
As of the Latest Practicable Date, the Group had not (i) entered into the stage of listing tutoring (上市輔導), (ii) submitted any A-share listing application to the CSRC for review or (iii) received any comments or issues raised by the CSRC (including its local offices). We do not plan to pursue the A-share Listing Preparation in the near future.

To the best of their knowledge, our Directors are not aware of (i) any other matters relating to the A-share Listing Preparation that are relevant to the Listing which should be reasonably highlighted in this prospectus for investors to form an informed assessment of our Company; (ii) any other matters relating to the A-share Listing Preparation that may have implications on our Company's suitability for listing on the Hong Kong Stock Exchange or on the truthfulness, accuracy and completeness of information disclosed in this prospectus; and (iii) any other matters that need to be brought to the attention of the Hong Kong Stock Exchange and investors in relation to the A-share Listing Preparation. Based on the above, our Directors are of the view that there are no matters in the A-share Listing Preparation that would potentially affect the suitability of our Company to list on the Hong Kong Stock Exchange. Based on the foregoing and the due diligence conducted by it, the Sole Sponsor concurred with the foregoing views of the Directors.

REORGANIZATION

In anticipation of our Listing, we underwent the Reorganization pursuant to which our Company became the holding company and listing vehicle of our Group.

The following chart sets out the shareholding and corporate structure of Wuhan Fulu immediately before the Reorganization:



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Notes:

- (1) Tibet Fulong is a limited partnership and one of the employee shareholding vehicles. Tibet Fulong was owned by Mr. Ren Wei as to 0.94%, Mr. Fu Xi as to 37.53%, Mr. Wu Xuliang as to 42.44%, Mr. Ding Chao as to 6.29%, Mr. Xu Jian as to 5.5%, Mr. Chen Tianjun as to 4.37%, Mr. Mei Qiaojun as to 1.18% and Mr. Li Jun as to 1.75%. Mr. Fu Xi is our Controlling Shareholder and an executive Director of our Company. Mr. Ren Wei, Mr. Xu Jian and Mr. Chen Tianjun are members of our senior management. Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our current employees. Mr. Wu Xuliang is a former employee of the Group.
- (2) Tibet Fuxu is a limited partnership and one of the employee shareholding vehicles. Tibet Fuxu was owned by Mr. Wu Xuliang as to 44.41%, Mr. Fu Xi as to 37.74%, Mr. Yang Yuquan as to 7.78%, Mr. Liu Lufeng as to 7.08%, Ms. Shen Yaling as to 1.42%, Mr. Wang Qiang as to 0.79%, and Ms. Guo Chenxi as to 0.79%. Mr. Fu Xi is our Controlling Shareholder and an executive Director of our Company. Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang and Ms. Guo Chenxi are our current employees. Mr. Wu Xuliang is a former employee of the Group.

Of the 7.08% interest in Tibet Fuxu held by Mr. Liu Lufeng, 3.54% (being 50% of 7.08%) was held as nominee for Mr. Tian Xuan, who is a former employee of the Group.
- (3) Mr. Ma Jian is an independent third party.
- (4) Kashgar Yiqiwan was held as to 50% and 50% by Mr. Wu Xuliang and Mr. Zhang Yuguo, respectively, under a nominee arrangement with Wuhan Fulu, the ultimate beneficial owner of all the equity interest of Kashgar Yiqiwan. For details of the nominee arrangement, please see “– Our Major Subsidiaries and Consolidated Affiliated Entities – Kashgar Yiqiwan”.

The Reorganization involved the following steps:

1. Adjustment of Shareholding in Tibet Fuxu

Tibet Fuxu is a limited partnership and one of the employee shareholding vehicles. Prior to the Reorganization, Tibet Fuxu was owned as to 7.08% by Mr. Liu Lufeng, an employee of the Group, 3.54% (being 50% of 7.08%) of the interest in Tibet Fuxu held by Mr. Liu Lufeng was held as nominee for Mr. Tian Xuan, a former employee of our Group.

As part of the Reorganization, Mr. Liu Lufeng transferred 3.54% (being 50% of 7.08%) of interest in Tibet Fuxu to Mr. Tian Xuan, the beneficial owner of these shares, in September 2019.

2. Incorporation of our Company and the Offshore Structure

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on October 31, 2019 and has an authorized share capital of US\$50,000, divided into 500,000,000 Shares with a par value of US\$0.0001 each. Upon incorporation, our Company issued one Share with a par value of US\$0.0001 to Harneys Fiduciary (Cayman) Limited in exchange for US\$0.0001, and Harneys Fiduciary (Cayman) Limited subsequently transferred such Share to FuXi Limited on the same date at the same price.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

To reflect the onshore shareholding structure of our PRC Holdcos, our Company further allotted an aggregate of 99,999,999 Shares to the following shareholders at par value US\$0.0001, the consideration of which has been settled in full as of October 31, 2019:

Name	Number of Shares allotted	Consideration for the allotments	Approximate percentage of shareholding in our Company after the allotment
FuXi Limited ⁽¹⁾	46,428,100 ⁽²⁾	US\$4,642.81	46.43%
Zhangyuguo Holdings ⁽³⁾	15,076,100	US\$1,507.61	15.08%
Luzhi Holdings ⁽⁴⁾	15,071,400	US\$1,507.14	15.07%
Shuiyingyu Holdings ⁽⁵⁾	7,034,400	US\$703.44	7.03%
Fuxu Holdings ⁽¹⁾	6,700,000	US\$670.00	6.70%
Fuzhi Holdings ⁽¹⁾	6,000,000	US\$600.00	6.00%
Zhaobihao Holdings ⁽⁶⁾	3,690,000	US\$369.00	3.69%
Total	100,000,000	US\$10,000.00	100.00%

Notes:

Upon incorporation of the Company,

- (1) FuXi Limited, a limited liability company incorporated in the BVI on June 27, 2019, is wholly owned by Mr. Fu Xi, a Controlling Shareholder and an executive Director. Fuxu Holdings and Fuzhi Holdings are wholly-owned subsidiaries of FuXi Limited.
- (2) Including the one Share already held by FuXi Limited prior to such allotment.
- (3) Zhangyuguo Holdings, a limited liability company incorporated in the BVI on June 25, 2019, is wholly owned by Mr. Zhang Yuguo, a Controlling Shareholder and an executive Director.
- (4) Luzhi Holdings, a limited liability company incorporated in the BVI on September 20, 2019, was owned as to (i) 69.72% by Wuxuliang Holdings, which was wholly owned by Mr. Wu Xuliang, a then employee of the Group, and (ii) 6.57%, 2.99%, 1.19%, 0.66%, 0.66%, 4.18%, 0.72%, 0.90%, 1.33%, 4.78% and 3.32% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao and Mr. Chen Tianjun, respectively, each of whom a current employee of the Group, and 2.99% by Mr. Tian Xuan, who is a former employee of the Group.
- (5) Shuiyingyu Holdings, a limited liability company incorporated in the BVI on June 25, 2019, is wholly owned by Mr. Shui Yingyu, a Controlling Shareholder and an executive Director.
- (6) Zhaobihao Holdings, a limited liability company incorporated in the BVI on June 25, 2019, is wholly owned by Mr. Zhao Bihao, a Controlling Shareholder and an executive Director.

3. Incorporation of Certain Subsidiaries and Entering into Contractual Arrangements

Fulu HK was incorporated under the laws of Hong Kong as our Company's wholly-owned subsidiary on November 21, 2019.

Fulu Technology (i.e., WFOE) was incorporated under the laws of the PRC as a directly wholly-owned subsidiary of Fulu HK and an indirectly wholly-owned subsidiary of the Company in the PRC on December 25, 2019.

To allow the Company to exercise control over the business operations of our PRC Holdcos and enjoy all the economic interests derived therefrom, WFOE has entered into a series of contractual arrangements with our PRC Holdcos and their registered shareholders. For details of these contractual arrangements, please see "Contractual Arrangements – Our Contractual Arrangements – Summary of the Material Terms under the Contractual Arrangements".

4. Mr. Wu Xuliang's Exit from the Group

Mr. Wu Xuliang was an employee of the Group and held the following interests in the Group prior to his exit from the Group: (1) approximately 10.51% of the equity interest in Wuhan Fulu by virtue of his holding of approximately 44.41% of the partnership interest in Tibet Fuxu and approximately 42.44% of the partnership interest in Tibet Fulong, (2) approximately 10.51% of the equity interest in the Company by virtue of his shareholding in Luzhi Holdings, and (3) 50% of the equity interest in Kashgar Yiqiwan in his capacity as a nominee shareholder for Wuhan Fulu.

However, Mr. Wu Xuliang has decided to exit from the Group prior to the Listing to pursue his other business endeavors. On December 1, 2019, Mr. Wu Xuliang entered into an equity transfer agreement with, among others, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Zhao Bihao, the partners of Tibet Fuxu and Tibet Fulong and the individual shareholders of Luzhi Holdings (collectively, the "**Transferees**"), pursuant to which Mr. Wu Xuliang agreed to transfer his entire interests in the Group to the Transferees or the appointee(s) of the Transferees at the consideration of approximately RMB24.2 million in aggregate. The consideration of the transfer was determined based on the book value of the net assets of the Group and was paid in full by the Transferees to Mr. Wu Xuliang on December 17, 2019.

5. Restructuring of Our Non-restricted and/or Non-prohibited Business

Wuhan Zhongteng was established in the PRC as a limited liability company on October 25, 2018 with a registered capital of RMB1 million. Immediately prior to the Reorganization, Wuhan Zhongteng was a wholly-owned subsidiary of Wuhan Fulu. Wuhan Zhongteng held minority equity interest in Hangzhou Jiwei Logic Technology Co., Ltd. (杭州幾維邏輯科技有限公司) (“**Jiwei Logic**”) and minority equity interest in Weifen (Shanghai) Sports and Culture Co., Ltd. (微分(上海)體育文化有限公司) (“**Weifen Shanghai**”). Wuhan Zhongteng does not hold an ICP license or an ICB license, nor did it engage or plan to engage in any business that is subject to any foreign investment prohibition or restriction under the relevant regulations in the PRC.

As part of the Reorganization to transfer the businesses which are not subject to any foreign investment restrictions or prohibition to ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirements of the Stock Exchange, Wuhan Zhongteng transferred its minority equity interests in Jiwei Logic and Weifen Shanghai to independent third parties. On June 15, 2020, Wuhan Zhongteng voluntarily dissolved to streamline the corporate structure of the Group.

6. Restructuring of Wuhan Yilu

Wuhan Yilu was established in the PRC as a limited liability company on November 19, 2015 with a registered capital of RMB1 million. Prior to the Reorganization, 70% of the shares of Wuhan Yilu were owned by Kashgar Yiqiwan and 30% of the shares were owned by Mr. Ma Jian, an independent third party.

To streamline the corporate structure of the Group and as part of the Reorganization, on August 23, 2019, Kashgar Yiqiwan acquired 30% of equity interest in Wuhan Yilu held by Mr. Ma Jian for nil consideration as Wuhan Yilu had negative shareholder equity at the time of the acquisition. Wuhan Yilu became a wholly-owned subsidiary of Kashgar Yiqiwan, and the Company has the power to indirectly exercise control over the operation and enjoy economic benefits of Wuhan Yilu through contractual arrangements with Kashgar Yiqiwan. For further details, please see “– Our Major Subsidiaries and Consolidated Affiliated Entities – Kashgar Yiqiwan” and “Contractual Arrangements”.

COMPLIANCE WITH PRC LAWS AND REGULATION

Our PRC Legal Advisor confirmed that (i) the establishment of our subsidiaries in the PRC and their subsequent shareholding changes have complied with the relevant laws and regulations in all material respects; and (ii) the Reorganization has complied with all applicable PRC laws and regulations in all material respects.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CAPITALIZATION ISSUE

Subject to the share premium account of our Company being credited by an amount of US\$20,000 as a result of the issue of the Offer Shares pursuant to the Global Offering, our Company will, on the Listing Date, allot and issue a total of 200,000,000 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of our Company on the day preceding the Listing Date in proportion to their then existing shareholdings in our Company by capitalizing the sum of US\$20,000 from the share premium account of our Company. The Shares allotted and issued pursuant to the above Capitalization Issue will rank pari passu in all respects with the existing issued Shares.

PUBLIC FLOAT AND VOLUNTARY LOCK-UP

Upon the Listing, the Shares beneficially owned by Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao will not be counted towards the public float of the Company. Taking into account the Shares held by the existing Shareholders of the Company and the Shares to be issued to other public shareholders pursuant to the Global Offering, the Directors are of the view that our Company will be able to satisfy the public float requirement under Rule 8.08 of the Listing Rules.

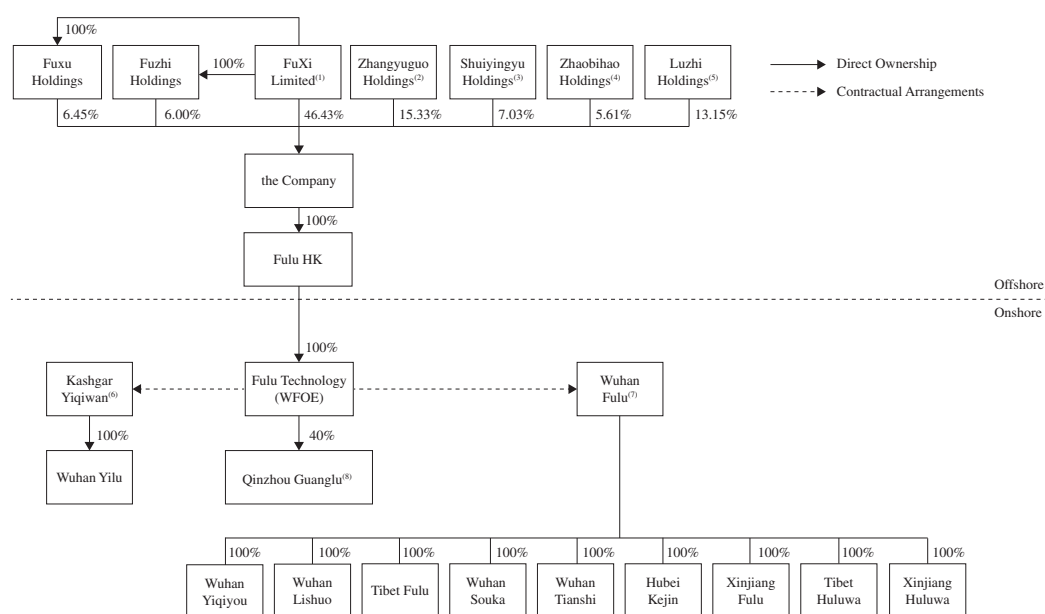
Notwithstanding that it is not required by Listing Rules, each of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao and Luzhi Holdings, would voluntarily enter into a contractual lock-up undertaking in favor of the Company prior to the Listing for a period of 48 months from the Listing Date. Each of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao and Luzhi Holdings would undertake to the Company that subject to any applicable laws, regulations or the Listing Rules and any lock-up arrangements with the Underwriters, they will not (and procure the companies controlled by them, trustee, or nominees not to) sell, transfer or dispose the Shares beneficially owned by them for the first 12 months since the Listing Date. On the first trading day after each of the first, second, third and fourth anniversary of the Listing Date, a 25% of the Shares owned by each of them will be unlocked. During the lock-up period and subject to the applicable lock-up percentage, if any one of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao plans to transfer or dispose his Shares, he shall offer the other three non-selling parties the right of first refusal to purchase such Shares. Commencing from the first trading day after the fourth anniversary of the Listing Date, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao and Luzhi Holdings can freely sell, transfer or dispose their Shares. For the avoidance of doubt, such restrictions will not apply to any new Shares acquired by Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao and Luzhi Holdings after the Listing Date.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE

The following charts illustrate our corporate and shareholding structure (1) immediately after completion of Reorganization but prior to completion of the Capitalization Issue and the Global Offering and (2) immediately after the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option has not been exercised).

(1) After completion of the Reorganization but prior to the completion of the Capitalization Issue and the Global Offering



Notes:

- (1) FuXi Limited, a limited liability company incorporated in the BVI on June 27, 2019, is wholly owned by Mr. Fu Xi, a Controlling Shareholder and an executive Director. Fuxu Holdings and Fuzhi Holdings are wholly-owned subsidiaries of FuXi Limited.
- (2) Zhangyuguo Holdings, a limited liability company incorporated in the BVI on June 25, 2019, is wholly owned by Mr. Zhang Yuguo, a Controlling Shareholder and an executive Director.
- (3) Shuiyingyu Holdings, a limited liability company incorporated in the BVI on June 25, 2019, is wholly owned by Mr. Shui Yingyu, a Controlling Shareholder and an executive Director.
- (4) Zhaobihao Holdings, a limited liability company incorporated in the BVI on June 25, 2019, is wholly owned by Mr. Zhao Bihao, a Controlling Shareholder and an executive Director.
- (5) Luzhi Holdings, a limited liability company incorporated in the BVI on September 20, 2019, is owned as to 14.52%, 3.65%, 2.99%, 2.72%, 2.72%, 34.36%, 10.24%, 3.39%, 3.21%, 7.14% and 11.00% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao and Mr. Chen Tianjun, respectively, each of whom a current employee of the Group, and 4.06% by Mr. Tian Xuan, who is a former employee of the Group.
- (6) Kashgar Yiqiwan is owned by Mr. Zhang Yuguo as to 99% and Ms. Shen Yaling as to 1% as designated by the WFOE. Please see “– Our Major Subsidiaries and Consolidated Affiliated Entities – Kashgar Yiqiwan” and “Contractual Arrangements” for more details.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

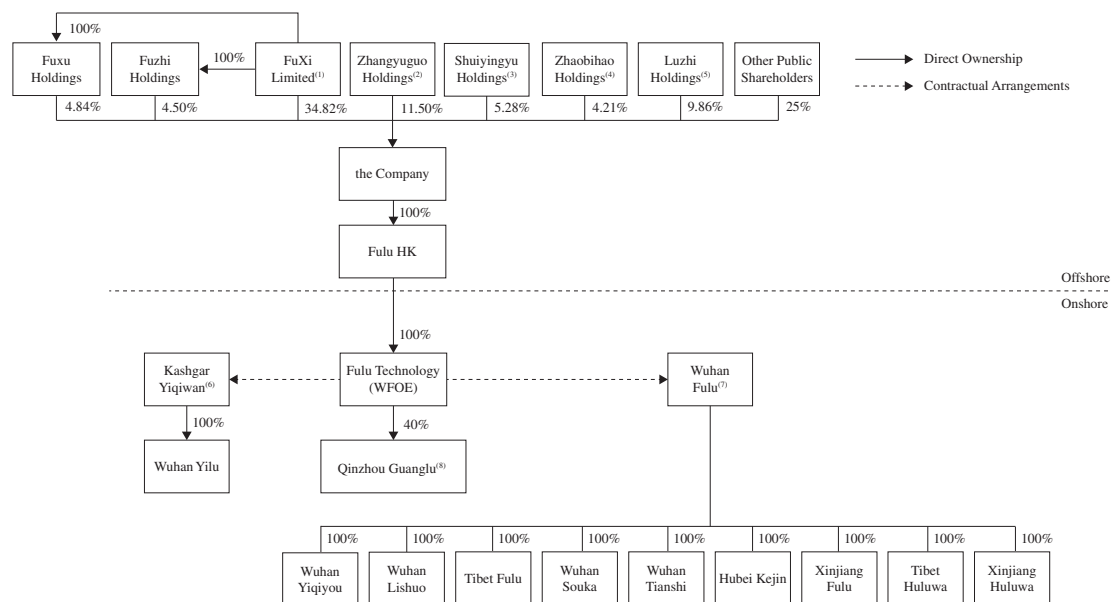
- (7) Wuhan Fulu is owned as to (i) 50.03% by Mr. Fu Xi, (ii) 15.08% by Mr. Zhang Yuguo, (iii) 7.03% by Mr. Shui Yingyu, (iv) 3.69% by Mr. Zhao Bihao; (v) 12.72% by Tibet Fuxu and (vi) 11.45% by Tibet Fulong. Please see “Contractual Arrangements” for more details.

Tibet Fuxu is a limited partnership and one of the employee shareholding vehicles. Tibet Fuxu is owned by Mr. Fu Xi as to 37.74%, Mr. Yang Yuquan as to 15.01%, Mr. Liu Lufeng as to 3.78%, Ms. Shen Yaling as to 3.09%, Mr. Wang Qiang as to 2.81%, Ms. Guo Chenxi as to 2.81%, Mr. Zhang Yuguo as to 2.02%, Mr. Zhao Bihao as to 15.09%, Mr. Tian Xuan as to 4.19%, Mr. Xu Jian as to 0.11%, Mr. Ding Chao as to 1.72%, Mr. Mei Qiaojun as to 2.44%, Mr. Chen Tianjun as to 7.43% and Mr. Li Jun as to 1.75%. Mr. Fu Xi, Mr. Zhang Yuguo and Mr. Zhao Bihao are our Controlling Shareholders and executive Directors. Mr. Chen Tianjun and Mr. Xu Jian are members of our senior management. Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our current employees. Mr. Tian Xuan is a former employee of the Group.

Tibet Fulong is a limited partnership and one of the employee shareholding vehicles. Tibet Fulong is owned by Mr. Ren Wei as to 11.75%, Mr. Fu Xi as to 35.36%, Mr. Ding Chao as to 6.29%, Mr. Xu Jian as to 39.31%, Mr. Chen Tianjun as to 4.37%, Mr. Mei Qiaojun as to 1.18% and Mr. Li Jun as to 1.75%. Mr. Fu Xi is our Controlling Shareholder and an executive Director. Mr. Ren Wei, Mr. Xujian and Mr. Chen Tianjun are members of our senior management. Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our current employees.

- (8) Qinzhou Guanglu is a limited liability company incorporated on June 30, 2020 in the PRC. Qinzhou Guanglu is 40% owned by Fulu Technology and 60% owned by Guangxi Guangtou Jietong Logistics Industry Fund Partnership (Limited Partnership) (廣西廣投捷通物流產業基金合夥企業(有限合夥)) (a limited partnership 99.9% owned by Guangtou Capital). Qinzhou Guanglu is therefore an associated company of the Company.

(2) Immediately after the completion of the Capitalization Issue and the Global Offering (before exercise of the Over-allotment Option)



Notes (1) to (8):

Please refer to the details contained in the preceding page.

PRC REGULATORY REQUIREMENTS

M&A Rules

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (1) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (2) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (4) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further 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, especially in the event that the special purpose vehicle acquires shares or equity interest in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisor is of the opinion that prior CSRC approval for this offering is not required because (i) our wholly foreign-owned PRC subsidiary was not established through a merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company, and (ii) no provision in the M&A Rules clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules. However, our PRC Legal Advisor further advises that there is uncertainty as to how the M&A Rules will be interpreted or implemented.

SAFE Registration

Pursuant to the Circular of the SAFE on Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through 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》) (the “**SAFE Circular No. 37**”), promulgated by SAFE and which became effective on July 4, 2014, and which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《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》), (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Overseas SPV, including, among other things, a change of Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. 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 restricted from making profit distributions 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. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Pursuant to the Notice of the SAFE on Simplifying and Improving the Foreign Currency Management Policy on 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》) (the “**SAFE Circular No. 13**”), promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE branch to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Advisor, our individual beneficial owners, who are known to us as PRC citizens, have duly completed their registration in compliance with the SAFE Circular No. 37 and the SAFE Circular No. 13 as of June 1, 2020.

OVERVIEW

We are a leading third-party virtual goods and services platform operator in China. Through our “one-stop” B2B virtual goods-related services and value-added services, we help virtual goods vendors monetize their businesses across different virtual goods sales channels, while helping virtual goods sales channels increase operating efficiency and achieve better economics.

Our platform connects virtual goods vendors and virtual goods sales channels. According to Frost & Sullivan:

- we were the largest third-party virtual goods and services platform operator in China with a market share of 7.7% by revenue in 2019;
- we were the largest third-party leisure and entertainment-related virtual goods and services platform operator in China with a market share of 11.7% by revenue and 7.6% by GMV in 2019;
- we were the largest third-party games-related virtual goods and services platform operator in China with a market share of 11.8% by revenue and 6.6% by GMV in 2019;
- we ranked fifth among third-party lifestyle-related virtual goods and services platform operators in China with a market share of 0.9% by revenue and 0.7% by GMV in 2019; and
- we ranked seventh among third-party telecommunications-related virtual goods and services platform operators in China with a market share of 1.6% by revenue and 2.6% by GMV in 2019.

China is one of the world’s largest and fastest growing virtual goods and services markets by GMV. According to Frost & Sullivan, China’s virtual goods and services market by GMV grew from RMB645.6 billion in 2014 to RMB1,293.5 billion in 2019, representing a CAGR of 14.9%.

According to Frost & Sullivan, leisure and entertainment, games, telecommunications and lifestyle services were four principal virtual goods and services categories in China in 2019.

- *Leisure and entertainment virtual goods* include membership services and in-app virtual currencies which can be used to access audio, musical, paid-knowledge, live streaming, education, sports and other content, such as (a) membership cards that can be used to access premium video content on Tencent Video (騰訊視頻會員卡), (b) virtual currencies that can be used to purchase audio content on Ximalaya.fm (喜馬拉雅喜點) and (c) virtual currencies that can be used to tip streamers on Douyu (鬥魚魚翅).

- *Games-related virtual goods* include prepaid virtual cards and game currencies which can be used by players in games to upgrade game characters or buy virtual accessories (e.g. costumes, skills, tools, equipment or other in-game consumables or functions), such as (a) Steam cards that can be used to purchase online games and (b) games vouchers that can be used to exchange for skills or costumes of game characters in King of Glory (王者榮耀點券).
- *Telecommunications-related virtual goods* include telephone fees and data usage packages, such as China Unicom top-up card (聯通充值卡).
- *Lifestyle services virtual goods* include prepaid cards, gift cards and digital coupons which can be used in a variety of contexts (e.g. restaurants, hotels and shops), such as discount cards that can be used to purchase food and beverages at a discount on Meituan Dianping (美團外賣紅包).

Traditionally, consumers purchased virtual goods directly from channels owned by virtual goods vendors. As China's virtual goods and services market develops, consumers typically expect a comprehensive buying experience at attractive prices. However, virtual goods vendors are often only able to offer limited services and homogenous products through their own sales channels. In addition, some new virtual goods vendors, especially certain new virtual goods vendors in China's leisure and entertainment industry, are at an early stage of development and often face challenges of cultivating consumers' paying habits. As a result, virtual goods vendors are increasingly seeking to expand their sales channels to promote the sales of virtual goods, increase revenue and save marketing and technology infrastructure costs. On the other hand, virtual goods sales channels need supplies of more varieties of virtual goods and services to monetize the consumer traffic on their platforms. Due to the large number of participants of the virtual goods value chain, virtual goods vendors and virtual goods sales channels usually find it time-consuming and costly to connect and establish separate business relationships with each other. The emergence of third-party virtual goods and services platform operators enables virtual goods vendors to broaden consumer reach and save the costs and time they would otherwise spend on establishing relationships with diversified sales channels by themselves. Third-party virtual goods and services platform operators also provide value-added services such as online store operations and marketing services to help virtual goods vendors better monetize their products and services.

We believe our services add value to the supply chain of virtual goods transactions by bringing value to our platform participants. See “– Our Platform and its Participants – Value proposition for virtual goods vendors” and “– Our Platform and its Participants – Value proposition for virtual goods sales channels.”

As a technology-driven company, our proprietary Fulu Open Platform serves as the foundation of our service offerings. Our Fulu Open Platform can be embedded into the internet systems of virtual goods vendors and virtual goods sales channels, featuring convenient, scalable and reliable performance and low latency. Virtual goods vendors can utilize applications on our platform to distribute their products to different sales channels.

BUSINESS

Our platform participants include virtual goods vendors and virtual goods sales channels. We serve a wide range of virtual goods vendors, covering leisure and entertainment, games, telecommunications and lifestyle services, providing virtual goods vendors with access to a variety of sales channels, such as e-commerce and online payment platforms, banks, hotels and transportation services providers. In the twelve months ended March 31, 2020, our platform facilitated transactions for an aggregate of over 910 virtual goods vendors and 1,450 virtual goods sales channels.

In the twelve months ended March 31, 2020, our platform facilitated transactions for an aggregate of over 910 virtual goods vendors and over 1,450 virtual goods sales channels. Among the virtual goods vendors, our platform facilitated transactions for the following:

- over 20 top-tier virtual goods vendor partners (*i.e.*, vendors with annual transaction volume of at least RMB100 million), including (a) virtual goods vendors in the leisure and entertainment industry, such as a leading video content provider (*e.g.*, Tencent Video (騰訊視頻)) and a leading live streaming platform (*i.e.*, Douyu (鬥魚)), (b) a leading telecom operator, (c) a well-known lifestyle service company in China and (d) leading games-related and telecommunications-related virtual goods and services platform operator in China by revenue in 2019. Our top virtual goods vendor partners contributed to over 60% of our total GMV and over 40% of our total revenue in each year during the Track Record Period;
- over 50 second-tier virtual goods vendor partners (*i.e.*, vendors with annual transaction volume of at least RMB10 million but less than RMB100 million), including (a) virtual goods vendors in the leisure and entertainment industry, such as audio content providers (*e.g.*, Ximalaya.fm (喜馬拉雅)) and a leading online music platform and (b) other third-party virtual goods and services platform operators in China; and
- other virtual goods vendor partners (*i.e.*, vendors with annual transaction volume of less than RMB10 million).

Our top-tier and second-tier virtual goods vendor partners contributed to more than 90% of our total GMV facilitated, with other virtual goods vendor partners contributing to the remaining GMV facilitated (less than 10% of our total GMV) in each year during the Track Record Period.

Among the virtual goods sales channels, we facilitated virtual goods transactions through:

- over 15 top-tier virtual goods sales channel partners (*i.e.*, sales channels with annual transaction volume of at least RMB100 million), including e-commerce platforms such as the two largest e-commerce platforms in China, online payment platforms such as the two largest third-party online payment and transaction platforms in

China and a leading online consumption platform affiliated with a US listed company. Our top sales channel contributed to over 70% of our total GMV facilitated in each year during the Track Record Period;

- over 60 second-tier virtual goods sales channel partners (*i.e.*, sales channels with annual transaction volume of at least RMB10 million but less than RMB100 million), including online payment platforms such as affiliates of certain leading commercial banks in China, e-commerce platforms and other sales channels such as other third-party virtual goods and services platform operators; and
- other virtual goods sales channel partners (*i.e.*, sales channels with annual transaction volume of less than RMB10 million).

Our top-tier and second-tier virtual goods sales channel partners contributed to more than 80% of our total GMV facilitated, with other virtual goods sales channel partners contributing to the remaining GMV facilitated (less than 20% of our total GMV) in each year during the Track Record Period.

Through our platform, we connect virtual goods vendors with virtual goods sales channels to broaden the scope of consumers they can reach. In the three months ended March 31, 2020, we executed over 115 million orders and facilitated transactions with an aggregate GMV of RMB3.7 billion. In 2017, 2018, 2019, 35.6 million, 43.7 million and 39.3 million consumers made repeat purchases of virtual goods through virtual goods sales channels connected to our platform, respectively. During the same periods, the GMV of transactions involving these consumers were RMB7.3 billion, RMB6.0 billion and RMB7.1 billion, respectively. We also utilize our industry expertise and technology knowhow to provide a wide range of value-added services to platform participants, such as online store operations, establishment of online sales platforms, marketing and IT solutions, to help them boost consumer traffic and spending and enhance operating efficiency.

Our strong relationships with virtual goods vendors and virtual goods sales channels lead to significant network effects, which we believe constitute a key factor of our success. As our platform connects more virtual goods sales channels, we believe we become an increasingly important gateway for virtual goods sales, building stronger relationships with, and receiving more favorable terms, such as lower virtual goods prices and better commission and incentive fee rates, from virtual goods vendors. This makes our platform more attractive to virtual goods sales channels, leading to increased consumers and consumer spending. This in turn helps virtual goods vendors monetize their businesses more effectively.

OUR STRENGTHS

Leading third-party virtual goods and services platform operator in China

We are a leading third-party virtual goods and services platform operator in China. According to Frost & Sullivan, we were the largest third-party virtual goods and services platform operator in China based on revenue in 2019. We were the largest third-party virtual goods and services platform operator in China in the leisure and entertainment and games industries, and ranked fifth and seventh in the lifestyle and telecommunications industries in China, respectively, based on GMV and revenue in 2019.

We connect virtual goods vendors in different industries with a wide variety of virtual goods sales channels. We provide virtual goods-related services and value-added services to our platform participants.

China is one of the largest virtual goods markets in the world. Demand for diversified sales channels for virtual goods vendors outside their own channels has been increasing steadily. As a third-party virtual goods and services platform operator, we are not affiliated with any internet companies, virtual goods vendors or virtual goods sales channels and are well positioned to become a gateway for virtual goods sales and capture opportunities in the virtual goods and services market. As a result, we benefit from the rapid growth of this market to provide more optimal solutions for platform participants.

Through our platform, we help many well-known virtual goods vendors in China, such as Tencent Video (騰訊視頻), a leading video content provider and China Literature (閱文集團), a leading paid-knowledge content provider and China's three major telecom operators, to monetize their products and services. We also help virtual goods sales channels such as well-known e-commerce platforms and online payment platforms, to enhance their consumer buying experience.

The virtual goods provided by a wide range of vendors that connect to our platform attract consumer traffic from various sales channels. This in turn makes our platform more attractive to virtual goods vendors by allowing them to reach more consumers. In the twelve months ended March 31, 2020, we facilitated virtual goods transactions for an aggregate of over 910 virtual goods vendors in leisure and entertainment, games, telecommunications and lifestyle industries. As we cooperate with more virtual goods vendors and virtual goods sales channels, we increasingly benefit from the network effects of our platform. By deepening our relationships with virtual goods vendors and virtual goods sales channels, we form economies of scale and entry barriers for competitors.

“Connect + Service” platform model

We provide e-commerce related technology and virtual goods distribution and value-added services to virtual goods vendors and sales channels. The “connect” feature of our platform refers to our connecting virtual goods vendors with virtual goods sales channels and serving as a gateway for virtual goods vendors to access a wide variety of sales channels to sell virtual goods to consumers. The “service” feature of our platform refers to the comprehensive value-added services we provide to platform participants such as online store operations, establishment of online sales platforms, marketing and IT solutions.

Bring consumer traffic to virtual goods vendors and help vendors monetize their businesses

Traditionally, consumers have purchased virtual goods directly from virtual goods sales channels owned by vendors. As an open third-party services provider, however, we provides diversified sales channels for virtual goods vendors outside their own channels. In 2019, the monthly average number of consumers who purchased virtual goods through various sales channels connected to our platform totaled 12.8 million.

Increase consumer traffic and operating efficiency and save costs for virtual goods sales channels

We provide solutions for virtual goods sales channels to attract consumer traffic. We help virtual goods sales channels develop ready-to-use virtual goods sales platforms, reducing the costs of establishing their platforms.

“One-stop” services for platform participants

We provide “one-stop” services for platform participants. We provide value-added services such as online store operations and marketing services to help virtual goods vendors better monetize their products and services. We design marketing tools and strategies, such as mini-games, reward-points management and membership benefits, to help platform participants attract and retain consumer and boost consumer spending.

Quality platform participants with powerful network effects

We are committed to broadening the scope of the services we provide and industries in which we participate. We have formed deep relationships with a large number of virtual goods vendors and virtual goods sales channels, leading to significant network benefits, which we believe constitute a key factor for our success. From our inception to March 31, 2020, our platform facilitated the sale of over 22,000 types of virtual goods to over 2,300 virtual goods vendors and virtual goods sales channels. We also provide these virtual goods vendors and virtual goods sales channels with various types of value-added services to complement our virtual goods-related services.

BUSINESS

We offer services to a large number of diversified virtual goods vendors, covering four major industry sectors: leisure and entertainment, games, telecommunications and lifestyle services. In the twelve months ended March 31, 2020, we facilitated virtual goods transactions for over 910 virtual goods vendors, representing an increase of 91.6% from the twelve months ended March 31, 2019.

We have also established business relationships with a significant number of key virtual goods sales channels. In the twelve months ended March 31, 2020, we provided services to over 1,450 virtual goods sales channels, representing an increase of over 102.2% from the twelve months ended March 31, 2019.

We provide services to a number of leading companies in their respective industries in China:

- in the leisure and entertainment industry, we serve industry leaders such as Tencent Video (騰訊視頻), China Literature (閱文集團) and Ximalaya.fm (喜馬拉雅);
- in the games industry, we facilitate the sale of virtual goods of top ten online game producers in China by 2019 revenue;
- in the telecommunications industry, we serve China's three major telecom operators; and
- in the lifestyle industry, we serve many well-known companies in China, such as Meituan Dianping (美團點評) and Ele.me (餓了麼).

In addition, we serve many well-known virtual goods sales channels, including well-known e-commerce and online payment platforms, such as the two largest e-commerce platforms in China.

The wide variety of virtual goods offered by virtual goods vendors through our platform and virtual goods sales channels that our platform connects enhance our relationships with platform participants. In each of 2017, 2018 and 2019, we had a virtual goods vendor retention rate of over 94% (i.e. over 94% of virtual goods vendors continued their business relationships with us).

Our strong relationships with virtual goods vendors and virtual goods sales channels lead to significant network effects. As our platform connects more virtual goods sales channels, we believe we have become an increasingly important gateway for virtual goods sales, building stronger relationships with, and receiving more favorable terms, such as lower virtual goods prices and better commission and incentive fee rates, from virtual goods vendors. We believe this makes our platform more attractive to virtual goods sales channels, leading to increased consumers and consumer spending. This in turn helps virtual goods vendors monetize their businesses more effectively.

Excellent service capabilities and extensive operating experience

Since our inception in 2009, we have gained expertise in key aspects of virtual goods services throughout the transaction processes, and have invested substantial resources to improve operating efficiency and service quality. We deliver quality service to our platform participants, such as solutions for online marketing events, consumer traffic attraction, user management and data analysis.

As of the Latest Practicable Date, we had a professional operations team of 128 employees. We also had a customer service team of 113 employees, which accounted for 25.3% of our total headcount.

We achieved high levels of consumer satisfaction during the Track Record Period. As of June 30, 2020, the stores we operated on a leading e-commerce platform in China achieved an average score of over 4.8 out of a maximum score of 5. We aim to enhance our operating capabilities to help virtual goods vendors and virtual goods sales channels create a fun and engaging virtual goods buying experience for end consumers.

With our industry expertise, we believe we can more accurately analyze the needs and preferences of different consumer groups, and develop tailor-made promotional plans targeting specific groups of consumers. As a result, we help virtual goods vendors improve their business performance.

Leading information technological capabilities

As a technology-driven company, we have developed an open platform connecting platform participants. We implemented multiple technological enhancements and business integrations that led to the launch of our Fulu Open Platform, which is designed to be convenient, scalable and reliable and features low latency. Our Fulu Open Platform supports and optimizes our operations and provides quality virtual goods and operating services for platform participants and end consumers.

Our Fulu Open platform can be embedded in internet platforms through API and MALL service applications tailored for platform participants. Our platform has an average response time of approximately 35 milliseconds. Our platform also passed the Alibaba Cloud's penetration test and has demonstrated strong security. As of the Latest Practicable Date, we had obtained 58 software copyrights.

Since our inception to March 31, 2020, over 460 million consumers purchased virtual goods through our sales channel partners. In addition, our platform facilitated over 200 million transactions for each of 2017, 2018 and 2019 and over 115 million transactions for the three months ended March 31, 2020. We believe that the volume of service data we accumulated enables us to understand virtual goods consumption trends, make better business decisions, and expand our industry coverage, allowing us to provide more value to platform participants.

Experienced and devoted management team with entrepreneurial culture

Our management team possesses extensive experience and a proven track record in the technology, internet and virtual goods industry. Under their leadership, we believe we are well positioned to effectively compete in the virtual goods and services industry and accomplish our long-term goals.

Our principal management team remains and is dedicated to fostering a firm-wide atmosphere of entrepreneurship. With an average age of 35, our management team has infused our Company with a young, vibrant and entrepreneurial culture.

OUR STRATEGIES

To strengthen our leadership position, we intend to implement the following strategies:

Expand the scope of our platform participants and service offerings and deepen industry penetration

Increase our platform participants

We plan to increase the number of virtual goods vendors and virtual goods sales channels with which we cooperate to expand our platform network. We plan to enhance marketing efforts to attract more virtual goods vendor and sales channel partners. We intend to enhance our ability to quickly develop and deploy more virtual goods-related services and value-added services to platform participants in response to changing market conditions and business needs. We plan to enhance our network infrastructure and data analytics capabilities to better serve our platform participants.

We also plan to enhance our ability to help virtual goods vendors more effectively monetize their products and services. Utilizing our extensive operating experience, we plan to connect more offline merchants to virtualize their products for online sales through our platform and create new sales channels for offline merchants.

We will use (a) HK\$219.6 million of the offering proceeds to facilitate virtual goods transactions for more virtual goods vendors and increase the varieties of virtual goods transactions we facilitate and (b) HK\$146.3 million of the offering proceeds to increase the number of our virtual goods sales channels partners. Please see “Future Plans and Use of Proceeds” for details.

Penetrate new industry sectors and expand the scope of our service offerings

Through our platform, we strive to increase the breadth of industries in which we provide services. We also plan to explore new opportunities in different industries by assessing and catering to consumers' needs.

We plan to provide platform participants with more diversified value-added services, such as membership management and interactive advertising services. We also plan to cross-sell value-added services to platform participants to increase their loyalty and willingness to use our platform.

For example, we plan to explore opportunities in the games industry to provide more value-added services to gamers, including providing game leveling services, game companion services and professional game account leasing services on our platform. In addition, we plan to establish a games trading platform in which gamers can trade in-game consumables such as costumes, skills, tools, equipment and other functions.

We also plan to develop various applications for new types of value-added services, such as targeted marketing applications, membership management applications and mini-games applications. See “– Our Technology and Infrastructure – Our Research and Development Initiatives” for details.

We will use HK\$146.3 million of the offering proceeds to develop new value-added services. Please see “Future Plans and Use of Proceeds” for details.

Pursue strategic cooperation, investments and acquisitions

In addition to growing organically, we plan to seek opportunities for strategic cooperation, investments and mergers and acquisitions to enhance our technology, data and brand in virtual goods markets, and consolidate our competitive position in the third-party virtual goods and services industry. For example, we formed a company with Guangtou Capital (a state-owned investment company in Guangxi) on June 30, 2020. See “History, Reorganization and Corporate Structure – Our Strategic Cooperation with Guangtou Capital and the Incorporation of an Associated Company” for details. We plan to utilize Guangtou Capital's resources to connect additional virtual goods vendors (e.g. telecom operators) and virtual goods sales channels (e.g. banks) in Guangxi's virtual goods markets. We believe this will enable us to enlarge our business scale and enhance our competitive position. As of the Latest Practicable Date, we had not established any formal business relationships with new virtual goods vendors or sales channels in Guangxi. We plan to fund our efforts to develop the virtual goods markets in Guangxi with cash from operations, borrowings and proceeds from the Global Offering.

BUSINESS

When selecting investment targets or partners, we plan to consider their suitability for, and compatibility with, our strategic plans, potential synergies, market positioning, management team experience, valuation and past operating and financial performance. We plan to expand into the games-related services industry, though we have not identified any specific strategic partners or acquisition targets as of the Latest Practicable Date.

We will use HK\$146.3 million of the offering proceeds for potential acquisitions. Please see “Future Plans and Use of Proceeds” for details.

Expand in overseas markets

We believe that the overseas virtual goods and services market, especially in Southeast Asia, provides us with an opportunity for substantial growth. According to Frost & Sullivan, the market size of the virtual goods and services industry in Southeast Asia grew from US\$16.3 billion in 2014 to US\$39.5 billion in 2019, representing a CAGR of 19.4% and is expected to reach US\$70.2 billion in 2024, representing a CAGR of 12.2% from 2019.

According to Frost & Sullivan, the mobile internet penetration rate in Southeast Asia increased from 37.8% in 2014 to 90.8% in 2019, and is expected to reach 95.3% in 2024. As the internet in Southeast Asia becomes more accessible and the number of mobile internet users increases, buying virtual goods and services is becoming more convenient, creating more opportunities for us.

We also aim to actively participate in the overseas expansion plans of our key platform participants to explore opportunities in overseas markets with strong growth potential in the virtual goods and services industry.

For example, we have entered into strategic cooperation with Guangtou Capital (based in Guangxi, which borders Vietnam) to explore business opportunities in Southeast Asia’s virtual goods and services market. We are in the process of evaluating market opportunities and operating environment in different countries in Southeast Asia. We plan to establish subsidiaries in suitable Southeast Asian countries to develop the virtual goods market in these countries. As of the Latest Practicable Date, we had not established any business presence or operations in any Southeast Asian countries. We plan to fund our expansion into the Southeast Asia region with cash from operations, borrowings and proceeds from the Global Offering. We believe expansion into the Southeast Asia region will enable us to expand our operations and diversify the sources of our revenue.

We will use HK\$36.6 million of the offering proceeds in connection with participating in the overseas expansion of key platform participants. Please see “Future Plans and Use of Proceeds” for details.

Strengthen our data and technology advantages

With our growing volume of virtual goods consumption data, we intend to utilize our big data analytics capabilities to more precisely analyze consumer profiles and behavior. We plan to expand the application of artificial intelligence algorithms to make more customized solutions to platform participants to reduce their customer acquisition costs. We also intend to improve the selection and categorization of virtual goods based on our platform's consumption data to enhance the user experience of end consumers who browse and search for virtual goods through different sales channels.

To promote our strengths in data analytics and technology, we aim to attract, train and retain talent in technology, research and development, big data and artificial intelligence. We also plan to optimize our IT system architecture to improve our platform's operating efficiency and meet the requirements of platform participants. For example, we plan to provide cloud services such as SaaS and PaaS solutions to platform participants.

See “Future Plans and Use of Proceeds” for details on the proceeds we will use for enhancing our service network infrastructure and data analytics capabilities, developing new applications and hiring technology and R&D personnel.

OUR PLATFORM AND ITS PARTICIPANTS

As a third-party virtual goods and services platform operator, our platform connects:

- virtual goods vendors, including leisure and entertainment content providers, games producers, telecommunication operators and lifestyle services providers, which offer virtual goods online; and
- virtual goods sales channels, such as e-commerce and online payment platforms, banks, hotels and transportation services providers, which end consumers access to purchase virtual goods.

We operate under a “Connect + Service” platform model as described in detail under “– Strengths” above. Through our platform, we provide “one-stop” virtual goods-related services and value-added services to platform participants. Our Fulu Open Platform can be embedded into the internet systems of virtual goods vendors and virtual goods sales channels through API and MALL service applications, serving as a gateway for virtual goods vendors to access a wide variety of sales channels to sell virtual goods to consumers. We provide virtual good-related services and a wide range of value-added services to platform participants, including online store operations, establishment of online sales platforms, targeted marketing services, user acquisition and management services and IT solutions. Virtual goods vendors can utilize applications on our platform to distribute their products to sales channels.

Our strong relationships with virtual goods vendors and virtual goods sales channels lead to significant network effects, which we believe constitute a key factor of our success. As our platform connects more virtual goods sales channels, we believe we become an increasingly important gateway for virtual goods sales, building stronger relationships with, and receiving more favorable terms, such as lower virtual goods prices and better commission and incentive fee rates, from virtual goods vendors. This makes our platform more attractive to virtual goods sales channels, leading to increased consumers and consumer spending. This in turn helps virtual goods vendors monetize their businesses more effectively.

Value proposition for virtual goods vendors

Provide access to diversified sales channels to improve monetization capabilities

Our platform provides virtual goods vendors access to diverse sales channels, allowing virtual goods vendors to broaden the scope of consumers they can reach to monetize their goods and services. These sales channels include many well-known e-commerce and online payment platforms. Our platform also enables virtual goods vendors to save the costs and time they would otherwise spend on establishing relationships with different sales channels by themselves.

Our deep relationships with virtual goods vendors also enable us to offer virtual goods at prices lower than the prices offered by individual virtual goods vendors to end consumers directly. Our platform connects virtual goods vendors with additional sales channels (e.g. e-commerce platforms and online payment platforms) to broaden their consumer reach. To expand virtual goods sales through additional sales channels and save marketing and other costs, virtual goods vendors generally allow us to offer virtual goods at lower prices than the prices at which they sell the same virtual goods on their own platforms. In addition, we sell virtual goods in bundled packages or in connection with promotional activities at lower prices.

According to Frost & Sullivan, it is an industry norm that third-party virtual goods and services platform operators sell virtual goods at prices lower than the prices at which these virtual goods are sold on virtual goods vendors' platforms.

Provide operations and other value-added services

We operate online stores for virtual goods vendors, such as Ximalaya.fm and numerous other virtual goods vendors. We also provide virtual goods vendors with other value-added services to help them acquire and retain customers and monetize their products.

Value proposition for virtual goods sales channels

Build online marketplaces to increase operating efficiency and achieve better economics

We help virtual goods sales channels build their online marketplaces to provide virtual services more cost-efficiently and save the money they would otherwise spend on building and operating their own online virtual services platforms. For example, we helped Xiaomi establish its online sales platform. Through the online platform we set up, Xiaomi provides virtual goods with leisure and entertainment, games and lifestyle content. Virtual goods sales channels can also receive commissions for virtual goods we sell through their platforms.

Enhance consumer loyalty through “one-stop” virtual goods-related and value-added services

Virtual goods sales channels such as e-commerce and online payment platforms can provide end consumers with a “one-stop” virtual goods buying experience through our platform and deepen customer relationships. We also design marketing tools and strategies and provide other value-added services to help e-commerce and online payment platforms acquire and retain users, boost user spending and enhance operating efficiency.

Our deep relationships with virtual goods vendors also enable us to offer virtual goods at prices lower than the prices offered by individual virtual goods vendors to end consumers directly. Our platform connects virtual goods vendors with additional sales channels (e.g. e-commerce platforms and online payment platforms) to broaden their consumer reach. To expand virtual goods sales through additional sales channels and save the marketing and other costs that they would otherwise need to incur should they sell virtual goods on their own, virtual goods vendors generally allow us to offer virtual goods at lower prices than the prices at which they sell the same virtual goods on their own platforms. In addition, we sell virtual goods in bundled packages or in connection with promotional activities at lower prices.

According to Frost & Sullivan, it is an industry norm that third-party virtual goods and services platform operators sell virtual goods at prices lower than the prices at which these virtual goods are sold on virtual goods vendors’ platforms.

OUR PRODUCTS AND SERVICES

Overview

We use our platform resources to help virtual goods vendors and diversified sales channels achieve their commercial objectives, such as traffic acquisition and monetization. Our platform facilitates the sales of virtual goods by (1) expanding virtual goods vendors’ sales channels and broadening their customer reach (i.e. traffic acquisition) and (2) making available a variety of virtual goods and services to sales channels to monetize their traffic (i.e. monetization). We also provide targeted marketing services and user acquisition and management services to help virtual goods vendors and virtual goods sales channels attract

consumers (i.e. traffic acquisition) and increase the sale of virtual goods (i.e. monetization). See “Business – Our Products and Services – Virtual goods-related services”, “Business – Our Products and Services – Value-added Services – Targeted Marketing” and “Business – Our Products and Services – Value-added Services – User Acquisition and Management” for details. Please refer to “– Our Business Model and Transaction Process – Our Transaction Process” below for an explanation of how our platform processes a transaction.

We provide virtual goods-related and value-added services in a wide variety of industries, including leisure and entertainment, games, telecommunications and lifestyle services-related industries. We allocate capital resources to virtual goods transactions in different industries and markets based on commission rates, time required to receive payment for virtual goods from virtual goods sales channels, product mix and market demand and potential.

Virtual goods offered by our virtual goods vendor partners include e-vouchers, in-app virtual currencies, prepaid coupons and membership cards. See “Regulation – Regulations on Prepaid Coupons/Memberships” for a description of the principal laws and regulations that govern prepaid coupons/memberships.

Virtual goods-related services

Our platform connects virtual goods vendors and virtual goods sales channels. We also facilitate the sale of virtual goods of vendors through online stores operated by us. Our virtual goods-related services encompass a wide variety of industries, including the following:

Leisure and entertainment

We work with a wide range of leisure and entertainment content providers, including:

- video content providers, such as Tencent Video (騰訊視頻);
- audio content providers, such as Ximalaya.fm (喜馬拉雅);
- musical content providers;
- paid-knowledge providers such as China Literature (閱文集團);
- live streaming platforms, such as Douyu (鬥魚); and
- education, sports and other content providers.

We facilitate the sale of membership cards, in-app virtual currencies and other virtual goods offered by leisure and entertainment content providers. Consumers can use these virtual goods to access content on the platforms of the leisure and entertainment content providers.

The following screenshots show examples of leisure and entertainment-related virtual products offered in a self-operated online store on an online payment platform.



In 2017, 2018, 2019 and the three months ended March 31, 2020, the GMV of the leisure and entertainment virtual goods transactions we facilitated totaled RMB577.8 million, RMB843.3 million, RMB1,224.3 million and RMB384.4 million, respectively.

Games

We facilitate the sale of virtual goods of top ten online game producers in China by revenues in 2019, according to Frost & Sullivan. Through our platform, game producers sell their virtual goods and services to end customers.

These game producers offer virtual cards, e-vouchers, membership benefits, in-game virtual currencies and virtual items such as game characters, costumes, skills, tools, equipment and other in-game consumables or functions used in popular games in China.

The following screenshot shows examples of games-related virtual goods and services offered in an online store we operate on a leading e-commerce platform in China.



In 2017, 2018, 2019 and the three months ended March 31, 2020, the GMV of the games-related virtual goods transactions we facilitated totaled RMB5,096.4 million, RMB3,976.6 million, RMB3,648.9 million and RMB656.9 million, respectively.

Telecommunications

We work with China's three largest telecom operators. Our platform connects with the mobile top-up systems of the telecom operators, and can process consumers' purchase order in real time.

We facilitated the sale of virtual goods in the telecommunications industry through a wide range of virtual goods sales channels, including e-commerce platforms, online payment platforms, banks, hotels and transportation services providers. We also facilitate the sale of data usage packages and SMS messages offered by telecommunications operators through these virtual goods sales channels.

The following screenshots illustrate the telecommunications virtual goods-related services we provide on a leading e-commerce platform in China.



In 2017, 2018, 2019 and the three months ended March 31, 2020, the GMV of the telecommunications-related virtual goods transactions we facilitated totaled RMB7,145.1 million, RMB7,797.8 million, RMB7,668.9 million and RMB2,569.8 million, respectively.

Lifestyle Services

Lifestyle services primarily include food, clothing, housing and transportation services. We work with well-known lifestyle services providers, such as Meituan Dianping (美團點評) and Ele.me (餓了麼), to help them sell e-vouchers, gift cards, membership cards, coupons and other virtual goods to consumers. Consumers can exchange virtual goods for physical products, discounts or other benefits offered by lifestyle services providers.

The following screenshot shows an interface of an online lifestyle services store we operate on a leading e-commerce platform in China.



In 2017, 2018, 2019 and the three months ended March 31, 2020, the GMV of the virtual lifestyle-related goods transactions we facilitated totaled RMB568.1 million, RMB686.7 million, RMB273.1 million and RMB100.0 million, respectively.

Value-Added Services

We also offer a wide range of value-added services to platform participants, including but not limited to the following:

- operating online stores for virtual goods vendors;
- establishing online sales platforms for sales channels;
- providing targeted marketing services;
- providing user acquisition and management services, such as mini-games, reward-points management and membership benefits management tools; and
- providing IT solutions.

We provide these value-added services primarily to complement our virtual goods-related services. We believe our value-added services boost consumer traffic and spending throughout the virtual goods value chain, increasing the volume of virtual goods transactions on our platform and strengthening our relationships with platform participants.

Operating online stores for virtual goods vendors

We operate online stores on major e-commerce platforms for virtual goods vendors in China. We are primarily responsible for:

- designing and updating storefronts, selecting virtual goods based on consumer preferences, habits and behaviors, managing and processing sales orders and managing inventory levels;
- formulating and implementing operating and marketing strategies; and
- providing IT and other services.

Case Study

We operate online flagship stores for one of the most well-known leisure and entertainment content providers in China on JD Mall and Tmall. We help design and update these flagship stores' storefronts and select virtual goods, process sales orders, design membership cards, conduct working activities and manage inventory levels for these flagship stores.

We began to operate the flagship store on JD Mall in July 2017 and on Tmall in January 2019. Since we commenced these operations, GMV generated from these stores has grown substantially. For example, annual sales from the flagship store on JD Mall doubled from 2017 to 2018, and sales from the flagship store on Tmall during the first seven months of 2019 surpassed its sales for all of 2018.

Because consumers make order requests directly to virtual goods vendors in the online stores we operate for virtual goods vendors, we do not include the GMV of virtual goods transactions that occur in these online stores when calculating the total GMV of virtual goods transactions facilitated by us. We do not prepay virtual goods vendors for operating online stores for them. We typically receive service fees from virtual goods vendors based on the GMV of transactions that occur in the online stores we operate for them. Please see “– Our Business Model and Transaction Process – Pricing – Value-Added Services” for more details.

Establishing online sales platforms for sales channels

We help traditional sales channels such as banks, hotels and IT companies transform their online platforms into marketplaces on which they can offer diversified virtual goods and services to end consumers.

For example, we helped Xiaomi establish an online sales platform in September 2019 by designing storefronts and providing technical support. We also supply Xiaomi with a wide array of virtual goods. In addition, we help Xiaomi design and implement marketing strategies and develop marketing tools.

The following screenshot shows an interface of the online sales platform we established for Xiaomi.

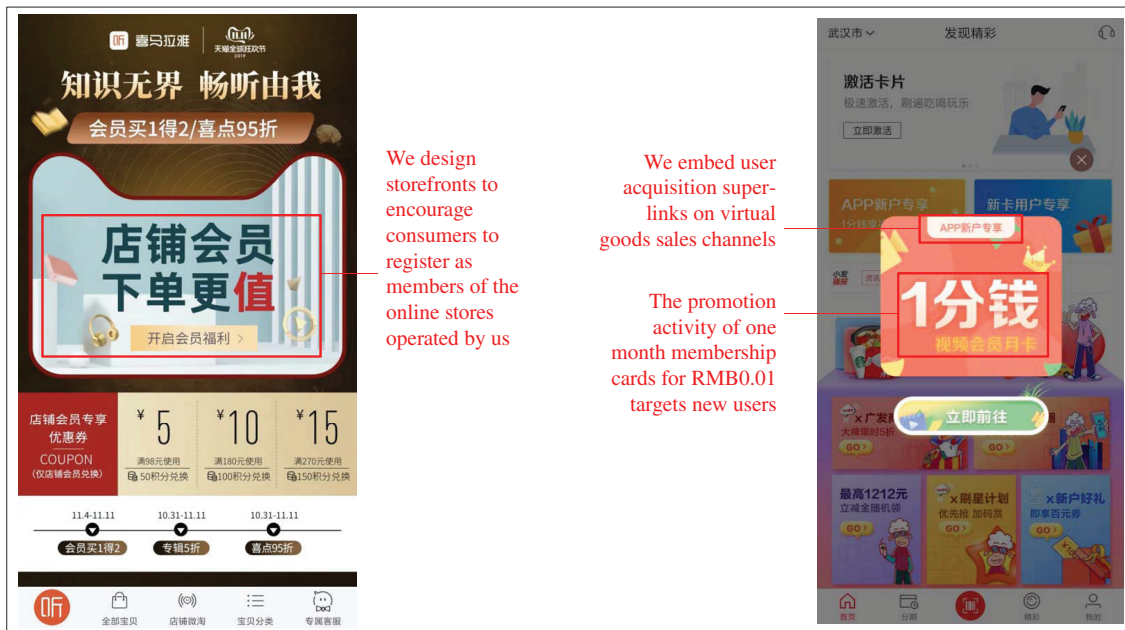


Targeted marketing

We gain insights regarding consumer preferences and habits by analyzing their behavior on our platform. This enables us to formulate marketing strategies for platform participants to target users who have expressed interest in virtual products and services.

We help platform participants attract consumers by encouraging users to register as their members. After a new user registers as a member, he or she can purchase virtual products at a discount and earn reward points that can provide discounts in subsequent purchases.

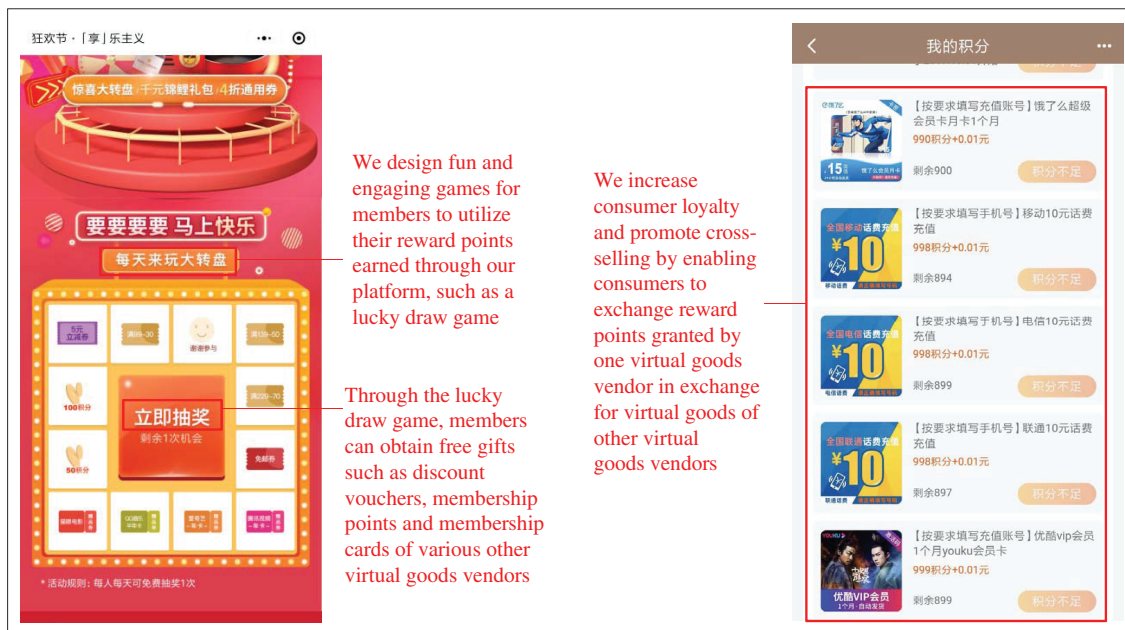
The screenshots below show examples of promotional activities targeting new users to become our members.



User acquisition and management

We help platform participants identify potential cross-selling opportunities to help maximize purchases each consumer. For example, as it is usually time-consuming for different virtual goods vendors to connect and discuss effective joint marketing campaigns, we help virtual goods vendors design bundled packages that consist of a variety of virtual goods offered by two or more virtual goods vendors based on our understanding of consumer needs and preferences. After obtaining consent from the relevant virtual goods vendors, we facilitate sales of the virtual goods packages through our sales channel partners. We also help platform participants design and run mini-games and reward-points programs and other user management tools to attract and retain users and boost user spending.

The following screenshots show examples of the marketing tools and reward points management tools we designed.



Providing IT solutions

We provide a variety of IT solutions to platform participants. For example, we help virtual goods vendors develop mini-programs and ISV applet on online payment and enterprise communication platforms to promote and sell their goods and services. We also offer text messaging services to help virtual goods vendors better serve their customers. These services include verification code authentication, text message marketing and order tracking.

Key operating data

The following table sets forth key operating data of our businesses as of the dates or for the periods indicated:

	As of December 31,			As of March 31,
	2017	2018	2019	2020
Number of self-operated online stores	26	42	59	63
Number of online stores managed on behalf of customers	2	6	11	15

BUSINESS

	For the year ended December 31,			For the twelve months ended March 31,	
	2017	2018	2019	2019	2020
Number of virtual goods vendors	267	453	662	477	914
Number of virtual goods sales channels	376	668	1,346	719	1,454
	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
GMV (in millions)	13,387	13,304	12,815	4,311	3,711
Average commission rate	1.8%	1.5%	1.7%	1.4%	1.5%

The following table sets forth the breakdown of GMV of virtual goods transactions we facilitated by industry for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2017		2018		2019		2019		2020	
	GMV	%	GMV	%	GMV	%	GMV	%	GMV	%
	(RMB in thousands, except for percentages)									
Leisure and entertainment	577,809	4.3	843,323	6.3	1,224,294	9.6	285,237	6.6	384,436	10.4
Games	5,096,416	38.1	3,976,606	29.9	3,648,882	28.5	1,575,692	36.5	656,918	17.7
Telecommunications	7,145,070	53.4	7,797,801	58.6	7,668,902	59.8	2,366,664	54.9	2,569,810	69.2
Lifestyle services	568,078	4.2	686,690	5.2	273,062	2.1	83,550	1.9	99,992	2.7
Total	13,387,372	100.0	13,304,420	100.0	12,815,141	100.0	4,311,143	100.0	3,711,156	100.0

The increases in the GMV of leisure and entertainment-related virtual goods transactions we facilitated during the Track Record Period were primarily driven by our efforts to provide more leisure and entertainment-related virtual goods and services to capture market opportunities in China's growing online pan-entertainment industry.

The GMV of games-related virtual goods transactions we facilitated decreased by 22.0% in 2018 from 2017, by 8.2% in 2019 from 2018 and by 58.3% for the three months ended March 31, 2020 from the same period in 2019, primarily because we (1) strategically adjusted the mix of our games-related virtual goods and services to focus on facilitating transactions with higher commission rates and (2) reduced our provision of certain types of games-related virtual goods and services with lower commission rates. Our revenue from the games segment increased by 23.9% in 2018 from 2017, by 41.5% in 2019 from 2018 and by 53.8% in the three months ended March 31, 2020 from the same period in 2019. The average commission rates for games-related virtual goods and services transactions generally increased throughout the Track Record Period.

BUSINESS

The GMV of telecommunications-related virtual goods transactions remained generally stable during the Track Record Period.

The GMV of lifestyle-related virtual goods transactions we facilitated decreased by 60.2% in 2019, primarily because we facilitated more lifestyle virtual goods transactions in 2018, primarily driven by enhanced promotion efforts of certain virtual goods vendors.

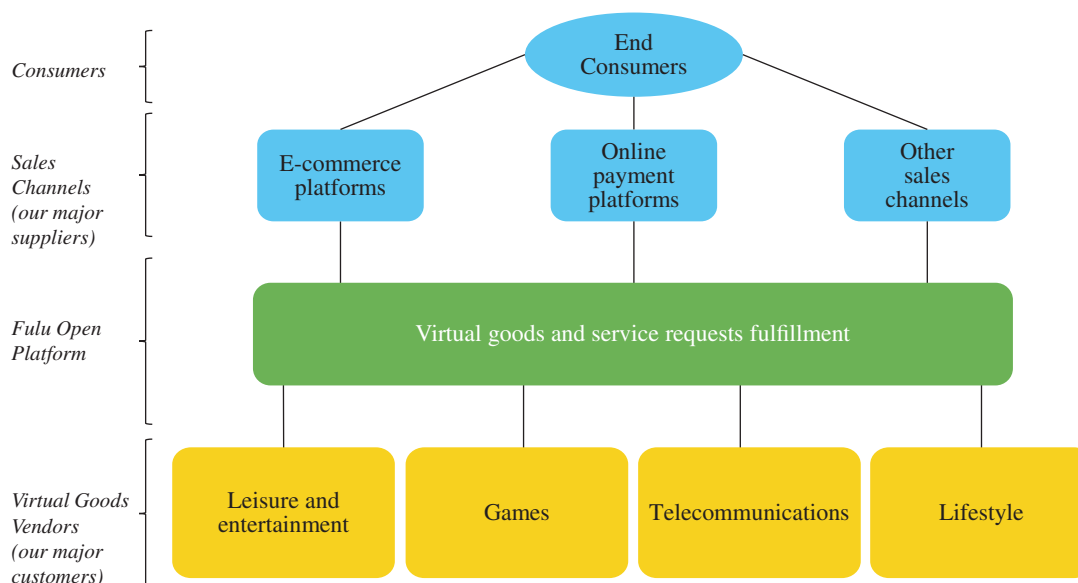
OUR BUSINESS MODEL AND TRANSACTION PROCESS

Our Business Model

We provide virtual goods-related and value-added services in a wide variety of industries, including leisure and entertainment, games, telecommunications and lifestyle services-related industries. We facilitate the sale of various types of virtual goods, such as membership cards, in-app or in-game virtual currencies, virtual cards, e-vouchers, membership benefits, in-game consumables or functions and data usage packages. We do not own the virtual goods sold through our platform.

We provide B2B virtual goods-related and value-added services to virtual goods vendors and virtual goods sales channels to help them achieve their commercial objectives, such as traffic acquisition and monetization. Our customers include virtual goods vendors, to which we provide virtual good-related and value-added services and virtual goods sales channels, to which we provide value-added services. See “– Customers” for details. Our suppliers primarily include (a) virtual goods sales channels, through which we facilitate virtual goods transactions for virtual goods vendors and (b) data storage and server hosting providers. See “– Suppliers” for details.

The following diagram illustrates our general business model:



We categorize virtual goods vendors into four categories primarily based on the types of virtual goods they offer: (a) leisure and entertainment, (b) games, (c) telecommunications and (d) lifestyle services.

End consumers can purchase virtual goods offered by virtual goods vendors through various sales channels connected to our Fulu Open Platform, including e-commerce platforms, online payment platforms and other sales channels with access to end consumers. Prior to the launch of Fulu Open Platform, we provided virtual goods-related services and value-added services through our Kamen platform and Shuyu platform. Our Kamen platform connected virtual goods vendors mainly to e-commerce platforms, while our Shuyu platform connected our Kamen platform to additional virtual goods sales channels including online payment platforms, offline enterprises and others. Consumers can exchange virtual goods for physical products or services offered by virtual goods vendors. Our platform facilitates the sales of virtual goods by expanding virtual goods vendors' sales channels, broadening their customer reach and making available a variety of virtual goods and services to virtual goods sales channels to monetize their traffic. We match purchase orders received from virtual goods sales channels with suitable virtual goods offered by virtual goods vendors on our platform.

Our sales channel and virtual goods vendor partners include other third-party virtual goods and services platform operators. Our cooperation with other third-party virtual goods and services platform operators increases the sources where we obtain virtual goods and the channels through which we reach end consumers. We and other third-party virtual goods and services platform operators cooperate to take advantage of each other's resources. For example, we may facilitate the sale of virtual goods provided by other third-party virtual goods and services platform operators that offer virtual goods at prices more attractive than the prices offered by virtual goods producers. On the other hand, we facilitate the sale of virtual goods to third-party virtual goods and services platform operators that find the prices of virtual goods available on our platform more attractive than the prices offered by other sources.

We charge virtual goods vendors commissions based on the GMV and types of the virtual goods transactions facilitated by us. We also provide ancillary value-added services based on our platform participants' needs to supplement our virtual goods-related business.

Our Working Capital Cycle

We generally make prepayments to virtual goods vendors for virtual goods transactions we facilitate based on our estimate of the volume of virtual goods transactions that will occur on our platform during certain periods ranging between several days to a few months. As telecommunications virtual goods transactions usually have higher transaction frequency, we generally estimate the volumes of, and made prepayment for, transactions that will occur on our platform in a few days. We usually estimate the volumes of virtual goods transactions in other industries (i.e. leisure and entertainment, games and lifestyle services industries) for periods ranging from one month to several months and prepay virtual goods vendors based on such estimates.

BUSINESS

We estimate the volume of virtual goods transactions that will occur on our platform primarily based on:

- historical transaction volumes. For example, we prepay certain leisure and entertainment virtual goods vendors for virtual goods transactions we expect to facilitate for them during a given period based on the volume of similar virtual goods transactions we facilitated in the preceding period.
- type and duration of promotional activities conducted by virtual goods vendors. We typically make prepayments for virtual goods transactions we expect to facilitate in connection with promotional activities after receiving details about such promotional activities from virtual goods vendors. The volumes of virtual goods transactions we facilitate are generally higher during the virtual goods vendors' promotional periods.
- the volumes of virtual goods transactions we need to facilitate to achieve the sales targets for incentive fees offered by certain virtual goods vendors.

According to Frost & Sullivan, it is an industry norm that third-party virtual goods and services platform operators prepay virtual goods vendors for virtual goods transactions they facilitate and our prepayment arrangements are generally in line with industry practice.

We generally earn commissions from virtual goods vendors upon the completion of a virtual goods transaction.

We pay some virtual goods sales channels (such as e-commerce platforms and online payment platforms) commissions for the virtual goods transactions conducted through them (the "commission model"). Under this model, we do not require virtual goods sales channels to prepay for virtual goods sold through our platform.

- E-commerce platforms or online payment platforms generally pay us purchase prices of virtual goods after deducting their commissions on a T+1 basis.
- Certain virtual goods sales channels pay us purchase prices of virtual goods sold through our platform upon completion of a virtual goods transaction. We pay them commissions for virtual goods sold in a month over the following month.
- Certain virtual goods sales channels pay us purchase prices of virtual goods sold through our platform during the previous month after deducting their commissions on a monthly basis.

We require other virtual goods sales channels (such as third-party virtual goods and services platform operators) to make prepayments to us for virtual goods sold through our platform (the “prepayment model”). We typically deduct prepayments from other virtual goods sales channels (such as third-party virtual goods and services platform operators) once the transactions are completed (i.e. on a T+0 basis).

Our Transaction Process

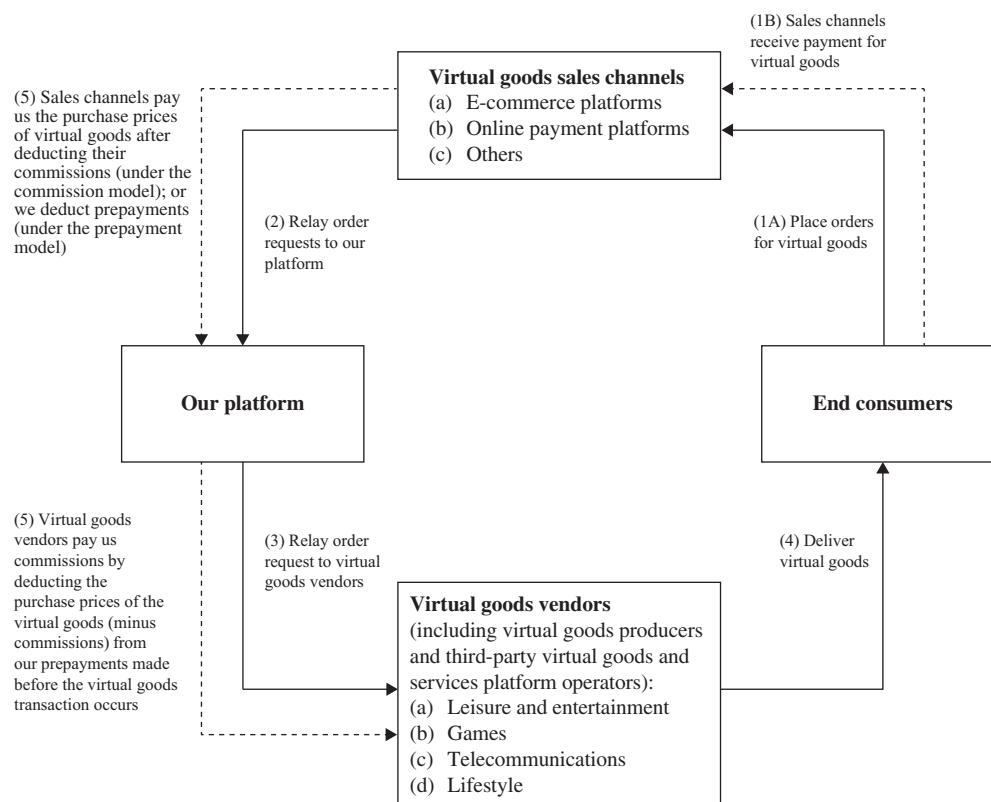
Before a virtual goods transaction

We generally make prepayments to virtual goods vendors.

As described under “– Our Working Capital Cycle”, under the prepayment model, we require virtual goods sales channels (such as third-party virtual goods and services platform operators) to make prepayments to us for virtual goods sold through our platform. Under the commission model, we do not require virtual goods sales channels (such as e-commerce platforms and online payment platforms) to prepay for virtual goods sold through our platform.

During a virtual goods transaction

The following diagram illustrates the general process (including flow of actions and flow of monies) of a virtual goods transaction: *,**



Notes:

* —————> Denotes flow of actions and - - - - -> denotes flow of monies

** Steps (1) to (5) above refer to the sequence of the general process for virtual goods transactions.

BUSINESS

The following is an example of the transaction steps for our virtual goods-related services under the commission model, assuming:

- a consumer places an order of virtual goods with a value of RMB100 through a virtual goods sales channel;
- the virtual goods vendor deducts RMB98 from our prepayments; and
- the virtual goods sales channel pays us RMB99.5, after charging us RMB0.5 in commissions (under scenario 1 described below)/we deduct RMB99 from prepayments made by the virtual goods sales channel (under scenario 2 described below).

Step one

A consumer accesses a virtual goods sales channel, such as an e-commerce platform or online payment platform, to (A) place an order and (B) pay for virtual goods.

Step two

The virtual goods sales channel relays the order request through applications available on our platform, such as API and MALL.

Step three

Our platform authenticates the order through encrypted token transferred between the consumer and our server. The order will then be transferred through our platform to a virtual goods vendor.

Step four

The virtual goods vendor automatically distributes the virtual goods to the consumer upon receipt of the order and informs us once the order is processed. The virtual goods vendor (as opposed to our Company) bears responsibility for order failures.

Step five

We make prepayments to virtual goods vendors before the virtual goods transaction occurs. The virtual goods vendor deducts RMB98 from our prepayments made before the virtual goods transaction and we earn commissions of RMB2 upon completion of the transaction.

Scenario 1 (Under the commission model)

The virtual goods sales channel pays us the purchase price of virtual goods (i.e. RMB99.5) after deducting its commissions at a percentage of the transaction value (i.e. RMB0.5).

BUSINESS

Scenario 2 (Under the prepayment model)

We deduct RMB99 from prepayments made by the virtual goods sales channel.

The table below illustrates our accounting entries for the virtual goods transaction illustrated above.

Steps	Transactions for which we pay commissions to virtual goods sales channels (the “commission model”)		Transactions for which we require virtual goods sales channels to prepay us (the “prepayment model”)	
Prepayments to virtual goods vendors	Dr. Prepayments	RMB98	Dr. Prepayments	RMB98
	Cr. Cash and cash equivalent	RMB98	Cr. Cash and cash equivalent	RMB98
Upon receiving prepayments from virtual goods sales channels	Not applicable		Dr. Cash and cash equivalents	RMB99
			Cr. Receipts in advance	RMB99
Upon completion of a virtual goods transaction	Dr. Trade receivables	RMB100	Dr. Receipts in advance	RMB99
	Cr. Revenue	RMB2	Cr. Revenue	RMB1
	Cr. Prepayments	RMB98	Cr. Prepayments	RMB98
If virtual goods sales channels charge commissions	Dr. Cost of sales	RMB0.5	Not applicable	
	Cr. Trade receivables	RMB0.5		
Upon receipt of proceeds of virtual goods-related transactions	Dr. Cash and cash equivalents	RMB99.5	Not applicable	
	Cr. Trade receivables	RMB99.5		

Pricing

Virtual goods-related services

Virtual goods vendors

Virtual goods vendors determine the commissions they pay us based on sales volumes, market prices and the types of virtual goods they sell through our platform.

The fluctuations in commissions received from virtual goods vendors primarily reflected (1) our facilitation of new types of virtual goods transactions, (2) our facilitation of virtual goods transactions with different commission rates, (3) adjustments of commissions by virtual goods vendors based on their operating strategies and market conditions and (4) market competition, including increasing competition from virtual goods vendors (i.e. our customers).

BUSINESS

The following table sets forth the average commission rates for virtual goods transactions in different industries for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
Leisure and entertainment	25.8%	13.6%	9.4%	11.0%	8.3%
Games	1.0%	1.6%	2.4%	1.4%	2.4%
Telecommunications	0.5%	0.2%	0.2%	0.1%	0.3%
Lifestyle services	0.7%	1.3%	0.9%	1.3%	1.4%

We calculate the average commission rates set forth above by dividing our revenue (excluding revenue from virtual goods transactions that occur in online stores we operate for virtual goods vendors) from virtual goods-related services in different industries by the GMV (excluding GMV of virtual goods transactions that occur in online stores we operate for virtual goods vendors) of the virtual goods transactions in the relevant industries.

The average commission rates for leisure and entertainment virtual goods transactions decreased during the Track Record Period, primarily because (1)(a) a large leisure and entertainment virtual goods vendor lowered its commission rates in 2018 and (b) another large leisure and entertainment virtual goods vendor lowered its commission rates in 2018 and 2019. These virtual goods vendors conducted more promotional activities and offered higher commission rates to expand their market share. After China's leisure and entertainment industry became more mature and these virtual goods vendors established industry leading positions, the commission rates they offered decreased and then generally stabilized at a certain level, and (2) we facilitated more virtual goods sales for live streaming platforms, which we believe have significant growth potential; we generally earned lower commissions from these services. However, as these vendors grow their businesses, they typically sell more virtual goods through our platform. According to Frost & Sullivan, China's virtual goods and service market is expected to grow at a CAGR of 10.2% from 2019 to 2024. As a result, despite the decreases in commission rates from 13.6% in 2018 to 9.4% in 2019 and from 11.0% in the three months ended March 31, 2019 to 8.3% in the same period in 2020, our revenue from the leisure and entertainment segment increased from RMB115.4 million in 2018 to RMB130.5 million in 2019 and from RMB32.2 million in the three months ended March 31, 2019 to RMB36.0 million in the same period in 2020.

The average commission rates for games-related virtual goods transactions generally increased during the Track Record Period, primarily because we offered more games-related services with higher commission rates, such as the sale of new types of games-related virtual prepaid cards. Virtual goods vendors are typically willing to pay higher commissions to promote the sale of new types of virtual goods than to promote other existing games-related virtual services, such as the sales of in-game virtual currencies.

The average commission rates for telecommunication-related virtual goods transactions decreased from 0.52% in 2017 to 0.24% in 2018 and 0.20% in 2019, primarily because we ceased providing top-up card recycling services in April 2018 when certain platforms on which we provided such services stopped engaging in these businesses as market demand decreased. We typically earn higher commissions from providing these services. The average commission rates increased from 0.13% in the three months ended March 31, 2019 to 0.29% in the same period in 2020, primarily because (1) we facilitated more virtual goods transactions for new virtual goods vendors and (2) virtual goods transactions conducted through a new e-commerce platform increased; we typically earn higher commissions from these transactions.

The average commission rates for lifestyle services virtual goods transactions decreased from 1.3% in 2018 to 0.9% in 2019, primarily due to marketing campaigns conducted by certain virtual goods vendors in 2018, from which we charged higher commission rates. The average commission rates remained stable at 1.3% and 1.4% in the three months ended March 31, 2019 and 2020, respectively.

According to Frost & Sullivan, the average commission rates we charged virtual goods vendors for virtual goods transactions in different industries during the Track Record Period were generally in line with the average commission rates charged by other third-party virtual goods and services platform operators in China for similar virtual goods transactions. Please see “Industry Overview – Overview of China’s Third-party Virtual Goods and Services Industry – Overview” for details of the commission rates for virtual goods transactions in different industries.

Virtual goods vendors typically set ranges for the prices at which we facilitate the sale of the virtual goods offered by them. We also facilitate the sales of virtual goods sold in “bundled packages” at prices jointly determined by virtual goods vendors that offer the bundled virtual goods.

Virtual goods sales channels

Virtual goods sales channels charge us commissions based on market rates, as adjusted for the amount of virtual goods sold to their customers. In 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, we paid average commissions representing 0.23%, 0.20%, 0.21%, 0.22% and 0.17% of the total GMV of virtual goods transactions we facilitated, respectively.

BUSINESS

The following table sets forth the average commission rates charged by different types of virtual goods sales channels for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
E-commerce platforms	0.45%	0.49%	0.54%	0.52%	0.54%
Online payment platforms	1.02%	1.01%	0.77%	1.01%	0.69%
Other virtual goods sales channels	0.02%	0.02%	0.01%	0.00%	0.01%
Total average commission rates	0.23%	0.20%	0.21%	0.22%	0.17%

Value-added services

The service fees for our value-added services vary on a case-by-case basis, depending on the type and extent of value-added services we offer. For example, we charge service fees for:

- online stores operation services based on the GMV of transactions that occur in these online stores; and
- user acquisition and management services based on the number of users we help platform participants acquire and retain or increase in user spending.

We provide value-added services to enhance our relationships with our platform participants and boost the volume of virtual goods transactions we facilitate. We may adjust our pricing strategies from time to time.

As a platform that connects virtual goods vendors and virtual goods sales channels, we facilitate virtual goods-related transactions at different commission rates based on market demand and our capital resources. Because of our competitive strengths described under “– Our Strengths”, virtual goods vendors and virtual goods sales channels increasingly realize the value we bring to them. In addition, we have adopted the following measures to enhance our overall profit margins:

- we focus on facilitating more virtual goods transactions with higher commission rates. For example, we offered more games-related services with higher commission rates during the Track Record Period. As a result, the commission rates of games-related virtual goods transactions facilitated by us increased during the Track Record Period;
- we adjust the mix of virtual goods transactions we facilitate among different industries to enhance our overall profit margins; and
- we have developed and will continue to develop value added service to diversify our revenue sources.

BUSINESS

As a result, our gross profit margins increased from 76.2% in 2017 and 76.0% in 2018 to 80.0% in 2019 and from 73.9% in the three months ended March 31, 2019 to 86.3% in the same period in 2020.

Virtual goods vendors and virtual goods sales channels selection criteria and process

We evaluate virtual goods vendors based on a number of factors, including their brand names, user bases, user activity and the popularity of the products and services they offer. Before cooperating with a virtual goods vendor, we evaluate the vendor based on publicly available information and examine the vendor's business license and other licenses required for the vendor's operations.

We typically evaluate virtual goods sales channels based on their business scale, reputation and the consumer traffic on their platforms. We typically request that virtual goods sales channels submit business licenses for our examination after they register on our platform. Upon completion of the verification process, we offer these sales channels access to various applications on our platform to process virtual goods transactions and manage their operations.

Key Contractual Terms with Our Business Partners

The following table sets forth the principal terms of the agreements we enter into with virtual goods vendors and virtual goods sales channels for virtual goods-related services provided to them.

	<u>Virtual goods vendors</u>	<u>Virtual goods sales channels</u>
Term	Generally one year	Generally one year
Scope of cooperation	We receive commissions from virtual goods vendors for facilitating the sale of the virtual goods they offer.	We pay some virtual goods sales channels (such as e-commerce platforms and online payment platforms) commissions for virtual goods transactions conducted through them. Other virtual goods sales channels (such as third-party virtual goods and services platform operators) prepay for virtual goods sold through our platform.
Sales and pricing policy	The commissions typically represent a percentage of the GMV of the virtual goods sold through our platform during certain periods. Certain virtual goods vendors offer incentive fees if we meet certain sales targets.	The commissions typically represent a percentage of the GMV of the virtual goods sold through our platform during certain periods. We also pay certain e-commerce platforms fixed annual fees.

BUSINESS

	Virtual goods vendors	Virtual goods sales channels
Payment and credit terms	<p>We (1) generally make prepayments to virtual goods vendors for virtual goods sold through our platform and (2) pay certain virtual goods vendors monthly for virtual goods sold through our platform during the previous month.</p> <p>We generally earn commissions upon the completion of a virtual goods transaction.</p> <p>Virtual goods vendors typically pay us incentive fees monthly or quarterly.</p> <p>Some virtual goods vendors require us to pay security deposits and we agree to forfeit part or all of the deposits in the event of breach of any major terms of our contracts with virtual goods vendors.</p>	<p>We pay some virtual goods sales channels (such as e-commerce platforms and online payment platforms) commissions for the virtual goods transactions conducted through them:</p> <ul style="list-style-type: none"> • E-commerce platforms or online payment platforms generally pay us purchase prices of virtual goods after deducting their commissions on a T+1 basis. • Certain virtual goods sales channels pay us purchase prices of virtual goods sold through our platform upon completion of a virtual goods transaction. We pay them commissions for virtual goods sold in a month over the following month. • Certain virtual goods sales channels pay us purchase prices of virtual goods sold through our platform during the previous month after deducting their commissions on a monthly basis. <p>We typically deduct prepayments from other virtual goods sales channels (such as third-party virtual goods and services platform operators) once the transactions are completed (i.e. on a T+0 basis).</p> <p>We provide security deposits to certain virtual goods sales channels such as e-commerce platforms, which return these deposits to us upon expiration of the relevant contracts.</p>

We sometimes enter into separate agreements with customers for one or multiple types of value-added services or include agreed-upon provisions with respect to value-added services in the relevant contracts for virtual goods-related services. The following table sets forth the principal terms under which we provide certain value-added services to virtual goods vendors and virtual goods sales channels. We provide other value-added services to our platform participants upon receiving their occasional requests without entering into formal agreements with them.

BUSINESS

	Online stores operation services	Online sales platform establishment services	User acquisition and management services
Term	Up to eighteen months	Up to five years	Up to two years
Responsibilities	We manage online stores for virtual goods vendors on e-commerce platforms.	We help sales channels establish online sales platforms and provide virtual goods for sale on these platforms.	We help virtual goods vendors and virtual goods sales channels acquire new users. We help virtual goods sales channels develop and operate mini-games.
Sales and pricing policy	The service fees we receive typically represent a percentage of the GMV of the virtual goods sold in the online stores during certain periods.	We currently do not charge virtual goods sales channels fees for helping them establish sales platforms. We facilitate the sale of virtual goods offered by our virtual goods vendor partners on the sales platforms.	The service fees we receive for user acquisition services are typically based on the number of users we help virtual goods vendors or virtual goods sales channels acquire and retain and increase in user spending. The service fees we receive for mini-games development services are typically based on the number of technology personnel involved in developing a mini-game and the time they spent on developing the mini-game.
Payment and credit terms	Virtual goods vendors typically pay us service fees monthly or quarterly. Virtual goods vendors typically require us to pay security deposits and we agree to forfeit part or all of the deposits in the event of breach of any major terms of online store operation contracts.	N/A	Our customers typically pay service fees for our user acquisition services monthly or quarterly. Virtual goods sales channels typically pay service fees for our mini-game development services upon completion of a mini-game development project.

CUSTOMERS

Our customers primarily include virtual goods vendors, from whom we earn commissions on facilitating sales of their products through our platform. Our customers also include virtual goods vendors and virtual goods sales channels who use our ancillary value-added services for which we charge fees on a case-by-case basis.

In 2017, 2018, 2019 and the three months ended March 31, 2020, our five largest customers accounted for 40.5%, 49.8%, 64.5% and 65.3% of our total revenue, respectively, while our largest customer accounted for 24.8%, 21.9%, 27.4% and 22.3% of our total revenue, respectively.

BUSINESS

The following table sets forth certain information with respect to our five largest customers based on revenues and percentage of total revenues during the Track Record Period:

Rank	Year ended December 31,									Three months ended March 31,		
	2017			2018			2019			2020		
	Customer	Revenue	%	Customer	Revenue	%	Customer	Revenue	%	Customer	Revenue	%
<i>(RMB in thousands, except percentages)</i>												
1	Customer A	60,553	24.8	Customer A	45,671	21.9	Customer A	66,323	27.4	Customer A	17,869	22.3
2	Customer B	10,858	4.5	Customer B	16,970	8.1	Customer H	36,371	15.0	Customer I	15,034	18.8
3	Customer C	9,565	3.9	Customer F	14,828	7.1	Customer B	35,411	14.6	Customer B	8,702	10.9
4	Customer D	8,867	3.6	Customer G	14,294	6.8	Customer F	9,691	4.0	Customer H	7,374	9.2
5	Customer E	8,804	3.6	Customer E	12,363	5.9	Customer E	8,560	3.5	Customer J	3,295	4.1

Notes:

- (1) Customer A is an online entertainment content provider affiliated with a listed company. We grant Customer A credit periods of 90 days. As of the Latest Practicable Date, we had a five-year business relationship with Customer A.
- (2) Customer B is an online leisure and entertainment and games content provider affiliated with a listed company. We grant Customer B credit periods of 90 days. As of the Latest Practicable Date, we had a eight-year business relationship with Customer B.
- (3) Customer C is a third-party telecommunications and games-related virtual goods and services platform operator. Customer C is not listed on any stock exchange. We grant Customer C credit periods of 90 days. As of the Latest Practicable Date, we had a five-year business relationship with Customer C.
- (4) Customer D is a third-party games-related virtual goods and services platform operator. Customer D is not listed on any stock exchange. We grant Customer D credit periods of 90 days. As of the Latest Practicable Date, we had a four-year business relationship with Customer D.
- (5) Customer E is an online entertainment content provider affiliated with a listed company. We grant Customer E credit periods of 90 days. As of the Latest Practicable Date, we had a three-year business relationship with Customer E.
- (6) Customer F is an online entertainment content provider. Customer F is not listed on any stock exchange. We grant Customer F credit periods of 30 days. As of the Latest Practicable Date, we had a three-year business relationship with Customer F.
- (7) Customer G is a third-party games-related virtual goods and services platform operator. Customer G is not listed on any stock exchange. We grant Customer G credit periods of 90 days. As of the Latest Practicable Date, we had a two-year business relationship with Customer G.
- (8) Customer H is a third-party games-related virtual goods and services platform operator and an e-commerce platform affiliated with a listed company. We grant Customer H credit periods of 90 days. As of the Latest Practicable Date, we had a one-year business relationship with Customer H.
- (9) Customer I is a third-party games-related virtual goods and services platform operator. Customer I is not listed on any stock exchange. We grant Customer I credit periods of 90 days. As of the Latest Practicable Date, we had a one-year business relationship with Customer I. Customer I accounted for a high percentage of our revenue in the first quarter of 2020, primarily because of increased sales of games-related prepaid cards in the online store we operated for Customer I driven by promotional activities.
- (10) Customer J is a third-party games-related virtual goods and services platform operator. Customer J is not listed on any stock exchange. We grant Customer J credit periods of 90 days. As of the Latest Practicable Date, we had a one-year business relationship with Customer J. Customer J accounted for a high percentage of our revenue in the first quarter of 2020, primarily because of increased sales of games-related prepaid cards in the online store we operated for Customer J driven by promotional activities.

BUSINESS

One of our top five customers in 2019 and the three months ended March 31, 2020, Customer H, was also one of our top five suppliers (i.e. Supplier H) in 2019 and the three months ended March 31, 2020. Customer H (i.e. Supplier H) and Supplier A are both affiliates of a listed e-commerce platform in China. We began to enter into contracts with Supplier A in 2015, under which we facilitated the sale of virtual goods through the e-commerce platform to which Supplier A is affiliated. Since January 2019, as part of the e-commerce platform's corporate structural changes, Supplier H has replaced Supplier A to sign contracts with us on behalf of the e-commerce platform to which Customer H (i.e. Supplier H) and Supplier A are affiliated.

We began to facilitate the sale of games-related virtual goods provided by Customer H in 2019. Through our platform, Customer H can sell games-related virtual goods through additional sales channels, which helps Customer H broaden its consumer reach and increase virtual goods sales. In 2019 and the three months ended March 31, 2020, our revenue from Customer H accounted for approximately 15.0% and 9.2% of our total revenue, and our cost of sales attributable to Supplier H accounted for approximately 14.5% and 23.7% of our total cost of sales. In 2019, gross profit attributable to Customer H (i.e. as calculated as the difference between (a) our revenue from Customer H and (b) cost of sales for Customer H calculated based on Customer H's contribution to our total revenue in the games segment) amounted to RMB25.5 million and RMB5.0 million and the gross profit margin of our transactions with Customer H was 70.1% and 67.7%.

Our Directors confirmed that (1) all of our transactions with Customer H (i.e., Supplier H) were conducted in the ordinary course of business under normal commercial terms and on an arm's length basis, and (2) none of Customer H, its shareholders or directors, had in the past or present, relationship, transaction, agreement, arrangement or understanding with us, our subsidiaries, shareholders, directors, senior management or any of their respective associates, other than the customer/supplier relationship. To our knowledge, none of our other major customers is our supplier or vice versa.

None of our Directors or any of their respective associates or, to the best knowledge of our Directors, none of our Shareholders who owns more than 5.0% of the Shares in issue, had a material interest in any of our five largest customers for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020.

SUPPLIERS

Our suppliers primarily include (i) virtual goods sales channels, who charge us commissions and (ii) data storage and server hosting providers. We select suppliers based on a number of factors, including their user base, market share and reputation.

In 2017, 2018, 2019 and the three months ended March 31, 2020, our five largest suppliers accounted for 55.8%, 48.8%, 51.9% and 54.0% of our total cost of sales, respectively, while our largest supplier accounted for 23.6%, 29.7%, 26.8% and 23.7% of our total cost of sales, respectively.

BUSINESS

The following table sets forth certain information with respect to our five largest suppliers based on transaction amount and percentage of total cost of sales during the Track Record Period:

Year ended December 31,										Three months ended March 31,		
2017				2018			2019			2020		
Transaction				Transaction			Transaction			Transaction		
Rank	Supplier	Amount	%	Supplier	Amount	%	Supplier	Amount	%	Supplier	Amount	%
(RMB in thousands, except percentages)												
1	Supplier A	13,673	23.6	Supplier B	14,912	29.7	Supplier B	12,960	26.8	Supplier H	2,603	23.7
2	Supplier B	12,876	22.2	Supplier A	5,640	11.2	Supplier H	7,034	14.5	Supplier B	1,992	18.2
3	Supplier C	3,813	6.6	Supplier F	1,772	3.5	Supplier G	2,420	5.0	Supplier G	627	5.7
4	Supplier D	1,047	1.8	Supplier G	1,218	2.4	Supplier E	1,720	3.6	Supplier E	475	4.3
5	Supplier E	898	1.6	Supplier D	943	1.9	Supplier I	983	2.0	Supplier J	234	2.1

Notes:

- (1) Supplier A is an e-commerce platform affiliated with a listed company. Supplier A did not grant us any credit periods. As of the Latest Practicable Date, we had a five-year business relationship with Supplier A.
- (2) Supplier B is an e-commerce platform. Supplier B is a subsidiary of a listed company. Supplier B did not grant us any credit periods. As of the Latest Practicable Date, we had an eleven-year business relationship with Supplier B.
- (3) Supplier C is an e-commerce platform. Supplier C is not listed on any stock exchange. Supplier C did not grant us any credit periods. As of the Latest Practicable Date, we had a two-year business relationship with Supplier C.
- (4) Supplier D is an online payment platform affiliated with a listed company. Supplier D did not grant us any credit periods. As of the Latest Practicable Date, we had a nine-year business relationship with Supplier D.
- (5) Supplier E is a cloud service platform affiliated with a listed company. Supplier E did not grant us any credit periods. As of the Latest Practicable Date, we had a nine-year business relationship with Supplier E.
- (6) Supplier F is an e-commerce platform. Supplier F is not listed on any stock exchange. Supplier F grants us credit periods of 30 days. As of the Latest Practicable Date, we had a three-year business relationship with Supplier F.
- (7) Supplier G is an online payment platform affiliated with a listed company. Supplier G did not grant us any credit periods. As of the Latest Practicable Date, we had a three-year business relationship with Supplier G.
- (8) Supplier H is an e-commerce platform and a third-party games-related virtual goods and services platform operator affiliated with a listed company. Supplier H did not grant us any credit periods. As of the Latest Practicable Date, we had a one-year business relationship with Supplier H.
- (9) Supplier I is an e-commerce platform. Supplier I is not listed on any stock exchange. Supplier I grants us credit periods of 30 days. As of the Latest Practicable Date, we had a one-year business relationship with Supplier I.
- (10) Supplier J is an online payment platform affiliated with a listed company. Supplier J did not grant us any credit periods. As of the Latest Practicable Date, we had a three-year business relationship with Supplier J.

BUSINESS

One of our top five supplier in 2019 and the three months ended March 31, 2020, Supplier H, was also one of our top five customers (i.e. Customer H) in 2019 and the three months ended March 31, 2020. See “– Customers” for details. To our knowledge, none of our other suppliers is a major customer and vice versa.

None of our Directors or any of their respective associates or, to the best knowledge of our Directors, none of our Shareholders who owns more than 5.0% of the Shares in issue, had an interest in any of our five largest suppliers for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020.

MARKETING AND BUSINESS DEVELOPMENT

We focus our marketing efforts on increasing our brand awareness, developing and enhancing relationships with platform participants and establishing relationships with new customers.

We focus on providing high quality virtual goods-related services and tailor-made value-added services to attract and enhance relationships with virtual goods vendors and virtual goods sales channels.

We help platform participants design and run mini-games and reward-points programs and other user management tools to promote the sale of virtual goods to consumers. We also facilitate the sale of virtual goods offered by different virtual goods vendors in bundled packages to boost consumer spending.

We had a dedicated sales, marketing and business development team of 25 employees as of the Latest Practicable Date. Our sales, marketing and business development team primarily focuses on:

- promoting our services to virtual goods vendors that offer virtual goods for which we believe there is unmet market demand;
- identifying and establishing business relationships with online platforms and offline businesses with a large or growing user base; and
- soliciting feedback from virtual goods vendors and virtual goods sales channels to help ensure they are satisfied with our services.

OUR TECHNOLOGY AND INFRASTRUCTURE

Overview

We believe that technology is the key to our success. In 2017, 2018, 2019 and the three months ended March 31, 2020, we incurred R&D expenditures of RMB9.9 million, RMB24.4 million, RMB20.5 million and RMB5.7 million, respectively. We use our proprietary technology to improve the experience of platform participants on our platform.

As of the Latest Practicable Date, we had a research and development team of 111 employees, who are responsible for developing, maintaining and improving our technology infrastructure, including our technology platforms.

Our research and development team has an average of over 7 years of relevant work experience. Mr. Ren Wei, who has over 21 years of relevant R&D experience, heads our research and development department. The following table sets forth certain milestones of our research and development:

Year	Achievements
2010	<ul style="list-style-type: none">• We established our research and development team.• We launched our Kamen platform to begin providing virtual goods and services. Our Kamen platform connected virtual goods vendors and virtual goods sales channels based on the last generation technology framework under which all functions were built in one module. Our Kamen platform connected virtual goods vendors mainly to e-commerce platforms. Our Kamen platform ceased operations in 2019 after its functions were incorporated into our Fulu Open Platform.
2015	<ul style="list-style-type: none">• We launched our Shuyu platform to provide POP and H5-based services. POP service allows virtual goods sales channels to procure virtual goods in large quantities. See “ – Our Technology Platforms” for more details. H5 can be embedded into platforms of virtual goods sales channels and was subsequently further developed into the MALL application. See “ – Our Technology Platforms” for more details. All functions in Shuyu platform were also built in one module. Our Shuyu platform connected our Kamen platform to additional virtual goods sales channels, including online payment platforms, offline enterprises and others. Our Shuyu platform ceased operations in 2019 after its functions were incorporated into our Fulu Open Platform.
2019	<ul style="list-style-type: none">• We launched the Fulu Open Platform, which incorporated the service functions of our Kamen and Shuyu platforms into one platform.

Our Technology Platforms

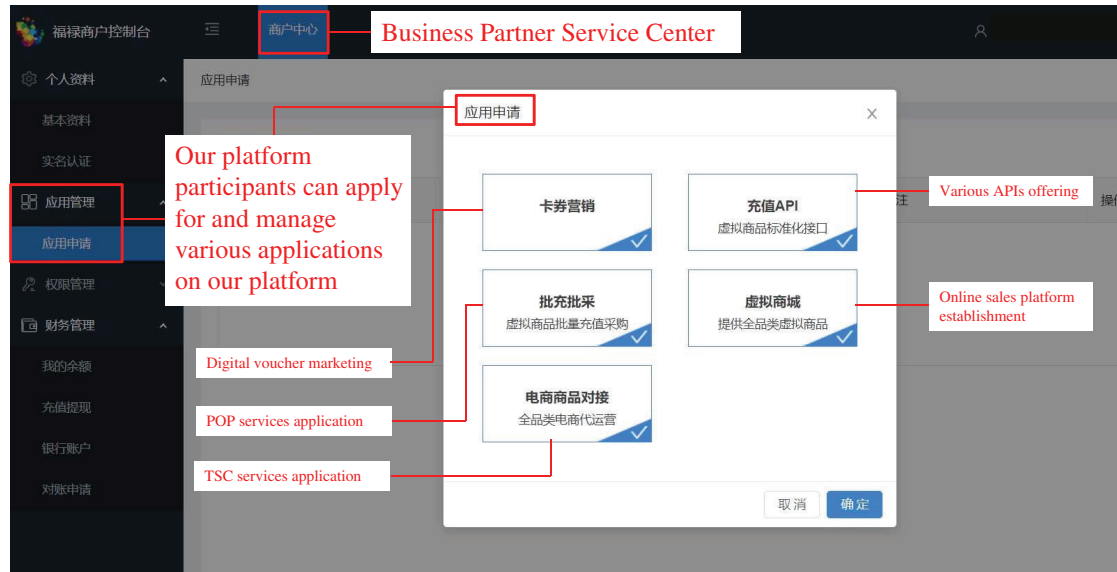
Through our Fulu Open Platform, we provide “one-stop” virtual goods-related services and value-added services to platform participants. Our Fulu Open Platform can be seamlessly embedded into internet platforms through API and MALL service applications. In contrast to manual connection, service applications such as API or MALL are common programming interfaces implemented separately in our platform participants’ app codes and in our Fulu Open Platform to exchange data and respond automatically to order requests from consumers.

Our platform helps ensure security performance by incorporating security functions in IT infrastructure. After receiving a consumer order, our platform authenticates the order, automatically identifies virtual goods that meet the consumer’s requirements and transfers the orders to a virtual goods vendor through encrypted tokens. Please see “– Our Business Model and Transaction Process – Our Transaction Process” above for more details.

Our technology platform improves the overall efficiency of the virtual goods sales value chain by saving the time otherwise required to manually match consumer orders with available virtual goods and manage inventory of virtual goods. Our platform participants can also manage the transaction process by accessing our Fulu Open Platform and utilizing applications on our platform.

Unlike other market players, we operate an open and scalable platform. Our Fulu Open Platform utilizes a framework under which each service application is designed as a stand-alone module. This framework enables incremental changes or upgrades of a service application to be completed without affecting other service applications in the platform. This allows our Fulu Open Platform to deliver customized applications in a short time through reuse and integration of pre-set modules. Our Fulu Open Platform includes a “developer center”, allowing our business partners to use and customize applications in the developer center based on their commercial needs.

The following screenshot shows an interface of Fulu Open Platform from the perspective of our platform participants:



Our platform participants can register on Fulu Open Platform through our website <https://open.fulu.com/index.html> with a mobile phone number and click “accepting Fulu Open Platform registration agreement”. We currently do not charge platform participants fees for registering as members of our platform. A platform participant can establish up to ten different merchants accounts on our platform either as a virtual goods vendor or a virtual goods sales channel. Fulu Open Platform is not a marketplace open to consumers for purchases of virtual goods and consumers do not have access to Fulu Open Platform. After passing real-name identification by submitting identification materials such as an enterprise business license for verification, a platform participant can manage virtual goods transactions and other aspects of their operations through various applications on our platform.

Platform participants can apply for applications and manage these applications through our Fulu Open Platform. The following is a brief introduction of certain applications available on our platform:

- *API*: A wide array of virtual goods API available on our platform enable virtual goods sales channels to seamlessly connect to our platform and to access a wide variety of virtual goods, covering leisure and entertainment, games, telecommunications and lifestyle content.
- *POP*: Our POP service allows virtual goods sales channels to procure virtual goods in large quantities. Enterprises can deliver a large quantity of virtual goods to different employees as employee benefits or sell virtual goods to a large number of end consumers by placing a single order through a POP application.

- *TSC*: Virtual goods sales channels can manage online stores on different e-commerce platforms using our TSC applications. Our TSC service also enables virtual goods vendors to place virtual goods and manage online stores on various e-commerce platforms and save virtual goods vendors time to manually place their virtual goods on each e-commerce platform.
- *MALL*: Our MALL application enables virtual goods sales channels to operate online marketplaces set up by us. The application can also be tailored to meet other specific needs of platform participants, such as the establishment of user or employee management systems and reward points systems and the formulation of employee welfare solutions.

Our technology platforms have the following features:

- *Convenient*: Our technology platform supports our platform's "24/7" operations and enables platform participants to access a variety of services through applications.
- *Scalable*: Our Fulu Open Platform can accommodate a variety of needs with respect to a virtual goods transaction. Platform participants can choose pre-set standardized module offerings, such as API, POP, TSC, or we can design applications catering to their needs.
- *Reliable*: Our multi-layer technology platform adopts protocols to automatically authenticate user identity and back up data generated on our platform. This helps ensure the safety of transactions executed on our platform and prevents data leakage and tampering. Our IT system also includes a host of encryption, antivirus and firewall technology to protect and maintain the systems and computers across our business. Our IT systems have passed various stress tests designed to evaluate the stability of our systems, including the Alibaba Cloud's penetration test.
- *Low latency*: Our technology platforms use algorithms such as message queue and database management technologies, allowing a maximum of 200,000 users to purchase virtual goods concurrently, while each user can access a purchase interface to place orders within 0.5 seconds after connecting to our platform. Fulu Open Platform has an average response time of approximately 35 milliseconds.

Our Data Analytics, Privacy and Security

We have accumulated a vast amount of data from transactions completed through our platform:

- We collect geographic and behavioral data of consumers who purchase virtual goods from various sales channels connected to our platform. The data we collect primarily include mobile phone numbers, as well as information with respect to virtual goods transactions conducted by a consumer, such as the types of virtual goods purchased and the frequencies of purchases made by a consumer.
- We also collect certain information from virtual goods vendors and virtual goods sales channels that register as members of our platform, such as their business license information.

We have right to use the data generated on our platform under applicable PRC laws. We analyze this data to identify correlations and derive insights regarding the consumption behavior patterns of consumers. Our data algorithm capabilities enable us to monitor key operating indicators on a real time basis. Upon collecting information of key operating indicators, we analyze consumer purchase patterns and the level of virtual goods sold on our platform. Data algorithms also allow us to help virtual goods vendors acquire new consumers and enhance relationships with existing consumers.

We are dedicated to data privacy protection. We collect data and other information from consumers and other platform participants with their prior consent. Under the registration agreements we enter into with members of our platform, we inform our platform members of the purpose and scope of information collected from them and the method of collecting the information, and the members acknowledge the policies and measures we have adopted with respect to data privacy protection.

We store and maintain information collected on our platform in encrypted form on Alibaba Cloud until, and only if, we are required to erase the information by platform participants or laws or regulations. As of the Latest Practicable Date, we had not been required to erase the information by any platform participants or laws or regulations.

We have established a “big data center” to manage data collected by our platform, including reviewing and approving requests made by our employees and platform participants to access and use data on our platform. We have adopted policies that establish authorization mechanisms for data usage, approval procedures and access rights for confidential data, including internal control protocols to limit and monitor data access:

- *Employees.* We require our employees to enter into confidentiality agreements with us. Under these agreements, we allow employees to access confidential consumer data only to the extent necessary to perform their job responsibilities. An employee must make a data request application to the big data center, stating the purpose,

scope and term of use of the data requested, before accessing or using any confidential data on our platform. Unauthorized access by employees to data accumulated on our platform is strictly prohibited. Employees are required to indemnify us for any economic losses we suffer due to data leakage or unauthorized use of data caused by them.

- *Platform participants.* Our platform participants can only access data relating to the transactions they conduct through our platform and are not allowed to access data of transactions conducted by other platform participants.

We utilize OAuth2.0 authorization and authentication protocols, IP address “white list” and Alibaba Cloud data protection hardware to help ensure we do not leak or misuse platform participants’ private information. We maintain redundancy through a real-time multi-layer data backup system to prevent loss of data resulting from unforeseen circumstances. In addition, we maintain a documented vulnerability management program that includes periodic scans designed to identify security vulnerabilities on servers, workstations, network equipment and applications, and subsequent remediation of vulnerabilities. We also conduct regular internal and external penetration tests and remediate any deficiencies identified by the tests.

Our PRC Legal Advisor advised us that (a) we were not subject to any administrative penalties due to violation of applicable data protection and privacy laws and regulations in the PRC during the Track Record Period, and (b) we complied with all applicable PRC data protection and privacy laws and regulations in all material respects.

We plan to implement measures to comply with laws and regulations with respect to data protection and privacy as PRC laws and regulations evolve and we expand our business expands into overseas markets. For example, on May 28, 2019, the Cyberspace Administration of China promulgated the Consultation draft of the new Measures for Data Security Management (《數據安全管理辦法(徵求意見稿)》) (the “**Consultation Draft**”) regarding the protection of important data and personal information. On July 3, 2020, the SCNPC promulgated the Data Security law (Draft) (《數據安全法(草案)》) (the “**Draft**”). The Draft reiterated that entities and individuals must obtain a license to engage in data processing activities. We have obtained EDI licenses required for our data processing activities and these licenses remain in full effect. As of the Latest Practicable Date, it remained uncertain 1) if and when the Consultation Draft and the Draft will be promulgated, and 2) if the Consultation Draft and the Draft, once promulgated, will stipulate additional data security protection obligations. Because the contents of the Consultation Draft and the Draft are still under discussion, the impact of the Consultation Draft and the Draft on our business remain uncertain. We will closely monitor the latest development in data privacy and security laws and adjust our data privacy and security policies and business practices accordingly.

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Our Research and Development Initiatives

During the Track Record Period, we completed the following major R&D projects, primarily relating to the enhancement of our existing services.

<u>Project name</u>	<u>Project description</u>	<u>Completion time</u>
Fulu Open Platform authentication management system	a system we use to verify the identities of, and manage authorizations granted to, our platform participants.	2019
Enterprise resources planning applications	enhanced applications we use to (a) manage procurement processes, inventory levels, contracts and budgets and (b) evaluate key performance indicators.	2019
Mobile games-related applications enhancement applications	a series of applications we use to (a) facilitate games-related virtual goods transactions, including order management and sales reports tools, and (b) provide games-related value added-services, such as game leveling services.	2019
Mobile games-related iOS and Android applications	iOS and Android applications we use to facilitate games-related virtual goods transactions.	2018
Telecommunications virtual goods management application	an application we primarily use to facilitate telecommunications virtual goods transactions, such as encryption of data transmitted via API.	2018
Data analysis platform system (Phase II)	a system we use to conduct big data and consumer behavior analysis and monitor transaction data.	2018

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<u>Project name</u>	<u>Project description</u>	<u>Completion time</u>
Data analysis platform system (Phase I)	a system we use to collect and analyze transaction data accumulated on various platforms.	2017
Mobile games virtual goods-related application	an application that connects virtual goods vendors and virtual goods sales channels in the mobile games industry to provide multiple types of mobile games top-up services.	2017

The table below sets forth our major ongoing R&D initiatives, which are expected to be completed after the Listing.

<u>Project name</u>	<u>Project description</u>	<u>Expected completion time</u>
Value-added services applications		
Marketing activities applications	applications expected to allow virtual goods sales channels to conduct various marketing activities based on our MALL application, such as online group purchases and promotion-sale tools.	2020
Membership management applications	applications expected to enable virtual goods vendors connected to Fulu Open Platform to bundle their virtual goods and launch bundled membership rights packages on our platform.	2020
Targeted marketing applications	applications expected to enable our platform participants to promote virtual goods to potential consumers likely to be interested in certain virtual goods.	2020

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Project name	Project description	Expected completion time
Mini-games applications	applications expected to allow our platform participants to offer various types of mini-games to boost consumer activities and engagement. Consumers can play these mini-games using their reward points granted by our platform participants.	2020
Data sharing system	a data sharing system through which we share industry data and other data resources with our platform participants.	2020
Data analysis services system	a data analysis system through which we provide our platform participants with data analysis services covering transaction data, market data and marketing activities feedback.	2021
Mini-games development system	a mini-game development system that can be used by third party developers to develop mini-games based on their own needs.	2021
Intelligent early warning system	a system expected to (a) enable our platform participants to forecast and monitor various transaction data indicators using functions in our big data center, and (b) warn our platform participants of any abnormal transactions or vulnerabilities.	2021

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<u>Project name</u>	<u>Project description</u>	<u>Expected completion time</u>
Intelligent operation system	a system equipped with big data and artificial intelligence capabilities to assist our platform participants in making automatic business adjustments, such as price adjustments based on the supply and demand of virtual goods.	2022

Platform enhancement projects

Enhanced marketing applications	enhanced applications to (a) help virtual goods vendors issue vouchers, gift cards and other virtual goods on our platform and (b) more conveniently verify and process purchase orders through our platform.	2020
Enterprises purchase applications enhancement	enhanced applications to allow virtual goods vendors to streamline the sales channel management process, including a ladder pricing tool that enables a vendor to price virtual goods in different quantities or from different channels based on the vendor's pre-determined price policies.	2020

INTELLECTUAL PROPERTY

We seek to protect our intellectual property using trademarks, copyrights, domain names, trade secret laws, confidentiality procedures and contractual restrictions.

As of the Latest Practicable Date, we had 10 registered trademarks, 58 software copyrights, 34 domain names and two pending patents applications in the PRC. For more information about our intellectual property, please see “Appendix IV – Statutory and General Information”.

We recognize the importance of protecting and enforcing our intellectual property rights. We have included confidentiality clauses in employment contracts with senior management and research and development personnel.

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We are not aware of any material infringement of our intellectual property rights during the Track Record Period and up to the Latest Practicable Date.

CUSTOMER SERVICE

We strive to provide excellent customer service to ensure consumers can purchase virtual goods in a timely and cost-effective manner through our platform. Our customer service allows platform participants to enhance consumer loyalty and satisfaction.

As of the Latest Practicable Date, we had 113 dedicated customer service representatives, responsible for handling general inquiries and requests from our customers and end consumers, resolving consumer complaints and providing other after-sales services. We provide customer service on a 24/7 basis through our web-based AI customer service system and our call center. Our customer service representatives also collect and analyze end consumers' feedback to identify new business opportunities and areas for improvement.

We have high levels of end consumer satisfaction, as evidenced by the ratings of the online stores we operate. As of June 30, 2020, the stores we operated on a leading e-commerce platform in China achieved an average score of over 4.8 out of a maximum score of 5. During the Track Record Period and up to the Latest Practicable Date, we did not receive material complaints from our platform participants or end consumers.

We have an operations team of 128 employees to support our customers as of the Latest Practicable Date. Our operations team is responsible for communicating with customers to understand their needs and the implementation of our services, such as designing marketing activities, updating storefronts and managing product quality.

SEASONALITY

Our business and results of operations have historically been seasonal. Our results of operations are typically better during the virtual goods vendors' promotional periods, such as "Double Eleven" and "Double Twelve" shopping festivals and the Chinese New Year holiday in China.

COMPETITION

The competition in China's third-party virtual goods and services industry is intense. We face significant competition from:

- *Existing third-party virtual goods and services platform operators.* Other third-party virtual goods and services platform operators may have significantly more financial, technical, marketing and other resources than we have, and may devote greater resources to develop, promote and support their platforms and services. In addition, they may have more extensive industry relationships, longer operating histories and greater name recognition than we have. As a result, these competitors may respond

more quickly to new technologies, regulatory requirements and consumer demand. We may face competition from other virtual goods and services platform operators who seek to expand their scopes of business. For example, our competitors who originally focus on telecommunications sector may extend their service to the entertainment industry.

- *Virtual goods vendors and sales channels.* As China's virtual goods and services industry becomes more mature, our competition with virtual goods vendors may intensify. In addition, virtual goods sales channels may enter into business collaborations with our competitors or virtual goods vendors and compete with our business. We do not control the commissions offered by virtual goods vendors or charged by virtual goods sales channels. The commissions we earn from virtual goods transactions and pay to virtual goods sales channels may fluctuate or decline significantly due to factors beyond our control. For example, the commission rates for the leisure and entertainment virtual goods transactions we facilitated decreased from 25.8% in 2017 to 13.6% in 2018 and further to 9.4% in 2019 and 8.3% in the three months ended March 31, 2020. During the same periods, the commission rates for the telecommunications-related transactions we facilitated decreased from 0.5% in 2017 to 0.2% in 2018 and 2019. See "Risk factors – Risks Relating to Our Business and Industry – We do not control the commissions offered by virtual goods vendors or charged by virtual goods sales channels. The commissions we earn from virtual goods transactions or pay to virtual goods sales channels may fluctuate or decline significantly due to factors beyond our control, which could significantly harm our business, financial condition and results of operations" for further details. The foregoing could reduce our revenues, gross profit margin and market share and materially adversely affect our business, financial condition and results of operations.
- *New entrants to the third-party virtual goods and services industry.* We also compete with new entrants to the virtual goods industry in China. New entrants typically must possess extensive industry experience, strong business relationships with industry participants and strong financial resources and operating capabilities to compete effectively against more established third-party virtual goods and services platform operators (such as our company). See "Industry Overview – Overview of China's Third-party Virtual Goods and Services Industry – Entry Barriers and Key Factors for Success". However, the entry barriers to China's third-party virtual goods and services industry are not significant and new entrants may undercut the commissions they charge to increase market share.

We have adopted the following measures to manage potential competition with virtual goods vendors:

- increasing the number of virtual goods vendors and virtual goods sales channels with which we cooperate to enhance the network effects of our platform. Specifically, we plan to (a) enhance marketing efforts to attract more virtual goods vendor and sales channel partners, (b) connect more offline merchants to virtualize their products for online distribution and (c) increase the breadth of industries in which we provide services, and
- enhancing our ability to provide one-stop services to virtual goods vendors and virtual goods sales channels by (a) developing more value-added services, such as such as membership management and interactive advertising services, (b) cross-selling value-added services to increase virtual goods vendors' loyalty and willingness to use our platform, and (c) exploring opportunities in the games industry to provide more value-added services to gamers, such as game leveling services, game companion services and professional game account leasing services.

See “– Our Strategies – Expand the Scope of Our Platform Participants and Service Offerings and Deepen Industry Penetration” for details. Accordingly, we believe the overall potential competition with virtual good vendors does not significantly impact our operations (e.g. GMV of transactions and commission rates) and financial results (e.g. gross profit margin).

As China's virtual goods and services market develops, some virtual goods vendors such as leisure and entertainment content providers and game developers have also increasingly relied on third-party virtual goods and services platform operators (such as us) to facilitate virtual goods transactions and the commission rates offered by virtual good vendors are expected to generally stabilize at certain levels. This is partly because cooperation with us and other third-party virtual goods and services platform operators enables virtual goods vendors to save the time and costs they would incur to establish separate business relationships with a large number of virtual goods sales channels by themselves. We also provide services to help virtual goods vendors better monetize their goods and services.

In addition, many virtual goods vendors (especially vendors in different industries) offer virtual goods that target different consumer bases in the online stores we operate. We believe competition among these virtual goods vendors is limited. On the other hand, some virtual goods vendors offer similar products in our online stores and these virtual goods vendors typically use third-party virtual goods and services platform operators (such as us) to help them acquire or manage users.

Some major virtual goods vendors may have requirements and restrictions for third-party virtual goods and services platform operators that concurrently deal with their competitors. As the largest third-party virtual goods and services platform operator in China, we believe this trend will not materially impact us. We believe we created more value for virtual goods vendors

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than smaller third-party virtual goods and services platform operators in terms of both (a) the number of virtual goods sales channels to which we connect vendors, and (b) the varieties of value-added services provided by us to virtual goods vendors. As a result, we have built strong relationships with major virtual goods vendors and we believe most virtual goods vendors will not limit our ability to cooperate with other virtual goods vendors in future. We have also adopted the following measures to minimize the potential impact of this trend on us:

- designating separate teams to serve major competing virtual goods vendors to enhance relationships with these vendors. For example, we plan to have another entity undertake certain businesses currently operated by Tibet Fulu so that this entity and Tibet Fulu will serve different major online video service providers to provide them with better and more dedicated services;
- increasing the variety and extent of our value-added services to deepen our relationships with virtual goods vendors; and
- increasing the number of virtual goods vendors with which we cooperate to reduce the impact of unfavorable policies adopted by any particular virtual goods vendor.

We may face new competition as we introduce new services or solutions, or enter into new industry sectors, or as other companies introduce new services and solutions. Please see “Industry Overview” for details of our competitive landscape.

While our industry is evolving rapidly and is becoming increasingly competitive, we believe that we compete favorably because of our large business scale, strong relationships with platform participants, professional value-added service provided and expertise in a broad range of virtual goods market segments.

INSURANCE

As of the Latest Practicable Date, in line with industry practice, we did not maintain insurance policies covering potential losses or damages in respect of our operations. As our business expands, we plan to regularly review and assess our risk portfolio and adjust our insurance practice based on our needs and industry practice.

IMPACT OF OUTBREAK OF COVID-19 ON OUR BUSINESS

Since December 2019, the disease caused by a novel strain of coronavirus, later named COVID-19, has severely impacted China (including Wuhan, Hubei where our headquarters are located) and the rest of the world. On January 30, 2020, the World Health Organization declared that the COVID-19 outbreak constituted a Public Health Emergency of International Concern.

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In January 2020, the PRC government imposed a quarantine on travel in and out of Hubei and several other provinces in China in an effort to halt spread of the virus. Our employees worked remotely by accessing our Fulu Open Platform online outside our office premises during the quarantine period. On April 8, 2020, the PRC government lifted the quarantine on travel in and out of Hubei province (including Wuhan).

As we provided services to our platform participants over the internet and saved our data on cloud before the COVID-19 outbreak, we did not experience material business disruptions or operating difficulties due to the COVID-19 outbreak. We believe the COVID-19 outbreak has not materially affected our business relationships with our platform participants.

Most of our platform participants are online technology companies. Due to the nature of their businesses, they have been generally less affected by the COVID-19 outbreak than offline businesses in China. Some of our virtual goods vendor partners have seen growth in their businesses because many people in China stayed home to avoid exposure to the virus and purchased more virtual goods to access leisure and entertainment content and play games online. See “Summary – Recent Development and No Material Adverse Change” for details.

See “Risk Factors – Risks Relating to Our Business and Industry – We face risks relating to the outbreak of COVID-19” for details of the risks we are exposed to due to the outbreak of COVID-19.

COVID-19 Emergency Handling Plan and Related Measures

On January 22, 2020, we formed a company-wide COVID-19 emergency handling plan and established a contingency handling team to monitor COVID-19-related contingencies. The contingency handling team is headed by Mr. Zhao Bihao, an executive Director and a senior vice president of the Company.

We have required employees to monitor their body temperatures and report their whereabouts every day. Employees who have been to the outbreak area are required to promptly notify us and seek medical treatment if they have coronavirus symptoms.

We also plan to take precautionary measures to maintain a safe and hygienic working environment after our employees return to the office. These measures include:

- providing surgical masks, sanitization supplies and basic medical equipment such as thermometers on the office premises daily;
- requiring all staff to measure their body temperatures before allowing them to enter the office premises;
- requiring everyone to wear a face mask on the office premises;

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- sterilizing the office premises every day and improving ventilation by halting central heating and air conditioning and using fresh air ventilation instead;
- continually monitoring the health conditions of each employee;
- conducting meetings by telephone or video conference to the extent possible and limiting meetings on the office premises; and
- strictly controlling the number of visitors to the office and duration of visits.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

We believe that we are not subject to significant health, work safety, social or environmental risks as we do not operate any production, logistics or storage facilities. As of the Latest Practicable Date, we were not subject to material claims, lawsuits, penalties or administrative actions relating to non-compliance with health, work safety or environmental laws or regulations.

EMPLOYEES

As of the Latest Practicable Date, we employed 447 full-time employees, all of whom were based in the PRC.

The following table sets forth the number of our full-time employees by function as of the Latest Practicable Date.

Function	Number of full-time employees
Operations	128
Customer service	113
Research and development	111
Business development	25
General administration	39
Management	31
Total	447

We recruit employees primarily through campus recruiting, internal references and online career platforms.

We believe our employees are our most valuable assets. We offer employees competitive remuneration packages, which generally include basic wages, variable wages, bonuses and other benefits. We conduct monthly reviews of employees to provide them with feedback on their performance. We have also implemented training programs for our management and other employees to enhance their skills.

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We participate in employee benefit plans mandated by the PRC government, including basic pension insurance, work-related injury insurance, maternity insurance, basic medical insurance, unemployment insurance and housing provident fund scheme. We must contribute to employee benefit plans based on specified percentages of the total remuneration of our employees up to a maximum amount specified by local governmental authorities. We made contributions to employee benefit plans of RMB6.8 million, RMB7.9 million, RMB5.9 million and RMB0.8 million in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively.

We have not had strikes or other labor disturbances that have materially interfered with our operations, and we believe that we have maintained good working relationships with our employees.

PROPERTIES

Owned property

As of the Latest Practicable Date, we did not own any property.

Leased properties

As of the March 31, 2020, we leased 17 properties with a total GFA of approximately 4,736.66 square meters in the PRC. We use these properties as office premises.

Among these properties, lessors of 5 leased properties (with a total GFA of 279.38 square meters representing approximately 5.90% of the total GFA of our leased properties) had not provided us with valid title certificates or documents evidencing that the owners of these properties had authorized them to lease these properties. CM Law Firm, our PRC Legal Advisor, is of the view that if any third party raises claims against the ownership or leasing rights of such properties, our leases in respect of such properties may be affected.

We have not registered and filed our lease agreements with administrative authorities. The registration of such leases will require the cooperation of our lessors. We intend to take all practicable and reasonable steps to ensure that the unregistered leases are registered. Our PRC Legal Advisor has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC law, and that a maximum penalty of RMB190,000 may be imposed for non-registration of our lease agreements. During the Track Record Period and up to the Latest Practicable Date, the relevant housing administrative authorities did not impose material administrative penalties on us for failing to register our lease agreements. Please see “Risk Factors – Risk Relating to Our Business and Industry – Our leased property interests may be defective and our rights to use the leased properties affected by such defects may be challenged, which could disrupt our operations”.

We believe that we can find alternative business premises if we are forced to relocate our operations on the leased properties affected by the foregoing issues. We do not believe that such relocation would materially adversely affect our operations or financial condition.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of business. As of the Latest Practicable Date, we are not a party to material legal proceedings.

During the Track Record Period and up to the Latest Practicable Date, we had complied with applicable PRC laws and regulations in all material respects, and were not involved in material non-compliance incidents.

RISK MANAGEMENT

We face various risks during our operations. For more information, please refer to “Risk Factors”. In addition, we are exposed to interest rate, credit, and liquidity risks in the ordinary course of business. Please see “Financial Information – Qualitative and Quantitative Disclosure about Financial Risk” for a discussion of these market risks.

Our Risk Management Policies

To identify, assess and control risks to our business, we have designed and implemented policies and procedures to help ensure effective risk management in our operations. Our operations decision-making committee formulates our risk management policies, strategies and plans. Our legal department is responsible for identifying, evaluating and managing operational risks. Each of our business departments monitors and evaluates our risk management and internal control policies and procedures.

Our risk management policies cover the material aspects of our operations, including:

- fund allocation and management;
- counterparty risk management;
- sales process management, including closely monitoring the sale of virtual goods. For example, we set parameters in our system in advance of market campaigns to help ensure our platform does not facilitate virtual goods transactions at prices beyond the ranges prescribed by virtual goods vendors;
- legal compliance;
- intellectual property protection;
- human resource management;
- financial reporting management; and
- corporate governance.

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We have implemented policies and procedures to plan, allocate and manage funds, such as bank accounts, stamp management, fund and credit applications, liquidity management and employee cash advances.

We have implemented the following policies to manage our exposure to the default risks of virtual goods sales channels. Our directors believe these measures are effective to reduce our risk exposure:

- we generally only grant long-term credit lines to large and reputable virtual goods sales channels with good credit histories and require other virtual goods sales channels to make prepayments on our platform;
- we may grant temporary credit lines to virtual goods sales channels that have made prepayments on our platform based on our evaluation of their financial condition, creditworthiness, value of collateral (if any) and our cooperation history with them;
- we evaluate regularly the operational and financial performance of virtual goods sales channels that receive credit lines from us. We may terminate credit lines granted to virtual goods sales channels that experience a material deterioration in financial condition or engage in businesses that we believe pose material risks; and
- we closely monitor the balances of receivables due from virtual goods sales channels. Our system sends automatic reminders about the receivables due within 30 days to the relevant virtual goods sales channels and relevant departments of our company.

We have also established an anti-fraud risk management working group and implemented policies and procedures to detect and prevent telecommunications fraud. We also utilize our big data analytics capacities to detect fraud risk in our virtual goods-related services through our proprietary real-time transaction risk monitoring and fraud risk analysis systems.

INTERNAL CONTROL OVER OPERATIONS

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. In preparation for the Listing, we engaged an independent internal controls consultant to assess the effectiveness of our internal controls, identify deficiencies in our internal control system and recommend ways to enhance our internal control measures to comply with applicable laws and regulations.

The internal controls consultant identified certain issues in our internal controls in September 2019 and provided corresponding recommendations to our management. As advised by our internal control consultant, none of these issues would materially and adversely affect our business, financial condition and results of operations.

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We began to implement remedial actions after the internal controls consultant notified us about these issues. In particular, we have adopted the following measures to enhance our internal controls and ongoing compliance with applicable laws and regulations:

- modifying and implementing our internal audit policies based on the Listing Rules;
- enhancing sales and procurement procedures;
- establishing and implementing certain policies and procedures with respect to assets, treasury, human resources, taxation, investment and general information systems controls; and
- establishing review and approval procedures, as well as policies regarding financial reporting.

We believe these measures are effective to address the issues adopted by the internal control consultant.

We have formulated comprehensive internal control policies and measures to manage emergencies, including public security incidents, operations incidents, network security incidents, natural disasters, and legal and policy events.

Our operation decision-making committee is ultimately responsible for emergency management. Its responsibilities include:

- commanding and coordinating emergency preparation, responding and handling;
- determining specific emergency response-related matters;
- determining members of the emergency response team and their tasks;
- supervising and managing the establishment and operation of emergency systems;
- reporting and publishing the progress of emergency management; and
- coordinating with outside parties with respect to emergency management.

We have established an emergency response team under the operation decision-making committee which is responsible for implementing emergency plans formulated by, and reporting emergency events to, the operation decision-making committee.

We divide emergency response levels into level I responses (company level) and level II responses (department level) based on a range of factors relating to the emergency event, including its nature, severity, manageability and scope, among other factors. After we become aware of an emergency event, we evaluate the event to determine the applicable emergency response level and then take corresponding measures in response to the event.

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We also formulated specific emergency handling plans for particular emergency events. For example, on January 22, 2020, we formed a company-wide COVID-19 emergency handling plan and established a contingency handling team to monitor COVID-19-related contingencies. See “– Impact of Outbreak of COVID-19 on our Business – COVID-19 Emergency Handling Plan and Related Measures”.

LICENSES, PERMITS, AND APPROVALS

As of the Latest Practicable Date, we had obtained all material licenses, approvals, and permits required under the PRC laws and regulations. These licenses, approvals and permits remain in full effect in all material respects, and no circumstances exist to our knowledge which would cause these licenses, approvals, and permits to be revoked or cancelled.

The following table sets forth our key licenses and permits as of the Latest Practicable Date.

License/permit	License/ permit No.	Issue date	Expiry date	Issuing authority
Wuhan Fulu				
ICP license	E No. B2-20130116 (鄂) B2-20130116	January 15, 2020	September 13, 2023	Hubei Provincial Communications Administration
EDI license	E No. B2-20130116 (鄂) B2-20130116	January 15, 2020	September 13, 2023	Hubei Provincial Communications Administration
ICB license	E ICB License No. [2019] 2201-114 鄂網文[2019] 2201- 114號	April 18, 2019	April 17, 2022	Wuhan Municipal Bureau of Culture
Wuhan Yiqiyou				
ICP license	E No. B2-20160118 鄂 B2-20160118	August 2, 2017	September 22, 2021	Hubei Provincial Communications Administration
ICB license	E ICB License No. [2018] 9842-296 鄂網文[2018] 9842- 296號	November 2, 2018	November 1, 2021	Wuhan Municipal Bureau of Culture
Tibet Fulu				
ICP license	Zang No. B2-20180004 藏 B2-20180004	September 19, 2018	September 19, 2023	Communication Administration of Tibet Autonomous Region

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License/permit	License/ permit No.	Issue date	Expiry date	Issuing authority
EDI license	Zang No. B2-20180004 藏 B2-20180004	September 19, 2018	September 19, 2023	Communication Administration of Tibet Autonomous Region
ICB license	Zang ICB License No. [2019] 2285-001 藏總網文[2019] 2285- 001號	April 17, 2019	April 16, 2022	Department of Culture of Tibet Autonomous Region
Xinjiang Fulu				
ICP license	Xin No. B2-20190233 新 B2-20190233	July 8, 2019	July 8, 2024	Communication Administration of Xinjiang Uygur Autonomous Region
EDI license	Xin No. B2-20190233 新 B2-20190233	July 8, 2019	July 8, 2024	Communication Administration of Xinjiang Uygur Autonomous Region
Kashgar Yiqiwan				
ICP license	Xin No. B2-20180016 新 B2-20180016	October 8, 2018	February 22, 2023	Communication Administration of Xinjiang Uygur Autonomous Region

During the Track Record Period, because certain employees responsible for licenses application were not familiar with local government requirements, certain of our subsidiaries did not obtain ICP license or ICB license, which they were required to obtain in order to provide internet information services or online games virtual currency trading business.

Six of our subsidiaries operated for certain periods during the Track Record Period without obtaining an ICP license, which they were required to obtain in order to provide internet information services. These subsidiaries included:

- Wuhan Fulu, which renewed its ICP license in January 2020,
- Wuhan Lishuo, which obtained an ICP license in May 2019,

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- Xinjiang Fulu, which obtained an ICP license in July 2019,
- Tibet Fulu, which obtained an ICP license in September 2018,
- Wuhan Tianshi, which obtained an ICP license in March 2018, and
- Kashgar Yiqiwan, which obtained an ICP license in October 2018.

Three of our subsidiaries operated for certain periods during the Track Record Period without obtaining an ICB license required for operating online games virtual currency/tools trading businesses (the “**games-related ICB license**”). These subsidiaries included:

- Wuhan Lishuo, which obtained a games-related ICB license in January 2019,
- Tibet Fulu, which obtained a games-related ICB license in April 2019, and
- Kashgar Yiqiwan, which has stopped engaging in online games virtual currency/tools trading businesses since December 2019.

We have obtained confirmation from the competent regulatory authorities that Wuhan Lishuo, Tibet Fulu and our other subsidiaries that hold a games-related license:

- can continue to operate online game virtual currency/tools trading businesses after its games-related ICB license expires, and
- will not be subject to penalties or be required to stop online games virtual currency/tools trading business solely because its games-related ICB license expires.

During the Track Record Period, the revenue contribution of subsidiaries that operated for certain periods during the Track Record Period without obtaining a required ICP or games-related ICB license accounted for less than 5% of our total revenue. The revenue of these subsidiaries when they had not obtained the necessary licenses in 2017, 2018, 2019 and the three months ended March 31, 2020 were RMB5.2 million, RMB10.9 million, RMB6.3 million and nil, in each case respectively. As of January 31, 2020, each of these subsidiaries had obtained valid licenses required for its operations, and the PRC regulatory authorities did not impose penalties or conduct regulatory investigations or inquiries for these subsidiaries’ past operations without obtaining an ICP license or games-related ICB license. However, the relevant government authorities could do so in future. We may be subject to fines of up to RMB90,000 for these subsidiaries’ past failure to obtain Games-related ICB licenses. We may also be subject to confiscation of illegal gains and fines of up to five times illegal gains for these subsidiaries’ past provision of internet information services without obtaining the ICP licenses.

BUSINESS

If we are unable to renew our Games-related ICB Licenses or to obtain any necessary licenses after the promulgation of any new laws and regulations, we may be required to cease our online games virtual currency/tools trading business, which may adversely affect our business, results of operations or financial condition. In 2019, based on unaudited financial information, our revenue and gross profit would have been RMB200.9 million and RMB164.8 million, excluding any revenue from businesses that require a Games-related ICB license (i.e. our facilitation of games-related virtual goods transactions other than sale of virtual pre-paid cards that do not involve online trading of games virtual currency or tools). Please see “Risk Factors – Risks Relating to Our Business and Industry – The PRC government may promulgate new laws or regulations and considerable uncertainties exist with respect to the interpretation and implementation of existing and future laws and regulations governing our business activities. Failure to comply with laws, rules and regulations, or to obtain and maintain required licenses or permits, could materially and adversely affect our business, financial condition and results of operations” for the related risks.

We have established and implemented policies and procedures with respect to the management of licenses and permits. We also plan to diversify our sources of revenue to maintain stable revenue and gross profit margin in the event we are unable to provide online games virtual currency/tools transaction services. Specifically, we plan to:

- increase the number of virtual goods vendors and virtual goods sales channels with which we cooperate by (a) enhancing marketing efforts to attract more virtual goods vendor and sales channel partners, (b) connecting more offline merchants to virtualize their products for online distribution and (c) increasing the breadth of industries in which we provide services,
- penetrate new industry sectors. For example, we plan to explore opportunities in the games industry to provide more value-added services to gamers, and
- expand the scope of our service offerings, such as game leveling services, game companion services, professional game account leasing services, targeted marketing applications, membership management applications and mini-games applications.

Our PRC Legal Advisor has advised that because (1) the subsidiaries that operated for certain periods during the Track Record Period without an ICP or games-related ICB license constituted a low proportion of our revenue in previous periods, and (2) these subsidiaries have since obtained valid licenses required for their operations or ceased operations, the PRC regulatory authorities will not likely impose material penalties on us because certain subsidiaries’ past failure to obtain a required ICP license or games-related ICB license.

AWARDS AND RECOGNITIONS

The following table sets forth some of the major awards and recognitions we received during the Track Record Period and up to the Latest Practicable Date:

Year	Award/recognition	Events/Organizers/Media
2019	Top 20 High Growth High Technology Enterprise in Optic Valley (光谷高科技高成長20強)	Deloitte China (德勤中國)
2018 and 2019	Gold Seeds Enterprise (金種子企業)	The Local Bureau of Financial Affairs of Wuhan City (武漢市地方金融工作局)
2019	Gazelle Award (瞪羚獎)	The Management Commission of Wuhan East Lake High-tech Development Zone (武漢東湖新技術開發區管理委員會)
2018	High and New Technology Enterprise Qualification (高新技術企業)	The Science and Technology Bureau, the Finance Bureau and the State Tax Bureau of Hubei Province (湖北省科學技術廳、湖北省財政廳、國家稅務總局湖北省稅務局)
2018	New Industry and Innovative Enterprise (新興產業和創新創業企業)	The Management Commission of Wuhan East Lake High-tech Development Zone (武漢東湖新技術開發區管理委員會)
2017	TOP 10 Most Commercially Valuable Internet Enterprise in Optic Valley (光谷互聯網最具商業價值TOP 10)	The Management Commission of Wuhan East Lake High-tech Development Zone (武漢東湖新技術開發區管理委員會)
2017	Outstanding Internet Enterprise (互聯網+優秀企業)	The Management Commission of Wuhan East Lake High-tech Development Zone (武漢東湖新技術開發區管理委員會)

THE LATEST REGULATORY DEVELOPMENTS

In May 2019, the MCT released the Notice on Adjusting the Scope of Examination and Approval regarding the <Internet Culture Operation License> to Further Regulate the Approval Work (《關於調整<網絡文化經營許可證>審批範圍進一步規範審批工作的通知》) (the “**Notice on Adjusting the Scope**”). In July 2019, the MCT further issued the Decision on the Abolition of the Interim Measures on Administration of Online Games and the Administrative Measures for Tourism Development Plan (《關於廢止<網絡遊戲管理暫行辦法>和<旅遊發展規劃管理辦法>的決定》) (the “**Decision**”). Pursuant the Notice on Adjusting the Scope and the Decision, (1) the MCT is no longer responsible for regulating the online games industry in China (including the online games virtual currency/tools trading business) and has stopped granting or renewing any games-related ICB licenses; and (2) a currently valid games-related ICB license will remain valid until the term of the license expires. As of the Latest Practicable Date, the PRC government had not enacted laws, regulations or official guidelines or designated any government authorities to regulate China’s online games virtual currency/tools trading services industry.

Our PRC Legal Advisor further advised that based on a consultation with competent local PRC government authorities, the operation of an online game virtual currency/tools trading business no longer requires a games-related ICB license and until the PRC government promulgates new laws and regulations or designates new government authorities to regulate China’s online game virtual currency/tools trading industry:

- our subsidiaries that operate online game virtual currency/tools trading businesses can continue to do so after their games-related ICB licenses expire, and
- these subsidiaries will not be subject to penalties or be required to stop online games virtual currency/tools trading business solely because their games-related ICB licenses expire and are not renewed.

Please see “Regulatory Overview – Regulations on Virtual Currency and Virtual Items” for details.

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PRC REGULATORY BACKGROUND

Background

Foreign investment activities in the PRC are mainly governed by the Catalogue of Industries for Encouraging Foreign Investment (the “**Catalogue**”) and the Special Administrative Measures (Negative List) for Foreign Investment Access (2019 Edition) (the “**Negative List**”), which have been promulgated and amended from time to time jointly by the MOFCOM and the NDRC. The Negative List stipulates the industries in which foreign investment is restricted or prohibited. A summary of our businesses that are subject to foreign investment restriction or prohibition in accordance with the Catalogue and the Negative List (collectively, the “**Relevant Businesses**”) is set out below:

<u>Categories</u>	<u>Relevant Business</u>
Internet Culture Activities	<p>The online games virtual currency/tools trading business engaged by our Consolidated Affiliated Entities constitutes the “internet culture activities” as defined under the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “Internet Culture Interim Provisions”) promulgated by the MOC on February 17, 2011.</p> <p>According to the Catalogue, the Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in an enterprise engaging in “internet culture activities” (excluding music). As advised by our PRC Legal Advisor, our Consolidated Affiliated Entities engaged in online games virtual currency/tools trading business have to be indirectly controlled by the Company through the Contractual Arrangements because such business falls into online games industry, which constitutes “internet culture activities”, a “foreign-prohibited” business sector under the Negative List.</p>

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Categories	Relevant Business
Value-added Telecommunications Services Business	<p>Online virtual goods trading services provided by our Consolidated Affiliated Entities also fall within the scope of “value-added telecommunication services business including internet information services” under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) and Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) promulgated by the State Council on December 11, 2001.</p> <p>According to the Negative List, foreign-invested enterprises are restricted from operating, among other things, (i) the basic telecommunication business, and (ii) the value-added telecommunication business (except for the electronic commerce business, domestic multi-party communications, storage and forwarding, and call centers). According to the Catalogue, the Negative List and other application PRC laws, foreign investors are not allowed to hold more than 50% of the equity interests in a PRC company engaging in the value-added telecommunications services business (excluding e-commerce, domestic multi-party communications, storage and forward, and call centers).</p>

The following table sets out the principal businesses, categories of the Relevant Businesses involved, the specific license(s) held by each of our Consolidated Affiliated Entities as of the Latest Practicable Date and reasons to control our Consolidated Affiliated Entities by the Company pursuant to the Contractual Arrangements:

Name of Entity	Principal Businesses	Categories of Relevant Businesses Involved	Specific License(s) Owned ⁽¹⁾	Reasons to be controlled by the Company pursuant to the Contractual Arrangements
Wuhan Fulu	Wuhan Fulu primarily engages in provision of services to facilitate virtual goods transactions, covering leisure and entertainment, games, telecommunications and lifestyle services.	<p>Value-added telecommunications services business</p> <p>Internet culture activities</p>	<p>ICP license</p> <p>EDI license</p> <p>ICB license</p>	Engaging in the online games virtual currency/tools trading business, which falls within the online games industry and constitutes “internet culture activities” and a “foreign-prohibited” business sector under the Negative List

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Name of Entity	Principal Businesses	Categories of Relevant Businesses Involved	Specific License(s) Owned ⁽¹⁾	Reasons to be controlled by the Company pursuant to the Contractual Arrangements
Wuhan Yiqiyou	Wuhan Yiqiyou primarily engages in provision of services to facilitate virtual goods transactions, covering leisure and entertainment, games, telecommunications and lifestyle services.	Value-added telecommunications services business Internet culture activities	ICP license ICB license	Same as above
Wuhan Lishuo	Wuhan Lishuo primarily engages in provision of services to facilitate virtual goods transactions, covering leisure and entertainment, games, telecommunications and lifestyle services.	Value-added telecommunications services business Internet culture activities	ICP license ICB license	Same as above
Tibet Fulu	Tibet Fulu primarily provides services to facilitate virtual goods transactions, covering leisure and entertainment, games, telecommunications and lifestyle services.	Value-added telecommunications services business Internet culture activities	ICP license EDI license ICB license	Same as above
Wuhan Souka	Wuhan Souka primarily engages in provision of services to facilitate virtual goods transactions, covering leisure and entertainment and games.	Value-added telecommunications services business Internet culture activities	ICP license EDI license ICB license	Same as above
Wuhan Yilu	Wuhan Yilu primarily engages in provision of services to facilitate virtual goods transactions, covering leisure and entertainment, games and lifestyle services.	Value-added telecommunications services business Internet culture activities	ICP license EDI license ICB license	Same as above
Hubei Kejin	Hubei Kejin primarily engages in provision of services to facilitate online games virtual goods transactions.	Value-added telecommunications services business Internet culture activities	ICP license EDI license ICB license	Same as above
Wuhan Tianshi	Wuhan Tianshi primarily engages in provision of services to facilitate virtual goods transactions, covering leisure and entertainment, games and telecommunications.	Value-added telecommunications services business Internet culture activities	ICP license ICB license	Same as above
Kashgar Yiqiwan ⁽²⁾	Kashgar Yiqiwan primarily provides services to facilitate virtual goods transactions, covering leisure and entertainment, telecommunications and lifestyle services.	Value-added telecommunications services business	ICP license	To maintain the effectiveness of its ICP License which enables it to carry out the Relevant Businesses. See “– Qualification Requirements under the FITE Regulations” below

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Name of Entity	Principal Businesses	Categories of Relevant Businesses Involved	Specific License(s) Owned ⁽¹⁾	Reasons to be controlled by the Company pursuant to the Contractual Arrangements
Xinjiang Fulu ⁽²⁾	Xinjiang Fulu primarily engages in provision of services to facilitate leisure and entertainment virtual goods transactions.	Value-added telecommunications services business	ICP license EDI license	Same as above
Xinjiang Huluwa ⁽²⁾	Xinjiang Huluwa had yet to commence substantive business operations as of the Latest Practicable Date. As part of the Group's business strategy, Xinjiang Huluwa will manage the Fulu Open Platform, which requires an ICP License.	Managing Fulu Open Platform constitutes "value-added telecommunications service business"	ICP license EDI license	Same as above
Tibet Huluwa	Tibet Huluwa had yet to commence substantive business operations as of the Latest Practicable Date. As part of the Group's business strategy, Tibet Huluwa plans to take up some of the businesses previously carried out by Tibet Fulu. See "– Tibet Huluwa" below for details.	–	To apply for an ICP license and a Non-games Related ICB License ⁽²⁾ required for its business operation and to satisfy the licensing requirement imposed by a strategic business partner. See "– Tibet Huluwa" below for details.	In view of the ongoing business development of the Company, Tibet Huluwa may also engage in the online games virtual currency/tools trading business, which falls within the online games industry and constitutes "internet culture activities" and a "foreign-prohibited" business sector on the Negative List. See "– Tibet Huluwa" for Tibet Huluwa's undertaking.

Notes:

- (1) Several types of ICB License regulate different kinds of businesses. The ICB License listed in the "Specific License(s) Owned" column of the table above refers to the ICB License in respect of online games-related business (including online games operation, issuance of online games virtual currency and trading of online games virtual currency) (the "**Games-related ICB License**"). Other ICB licenses regulate non-games related businesses, including but not limited to online music entertainment-related business and online live streaming related business (the "**Non-games Related ICB License**").
- (2) Although not statutorily required, a strategically important third-party e-commerce platform in China requires a party intending to open and operate online stores selling virtual goods on this third-party e-commerce platform to have an ICB license. In order to run and operate such online stores on this third-party e-commerce platform, Kashgar Yiqiwan, Xinjiang Fulu, Xinjiang Huluwa and Tibet Huluwa are preparing an application for a Non-games Related ICB License.

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Third Party Transaction Platform Business

Wuhan Fulu, Wuhan Souka, Xinjiang Fulu, Tibet Fulu and Wuhan Yilu also provide online purchase and sale transactions processing services through which the end consumers of virtual goods can directly purchase virtual goods on the online platforms operated by these entities. Xinjiang Huluwa will manage the Fulu Open Platform, which also provides online purchase and sale transactions processing services. Such transaction processing services fall within the scope of online data processing and transaction processing services for-profit E-commerce business (the “**Third Party Transaction Platform Business**”) under the Guiding Catalogue of Telecommunications Business (電信業務分類目錄). The operation of the Third Party Transaction Platform Business requires a value-added telecommunications business operating license (增值電信業務經營許可證) with the specific business scope of online data processing and transaction processing service (the “**EDI license**”). Each of Wuhan Fulu, Wuhan Souka, Xinjiang Fulu, Tibet Fulu, Wuhan Yilu and Xinjiang Huluwa (collectively, the “**EDI Entities**”) retains an EDI license (for the Third Party Transaction Platform Business) in addition to an ICP license (for the provision of virtual currency/goods trading business (the “**Internet Information Services**”)).

The Third Party Transaction Platform Business is a business under value-added telecommunications business. However, pursuant to the Circular of the MIIT on Liberalizing the Restrictions on Foreign Shareholding Percentages in Online Data Processing and Transaction Processing Business (For-profit E-Commerce Business) (《工業和信息化部關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告》) issued and became effective on June 19, 2015 and the Negative List, the foreign shareholding percentages of companies that engage in the Third Party Transaction Platform Business can be up to 100%. Although the Third Party Transaction Platform Business is not subject to foreign investment prohibition or restriction pursuant to such circular, we operate such business under the Contractual Arrangements because of the following reasons:

- (a) The Internet Information Services and Third Party Transaction Platform Business carried out by the EDI Entities are inter-connected and cannot be separated. The virtual goods consumers purchase virtual goods on the online platforms operated by the EDI Entities through the Internet Information Services and the Third Party Transaction Platform Business.
- (b) According to the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《關於加強外商投資經營增值電信業務管理的通知》) issued by the MIIT (the “**MIIT Circular**”) in July 2006, the service provider or its shareholder of the value-added telecommunications services (including the Internet Information Service and the Third Party Transaction Platform Business) must directly own the domain (the “**Domain**”) through which it operates such value-added telecommunications services. If an EDI Entity transfers such a Domain to a wholly foreign-owned entity within the Group, given the interconnection of the Internet Information Services and the Third Party Transaction Platform Business, this EDI Entity shall also transfer the

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Internet Information Services and Third Party Transaction Platform Business to such wholly foreign-owned entity within the Group because otherwise, continued operation of the relevant value-added telecommunication services by this EDI Entity on the Domain that it no longer owns will violate the aforesaid requirement under the MIIT Circular.

- (c) During the verbal consultations conducted on May 22, 2020 with officers of Hubei Provincial Communications Administration (湖北省通信管理局), Tibet Autonomous Region Communications Administration (西藏自治區通信管理局) and Xinjiang Uygur Autonomous Region Communications Administration (新疆維吾爾自治區通信管理局) respectively, the officers confirmed that, application for an EDI license to carry out business on a domain can only be made through the registered user of that particular domain, and application for EDI licenses to conduct business on a domain by any company (regardless of whether it is a PRC domestic company or a wholly foreign-owned enterprise) other than the registered user will not be approved. Our PRC Legal Advisor is of the view that the above officers of the Communications Administration have competent authority to provide the above confirmations.
- (d) As the Internet Information Services, a category of “value-added telecommunications services”, falls into the “foreign-restricted” sector under the Negative List, a wholly foreign-owned entity within the Group cannot carry out the Internet Information Service.

Based on the above, our PRC Legal Advisor is of the view that in order for the EDI Entities to continue carrying out the Internet Information Service and the Third Party Transaction Platform Business in compliance with applicable PRC laws and regulations, the Domains owned by the EDI Entities cannot be transferred to a wholly foreign-owned entity within our Group. In addition, our PRC Legal Advisor also advised that an application by a wholly foreign-owned entity within our Group for an EDI license to carry out the Third Party Transaction Platform Business on the same Domain that has already been owned by an EDI Entity will not be approved.

Tibet Huluwa

With the aim to promoting internet industry in Tibet, Tibet local government has adopted a series of favorable policies to attract incorporation of internet companies and carrying out relevant business in Tibet. As such, the Group incorporated Tibet Huluwa on May 15, 2019 to take advantage of such favorable policies in Tibet. As of the Latest Practicable Date, Tibet Huluwa did not hold ICB license or ICP license, and had yet to commence substantive business operation. Based the following considerations, we believe it is in our best interests to control Tibet Huluwa through the Contractual Arrangements:

The Company has strategically decided to diversify the businesses of certain partners previously carried out by Tibet Fulu to another entity within the Group. Tibet Fulu’s customers include certain major online video service providers in the PRC. Given the increasingly fierce

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competition among online video service providers in China, the Company expects that these major market players will probably adopt policies requiring exclusive service from its business partners and restricting an entity providing services to them from concurrently dealing with other major competitors. In order to maintain a long-lasting business relationship with these major market players of online video services and get prepared for such a trend, we plan to divert certain businesses carried out by Tibet Fulu to another entity within the Group so that Tibet Fulu and this entity can serve different major online video service providers to provide better and more dedicated services. The business to be transferred from Tibet Fulu to another entity mainly includes facilitation of virtual goods transactions, which, under the applicable PRC laws, would require an ICP license. In addition, albeit not a statutory requirement, a strategically important third-party e-commerce platform that Tibet Fulu has been working with also requires the service providers who create and operate storefronts on its platform to obtain an ICB license. Although most other entities in the Group has ICP license and/or ICB license, we believe it will be in our best interests that Tibet Huluwa to take up such business for the reason that under the favorable tax policies implemented by the Tibet local government, the effective tax rate applicable to Tibet Huluwa is about 15%, much lower than that of the Group's other operating entities. In view of the ongoing business development of the Company, Tibet Huluwa may also engage in the online games virtual currency/tools trading business in future.

Tibet Huluwa is in the process of preparing the application for an ICP license and a Non-games Related ICB License. We undertake that the annual revenue generated by Tibet Huluwa will represent no more than 5% of the total annual revenue of our Group after the Listing, and we will adopt the following measures to monitor and control the scale of operation of Tibet Huluwa:

1. when formulating the annual business plan of each of the operating companies of our Group, the target annual KPI assigned to Tibet Huluwa will be proportionate to its scale of operation and shall not be material to the overall business of our Group;
2. in deciding which operating company within the Group shall take up a new business opportunity, we will also take into account the scale of operation of Tibet Huluwa to ensure it would remain immaterial;
3. we will monitor the GMV of each of the operating companies within the Group (including Tibet Huluwa) on a monthly basis. Based on the monthly GMV, if we reasonably estimate that continual sale of certain virtual goods on the online storefronts to be operated by Tibet Huluwa may result in its operation scale becoming material, Tibet Huluwa will promptly cease the sale of certain virtual goods on its online storefronts; and
4. we will disclose the GMV of our key operating entities (for the purpose of such disclosure, including Tibet Huluwa) in our interim report and annual report after the Listing. Our management will also report periodic information of the revenue generated by our operating entities to our Board of Directors.

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Based on the foregoing, we believe it is in our best interests to operate Tibet Huluwa under the Contractual Arrangements to maximize our financial gains and minimize potential conflicts with the relevant PRC laws and regulations.

Qualification Requirements under the FITE Regulations

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including internet content provision services. In addition, a foreign investor who invests in value-added telecommunications business in the PRC must possess prior experience in, and a proven track record of, operating value-added telecommunications businesses overseas (the “**Qualification Requirements**”). Foreign investors that meet these requirements must obtain approvals from the MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum (the “**Guidance Memorandum**”) on the application requirements for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to the Guidance Memorandum, an applicant is required to provide, among other things, its foreign investor’s previous value-added telecommunications business track record, such as previous permit, filing or experience of operating well-known websites, apps or previous telecommunications business licenses issued by the relevant local authorities and satisfactory proof of the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we are gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the PRC Holdcos and our Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in the value-added telecommunications business through our offshore subsidiaries. For the purposes of meeting the Qualification Requirements, we have taken the following measures to establish and accumulate our overseas operation experience:

- (1) Fulu HK registered an international domain name of www.hkfulu.com on January 22, 2020 and the preliminary international version of the Group’s proprietary online platform (i.e., Fulu Open Platform) has been launched. We will further develop this website in order to target potential overseas customers; and
- (2) we have duly registered two trademarks with the Trademarks Registry, Intellectual Property Department of Hong Kong for our potential overseas business operation and expansion.

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On February 12, 2020, our PRC and Hong Kong legal advisors, the Sole Sponsor and the Sole Sponsor's PRC legal advisor conducted a verbal consultation with an officer of the Information and Communication Development Department (信息通信發展司) of the MIIT. During the consultation, the MIIT confirmed the following:

- (1) the steps taken by the Group (namely, operating overseas website www.hkfulu.com to target the Group's potential overseas customers) may be deemed to fulfill the Qualification Requirements; and
- (2) there are no clear criteria or guidelines to assess whether a foreign investor has a proven track record (良好業績) and experience of operating (運營經驗) value-added telecommunications business overseas as required under the FITE Regulations, nor are there any specific requirements on the documentation or certificates to be presented for the approval.

The PRC Legal Advisor is of the view that the interviewee of the MIIT has competent authority to provide the above confirmations. Based on the review of applicable PRC laws and regulations, and the verbal consultations with the MIIT, the PRC Legal Advisor is of the view that (1) subject to the substantive review by the competent authority, steps taken by the Group (namely, operating overseas website www.hkfulu.com to target the Group's potential overseas customers) are reasonable and appropriate to satisfy the Qualification Requirements under the FITE Regulations to prove that the Group has experience in providing value-added telecommunications services in overseas markets; and (2) none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements or granting the approval of an ICP license application by a foreign-invested entity.

We will, as applicable and when necessary, disclose the progress of our overseas business plans and provide updates to the Qualification Requirements in our annual and interim reports to inform our Shareholders and other investors after the Listing. We will also make periodic inquiries to relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

According to the FITE Regulations, for a foreign-invested entity intending to carry out value-added telecommunications services within a province, autonomous region or municipality directly under the Central Government of the PRC, applications of ICP licenses should be submitted to local authority regulating telecommunications industry at the provincial level. In respect of Kashgar Yiqiwan, Xinjiang Fulu and Xinjiang Huluwa, the three entities in the Group holding a value-added telecommunications business operating license only, our PRC and Hong Kong legal advisors, the Sole Sponsor and the Sole Sponsor's PRC legal advisor conducted a verbal consultation on February 13, 2020 with an officer of the Internet Administration Department of the Communication Administration of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區通信管理局互聯網管理處) (“**Xinjiang Communication Administration**”), which is the authority in charge of preliminary reviewing

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of the application for an ICP license in Xinjiang. During the consultation, the Xinjiang Communication Administration confirmed that the Xinjiang Communication Administration will not approve or grant an ICP license applied by a foreign-invested entity.

The PRC Legal Advisor is of the view that the interviewee of the Xinjiang Communication Administration has the competent authority to provide the above confirmations. Based on the verbal consultations with the MIIT and the Xinjiang Communication Administration, the PRC Legal Advisor is of the view that it is not feasible for Kashgar Yiqiwan, Xinjiang Fulu and Xinjiang Huluwa to be granted a foreign-invested ICP license. Therefore, Kashgar Yiqiwan, Xinjiang Fulu and Xinjiang Huluwa have to be controlled by the Company through the Contractual Arrangements to maintain the effectiveness of the ICP license which enables them to carry out the current business.

Value-Added Services

We also offer a wide range of value-added services to platform participants, including but not limited to operating online stores for virtual goods vendors, establishing online sales platforms for virtual goods sales channels, providing targeted marketing services, providing user acquisition and management services and providing IT solutions. We provide these value-added services primarily to complement our virtual goods-related services. As advised by our PRC Legal Advisor, these value-added services, if taken alone, may not strictly fall under the categories of “internet culture activities” or “value-added telecommunications services”. However, we believe that these services are an integral part of our principal businesses, and it would be operationally and commercially unadvisable to provide these value-added services independently from our operating entities and the provision of online goods trading services, and the Contractual Arrangements are narrowly tailored, due to the following reasons:

- (a) Our operating entities generally do not provide these value-added services on a standalone basis. Rather, these services are generally provided to our clients of online virtual goods trading services to increase our retention of clients. We generally provide these value-added services while providing online virtual goods trading services to our clients. Transferring these value-added services from our operating entities providing online virtual goods trading services to these clients to a WFOE or a wholly-owned subsidiary of a WFOE would compromise the ability of our operating entities to provide a comprehensive package of services to meet the diversified needs of virtual goods vendors and virtual goods sales channels.

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- (b) It would be operationally and commercially unadvisable to provide these value-added services independently from our Fulu Open Platform or the online virtual goods trading services platforms operated by our operating entities. For example:
- after helping a virtual goods sales channel establish its online sales platform, our operating entities complete virtual goods transactions through our Fulu Open Platform, and operating the Fulu Open Platform falls under the category of “value-added telecommunications services”; and
 - after an operating entity helps clients design bundled sales packages or user management tools (such as mini-games and reward-points programs) as part of its user acquisition and management services, the bundled sales packages and user management tools must be displayed, sold and operated on the online virtual goods trading platform operated by such operating entity, which falls into the categories of “internet culture activities” and/or “value-added telecommunications services”.
- (c) Our employees responsible for these value-added services do not work solely on developing and providing such value-added services. They are also responsible for maintaining and developing our principal businesses of online virtual goods trading services. Therefore, it is not feasible to transfer employees and assets (such as computers and servers) to another entity to solely focus on developing and providing value-added services.

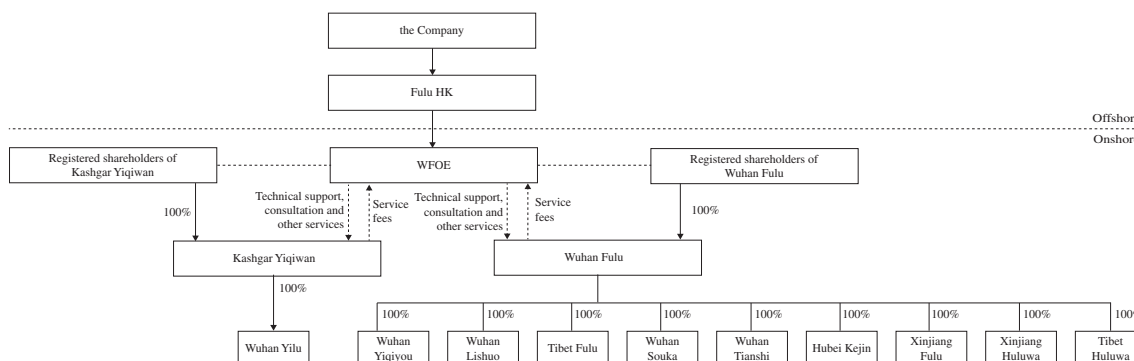
OUR CONTRACTUAL ARRANGEMENTS

Overview

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, we have determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between WFOE, on the one hand, and the PRC Holdcos and the registered shareholders of the PRC Holdcos, on the other hand. In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of Reorganization activities.

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The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to WFOE and our Company as stipulated under the Contractual Arrangements, details of which are set out in “– Our Contractual Arrangements – Summary of the Material Terms under the Contractual Arrangements” in this section:



Notes:

- (1) The registered shareholders of Kashgar Yiqiwan are Mr. Zhang Yuguo (a Controlling Shareholder and an executive Director) and Ms. Shen Yaling (an employee of Wuhan Fulu), holding 99% and 1% equity interest in Kashgar Yiqiwan as designated by WFOE, respectively.
- (2) The registered shareholders of Wuhan Fulu are Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao (all of whom are our Controlling Shareholders and executive Directors), Tibet Fuxu and Tibet Fulong, holding 50.03%, 15.08%, 7.03%, 3.69%, 12.72% and 11.45% equity interest in Wuhan Fulu, respectively.
- (3) WFOE provides technical support, consultation and other services in exchange for service fees from Kashgar Yiqiwan. See “– Our Contractual Arrangements – Exclusive Business Cooperation Agreements”.
- (4) WFOE provides technical support, consultation and other services in exchange for service fees from Wuhan Fulu. See “– Our Contractual Arrangements – Exclusive Business Cooperation Agreements”.
- (5) The registered shareholders of Kashgar Yiqiwan executed an exclusive option agreement in favor of WFOE to grant WFOE an option to acquire all or part of the equity interests and/or assets in Kashgar Yiqiwan. See “– Our Contractual Arrangements – Exclusive Option Agreements”.

The registered shareholders of Kashgar Yiqiwan granted security interests in favor of WFOE over the entire equity interests in Kashgar Yiqiwan held by such registered shareholders. See “– Our Contractual Arrangements – Equity Pledge Agreements”.

The registered shareholders of Kashgar Yiqiwan executed the powers of attorney to appoint WFOE in relation to the exercise of the shareholder’s rights in Kashgar Yiqiwan. See “– Our Contractual Arrangements – Powers of Attorney”.

The relevant individual shareholders of Kashgar Yiqiwan and the spouse of each relevant individual shareholders (where applicable) executed an undertaking in respect of his/her interests, See “– Our Contractual Arrangements – Confirmations from the Relevant Individual Shareholders” and “– Our Contractual Arrangements – Spouse Undertakings”.

- (6) The registered shareholders of Wuhan Fulu executed an exclusive option agreement in favor of WFOE to grant WFOE an option to acquire all or part of the equity interests and/or assets in Wuhan Fulu. See “– Our Contractual Arrangements – Exclusive Option Agreements”.

The registered shareholders of Wuhan Fulu granted security interests in favor of WFOE over the entire equity interests in Wuhan Fulu held by such registered shareholders. See “– Our Contractual Arrangements – Equity Pledge Agreements”.

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The registered shareholders of Wuhan Fulu executed the powers of attorney to appoint WFOE in relation to the exercise of the shareholder's rights in Wuhan Fulu. See “– Our Contractual Arrangements – Powers of Attorney”.

The relevant individual shareholders of Wuhan Fulu and the spouse of each relevant individual shareholders (where applicable) executed an undertaking in respect of his/her interests, See “– Our Contractual Arrangements – Confirmations from the Relevant Individual Shareholders” and “– Our Contractual Arrangements – Spouse Undertakings”.

- (7) “→” denotes direct legal and beneficial ownership in the equity interest.
- (8) “→→” denotes contractual relationship.
- (9) “----” denotes the control by WFOE over the registered shareholders of the PRC Holdcos and the PRC Holdcos through (1) powers of attorney to exercise all shareholders' rights in the PRC Holdcos, (2) exclusive options to acquire all or part of the equity interests in the PRC Holdcos and (3) equity pledges over the equity interests in the PRC Holdcos.

Summary of the Material Terms under the Contractual Arrangements

Wuhan Fulu, the registered shareholders of Wuhan Fulu (namely Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao, Tibet Fuxu and Tibet Fulong) entered into a set of Contractual Arrangement agreements with WFOE (the “**Wuhan Fulu VIE Agreements**”) on December 25, 2019.

On December 25, 2019, Mr. Zhang Yuguo and Mr. Wu Xuliang, in the capacity of the nominee shareholders of Kashgar Yiqiwan and at the direction of Wuhan Fulu (as the ultimate beneficial owner of the entire shares of Kashgar Yiqiwan), entered into a set of Contractual Arrangement agreements (the “**Previous Kashgar Yiqiwan VIE Agreements**”). As Mr. Wu Xuliang has decided to exit from the Group prior to the Listing to pursue his other business endeavors, WFOE (based on the rights it is entitled to pursuant to the Previous Kashgar Yiqiwan VIE Agreements) designated Mr. Zhang Yuguo and Ms. Shen Yaling (沈亞玲) as the registered shareholders of Kashgar Yiqiwan to hold 99% and 1% of the total issued share capital of Kashgar Yiqiwan, respectively, and to enter into another set of Contractual Arrangement agreements (“**Kashgar Yiqiwan VIE Agreements**”) on January 7, 2020. The Kashgar Yiqiwan VIE Agreements has replaced and superseded the Previous Kashgar Yiqiwan VIE Agreements in their entirety. For the nominee shareholders arrangement of Kashgar Yiqiwan, please see “History, Reorganization and Corporate Structure – Our Major Subsidiaries and Consolidated Affiliated Entities – Kashgar Yiqiwan”.

A description of each of the specific arrangements under the Wuhan Fulu VIE Agreements and the Kashgar Yiqiwan VIE Agreements that comprise the Contractual Arrangements is set out below:

Exclusive Business Cooperation Agreements

As part of the Wuhan Fulu VIE Agreements and Kashgar Yiqiwan VIE Agreements, the PRC Holdcos (namely, Wuhan Fulu and Kashgar Yiqiwan) entered into exclusive business cooperation agreements (the “**Exclusive Business Cooperation Agreements**”) with WFOE,

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respectively, which contain similar terms and conditions. Pursuant to the Exclusive Business Cooperation Agreements, in exchange for an annual service fee, the PRC Holdcos have agreed to engage WFOE as their respective exclusive provider of technical support, consultation and other services, including the following services:

- the use of any relevant software legally owned by WFOE;
- development, maintenance and updating of software in respect of the PRC Holdcos' business;
- design, installation, daily management, maintenance and updating of network systems, hardware and database;
- providing technical support and staff training services to relevant employees of the PRC Holdcos;
- providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign-owned enterprises are prohibited from conducting under PRC laws);
- providing business management consultation;
- providing marketing and promotional services;
- providing customer order management and customer services;
- transfer, leasing and disposal of equipment or properties; and
- other relevant services requested by the PRC Holdcos from time to time to the extent permitted under PRC laws.

Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the PRC Holdcos, after the deduction of (i) any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s); (ii) the operating costs, expenses, taxes and other statutory contributions required to be paid in any financial years; and (iii) any reasonable operating profits calculated based on the application of PRC tax law principles and tax practices. Notwithstanding the foregoing, WFOE may adjust the scope and amount of services fees according to PRC tax law and tax practices and with reference to the working capital required by the PRC Holdcos, and the PRC Holdcos will accept such adjustments. WFOE shall calculate the service fee on a monthly basis and issue a corresponding invoice to the PRC Holdcos. Notwithstanding the payment arrangements in the Exclusive Business Cooperation Agreements, WFOE may adjust the payment time and payment method, and the PRC Holdcos will accept any such adjustment.

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In addition, absent the prior written consent of WFOE, during the term of the Exclusive Business Cooperation Agreements, with respect to the services subject to the Exclusive Business Cooperation Agreements and other matters, the PRC Holdcos shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Business Cooperation Agreements with any third party. WFOE may appoint its affiliates or other qualified parties, who may enter into certain agreements with the PRC Holdcos, to provide the PRC Holdcos with the services under the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements also provide that WFOE has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the PRC Holdcos during the performance of the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements shall remain effective unless terminated (a) in writing by WFOE; (b) upon the transfer of the entire equity interest held by the respective registered shareholders of Wuhan Fulu and Kashgar Yiqiwan to WFOE pursuant to the relevant Exclusive Option Agreements; or (c) because renewal of the expired business license of the WFOE, Wuhan Fulu (in respect of the Exclusive Business Cooperation Agreement between WFOE and Wuhan Fulu) or Kashgar Yiqiwan (in respect of the Exclusive Business Cooperation Agreement between WFOE and Kashgar Yiqiwan) is not approved by the relevant regulatory authorities, the relevant Exclusive Business Cooperation Agreement will terminate at the end of the relevant business period.

Exclusive Option Agreements

As part of the Wuhan Fulu VIE Agreements and Kashgar Yiqiwan VIE Agreements, the respective registered shareholders of the PRC Holdcos entered into exclusive option agreements (the “**Exclusive Option Agreements**”) with the PRC Holdcos and WFOE, each of which contains similar terms and conditions. Pursuant to the Exclusive Option Agreements, WFOE has the exclusive right to purchase, or to designate one or more persons/entities to purchase, from the registered shareholders of Wuhan Fulu or Kashgar Yiqiwan all or any part of their equity interests in Wuhan Fulu or Kashgar Yiqiwan and from Wuhan Fulu or Kashgar Yiqiwan all or any part of the assets of Wuhan Fulu or Kashgar Yiqiwan at any time in WFOE’s absolute discretion in accordance with the provisions of the Exclusive Option Agreements and to the extent permitted by the PRC laws. The consideration in relation to purchasing shares from the registered shareholders of Wuhan Fulu or Kashgar Yiqiwan shall be RMB1 or the lowest price as permitted by the applicable PRC laws. The consideration in relation to purchasing assets from Wuhan Fulu or Kashgar Yiqiwan shall be the lowest price as permitted under the applicable PRC laws. The registered shareholders of Wuhan Fulu or Kashgar Yiqiwan shall return the consideration received to WFOE or any person designated by WFOE.

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The PRC Holdcos and the registered shareholders of the respective PRC Holdcos, among other things, have covenanted that:

- without the prior written consent of WFOE, they shall not in any manner supplement, change or amend the constitutional documents of the PRC Holdcos, increase or decrease their registered capital, or change the structure of their registered capital in other manner;
- they shall maintain the PRC Holdcos' corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating their business and handling their affairs;
- without the prior written consent of WFOE, they shall not at any time following the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any material assets of the PRC Holdcos or legal or beneficial interest in the material business or revenues of the PRC Holdcos of more than RMB100,000, or allow the encumbrance thereon of any security interest;
- without the prior written consent of WFOE, the PRC Holdcos shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan;
- the PRC Holdcos shall always operate all of their businesses during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect the PRC Holdcos' operating status and asset value;
- without the prior written consent of WFOE, they shall not cause the PRC Holdcos to execute any material contract with a value above RMB100,000, except the contracts executed in the ordinary course of business;
- without the prior written consent of WFOE, they shall not cause the PRC Holdcos to provide any person with any loan, guarantee or credit;
- they shall provide WFOE with information on the PRC Holdcos' business operations and financial condition at the request of WFOE;
- if requested by WFOE, they shall procure and maintain insurance in respect of the PRC Holdcos' assets and business from an insurance carrier acceptable to WFOE, at an amount and type of coverage typical for companies that operate similar businesses;
- without the prior written consent of WFOE, they shall not cause or permit the PRC Holdcos to merge, consolidate with, acquire or invest in any person;

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- they shall immediately notify WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the PRC Holdcos' assets, business or revenue;
- to maintain the ownership by the PRC Holdcos of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;
- without the prior written consent of WFOE, the PRC Holdcos shall not in any manner distribute dividends to their shareholders, provided that upon the written request of WFOE, the PRC Holdcos shall immediately distribute all distributable profits to their shareholders;
- to require and urge the registered shareholders of the PRC Holdcos to transfer any profit, interest, dividend or liquidation income received from the PRC Holdcos to WFOE or its appointee(s) by way of gift(s) in accordance with PRC laws;
- at the request of WFOE, they shall appoint any persons designated by WFOE as the directors and/or senior management of the PRC Holdcos; and
- unless otherwise mandatorily required by PRC laws, the PRC Holdcos shall not be dissolved or liquidated without prior written consent by WFOE.

In addition, the registered shareholders of the PRC Holdcos, among other things, have covenanted that:

- without the written consent of WFOE, they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the PRC Holdcos, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreements (as defined below) and the interests prescribed in the Powers of Attorney (as defined below), and procure the shareholders' meeting and the board of directors of the PRC Holdcos not to approve such matters;
- for each exercise of the equity purchase option, to cause the shareholders' meeting of the PRC Holdcos to vote on the approval of the transfer of equity interests and any other action requested by WFOE;
- they shall relinquish the pre-emptive right (if any) he/she/it is entitled to in relation to the transfer of equity interest by any other shareholders to the PRC Holdcos and give consent to the execution by each other shareholder of the PRC Holdcos with WFOE and the PRC Holdcos exclusive option agreements, equity interest pledge agreements and powers of attorney similar to the Exclusive Option Agreements, the

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Equity Pledge Agreements (as defined below) and the Powers of Attorney (as defined below), and accept not to take any action in conflict with such documents executed by the other shareholders;

- each of them will transfer to WFOE or its appointee(s) by way of gift any profit, interest, dividend or liquidation income received from the PRC Holdcos in accordance with the PRC law;
- each of them will strictly abide by the provisions of the Exclusive Option Agreements, perform the obligations under these agreements in a practical manner, refrain from any action/omission which would affect the validity of such agreements; and
- if any of them retain any rights to the shares referred in the Exclusive Option Agreements, Equity Pledge Agreements (as defined below) or Powers of Attorney (as defined below), they shall not exercise such rights without prior written consent by WFOE.

The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the registered shareholders of the PRC Holdcos have been transferred to WFOE or its appointee(s). Unless otherwise required by the PRC laws, the registered shareholders of the PRC Holdcos shall not terminate or be released from the Exclusive Option Agreements unilaterally.

Equity Pledge Agreements

As part of the Wuhan Fulu VIE Agreements and Kashgar Yiqiwan VIE Agreements, the registered shareholders of Wuhan Fulu and the registered shareholders of Kashgar Yiqiwan entered into equity pledge agreements (the “**Equity Pledge Agreements**”) with the PRC Holdcos and WFOE, each of which contains similar terms and conditions. Pursuant to the Equity Pledge Agreements, the registered shareholders of the PRC Holdcos agreed to pledge all their respective equity interests in the PRC Holdcos that they own, including any interest or dividend paid for the shares, to WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The Equity Pledge Agreements came into effect upon execution and shall remain valid until after all the contractual obligations of the registered shareholders of the PRC Holdcos and the PRC Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the registered shareholders of the PRC Holdcos and the PRC Holdcos under the relevant Contractual Arrangements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), WFOE shall have the right to exercise all such rights as a secured party under any applicable PRC law, the Exclusive Business Cooperation Agreements, the Exclusive Option Agreements, the Powers of Attorney (as defined below) and the Equity

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Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the registered shareholders of the PRC Holdcos.

The equity pledges provided by the registered shareholders of Kashgar Yiqiwan in favour of WFOE have been duly registered with the competent governmental authority on January 10, 2020. The equity pledges provided by the registered shareholders of Wuhan Fulu in favor of WFOE were duly registered with the competent governmental authority on March 26, 2020.

Powers of Attorney

The registered shareholders of the PRC Holdcos have executed powers of attorney (the “**Powers of Attorney**”). Under the Powers of Attorney, the registered shareholders of the PRC Holdcos irrevocably appointed WFOE and its designated persons (including but not limited to the directors of the holding companies of WFOE and their successors and the liquidators replacing such directors or successors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact’s prior written consent, any and all right that they have in respect of their equity interests in the PRC Holdcos, including without limitation:

- to propose, convene and attend shareholders’ meetings of PRC Holdcos and to exercise the voting rights and any power they are entitled to as shareholders of the PRC Holdcos;
- to sell, transfer, pledge or otherwise dispose of the shares they hold or any right, equity or interest in respect of such shares;
- to determine the operation policy and investment plan of the PRC Holdcos;
- to designate and appoint the legal representative, directors, supervisors, general manager and other senior management of the PRC Holdcos, and determine the remuneration of relevant directors, the chairman of the board and the legal representative;
- to appoint and replace the supervisors other than those elected by the employees, and to determine the remuneration of relevant supervisors;
- to nominate or recommend appropriate candidates to serve as the general manager, financial director/controller and other senior management at the PRC Holdcos, and procure the PRC Holdcos’ directors to appoint such candidates as the same;
- to consider and approve the report of the board of directors/executive directors and the board of supervisors/supervisors;

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- to consider and approve the plans for the PRC Holdcos' annual financial budget, final account, profit distribution and loss recovery;
- to determine the increase or decrease of the registered capital of and the offering of notes by the PRC Holdcos;
- to determine any merger, division, change of cooperate form, dissolution and liquidation of the PRC Holdcos;
- to receive or waive distribution of the company's dividend or bonus;
- to transfer, in whole or in part, the shares of the PRC Holdcos they hold (including the right to determine the timing, transferee and consideration of the transfer);
- to execute any and all such documents that are required to be executed by the registered shareholders of the PRC Holdcos, without soliciting their prior opinions or consents;
- to apply for and complete any relevant administrative approval and/or industrial and commercial registration pursuant to the resolutions of the PRC Holdcos' shareholders/shareholders' meetings;
- to exercise other shareholder's rights under the PRC Holdcos' articles of association;
- to exercise on behalf of the registered shareholders of the PRC Holdcos the voting rights, decision-making rights and all other power to which they are entitled as the PRC Holdcos' shareholders in determining or resolving any matter of the existing or future subsidiaries of the PRC Holdcos;
- to nominate or recommend on behalf of the registered shareholders of the PRC Holdcos appropriate candidates to serve as the members of the board of directors/supervisors, financial director/controller and other senior management at the PRC Holdcos' subsidiaries, and procure the PRC Holdcos' directors to appoint such candidates as the same;
- where any circumstance occurs to and resulted in the liquidation and dissolution of the PRC Holdcos or their subordinated entities, to exercise the right of members of the liquidation group on behalf of the registered shareholders of the PRC Holdcos or the right to nominate, recommend or designate the members of the liquidation group on their behalf; and
- where any conduct of any director or management of the PRC Holdcos harms the interest of the company or its shareholders, the right to bring a shareholder litigation or take other legal actions against such director or management.

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Further, the Powers of Attorney are irrevocable and shall remain effective for so long as each shareholder holds equity interest in the PRC Holdcos.

Confirmations from the Relevant Individual Shareholders

Each of the relevant individual shareholders of the PRC Holdcos, the general partner and limited partners of Tibet Fulong and Tibet Fuxu (the “**Relevant Individual Shareholders**”) has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in the respective registered shareholder of the PRC Holdcos (together with any other interests therein) or exert influence on the day-to-day management of the respective registered shareholder of the PRC Holdcos; and (ii) in the event of his/her disappearance, death, incapacity, divorce, marriage or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective registered shareholder of the PRC Holdcos, he/she will take necessary actions to safeguard his/her interests in the respective registered shareholder of the PRC Holdcos (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in the respective registered shareholder of the PRC Holdcos (together with any other interests therein) to the effect that the interests of such registered shareholders in the PRC Holdcos shall not be affected.

Spouse Undertakings

The spouse of each of the relevant individual shareholders, where applicable, has signed an undertaking to the effect that (i) the respective Relevant Individual Shareholders’ interests in the PRC Holdcos (together with any other interests therein) do not fall within the scope of communal properties, (ii) he/she has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests, and (iii) in the event of his/her divorce, he/she will take all necessary actions to ensure that the Contractual Arrangements are properly performed.

As advised by our PRC Legal Advisor, our Directors are of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of any relevant individual shareholders and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and WFOE or our Company can still enforce their right under the Contractual Arrangements against the registered shareholders of the PRC Holdcos.

Other key terms thereunder

Dispute resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Shanghai International Arbitration Center (“**SHIAC**”) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and

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the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our PRC Holdcos or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of our PRC Holdcos; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of WFOE or our PRC Holdcos are located for interim remedies or injunctive relief.

However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that the PRC Holdcos or their respective registered shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors – Risks Relating to our Contractual Arrangements” for further details.

Conflict of Interest

Each of the registered shareholders of the PRC Holdcos has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the subparagraph headed “– Powers of Attorney” above.

Loss Sharing

Under the relevant PRC laws and regulations, neither our Company nor WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

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However, as provided in the Exclusive Option Agreements, without the prior written consent of WFOE, the PRC Holdcos shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its material assets of more than RMB100,000; (ii) execute any material contract with a value above RMB100,000, except those entered into in the ordinary course of business; (iii) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (v) enter into any consolidation or merger with any third party, or being acquired by 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. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered from the PRC Holdcos can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the registered shareholders of our Consolidated Affiliated Entities shall give the proceeds they received from liquidation as a gift to WFOE or its designee(s) to the extent permitted by the PRC laws.

Insurance

There are certain risks involved in our operations, in particular, those relating to our corporate structure and the Contractual Arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in “Risk Factors – Risks Relating to Our Contractual Arrangements”. We have determined that the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, our Company did not purchase any insurance to cover the risks relating to the Contractual Arrangements. For further details, see “Risk Factors – Risks Relating to Our Business and Industry – We may not have sufficient insurance coverage”.

Our Confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

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Circumstances under which we will adjust or unwind the Contractual Arrangements

We will adjust or unwind (as the case maybe) the Contractual Arrangements as soon as practicable in respect of the operation of the relevant business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority accepts applications for the relevant licenses made by sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations. Our PRC Legal Advisor has also advised that:

- (a) parties to each of the Contractual Arrangements have obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;
- (b) parties to each of the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Consolidated Affiliated Entities or the WFOE;
- (d) none of the Contractual Arrangements would be deemed as (i) concluded by means of fraud or coercion by one party, thereby damaging the interests of the State; (ii) a malicious collusion conducted to damage the interests of the State, a collective group or a third party; (iii) concealing illegal intentions with a lawful form; (iv) damage to public interest; or (v) a violation of laws or mandatory administrative regulations, which would result the Contractual Arrangements to be deemed as void under the PRC Contract Law;
- (e) the parties to each of the Contractual Arrangements are not required to obtain any approval or authorization from the PRC governmental authorities, except that:
 - (i) the exercise of the option by our WFOE or its designee of its rights under the Exclusive Option Agreements to acquire all or part of the equity interests in our PRC Holdcos is subject to the approvals of and/or registrations with the PRC regulatory authorities respectively;
 - (ii) any share pledge contemplated under the Equity Pledge Agreements is subject to the registration with local administration bureau for market regulation; and

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- (iii) the arbitration awards/interim remedies provided under the dispute restitution provision of the Contractual Arrangements shall subject to the PRC courts' recognition.
- (f) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
 - (i) the Contractual Arrangements provide that any dispute shall be submitted to the SHIAC for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai. They also provide that the arbitrator may award interim remedies over the shares or assets of our PRC Holdcos or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our PRC Holdcos) also have jurisdiction for the grant and/or enforcement of the interim remedies against the shares or properties of the Consolidated Affiliated Entities. However, our PRC Legal Advisor has advised that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and
 - (ii) the Contractual Arrangements provide that the registered shareholders of the PRC Holdcos undertake to appoint a committee designated by our WFOE as the liquidation committee upon the winding up of the Consolidated Affiliated Entities to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC Laws.

However, we have been advised by our PRC Legal Advisor that there are uncertainties regarding the interpretation and application of the current and future PRC laws and regulations over the validity of the Contractual Arrangements. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinions of our PRC Legal Advisor in the future. See "Risk Factors – Risks Relating to Our Contractual Arrangements".

The Internet Culture Interim Provisions promulgated by the MOC on February 17, 2011 provide that internet culture entities are classified into operational internet culture entities and non-operational internet culture entities. Operational internet culture entities shall file application for establishment to the competent culture administration authorities for approval and must obtain the ICB license. According to the Negative List and the Catalogue, the internet culture activities remains as prohibited areas for foreign investment.

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Notwithstanding the foregoing, our representatives, the Sole Sponsor and our PRC Legal Advisor conducted an interview with the Hubei Provincial Communications Administration (湖北省通信管理局) on November 27, 2019, an interview with the Tibet Autonomous Region Communications Administration (西藏自治區通信管理局) on November 19, 2019, an interview with the Xinjiang Uygur Autonomous Region Communications Administration (新疆維吾爾自治區通信管理局) on November 15, 2019, an interview with the Tibet Autonomous Region Department of Culture (西藏自治區文化廳) on December 30, 2019 and an interview with the Wuhan Bureau of Culture and Tourism (武漢市文化和旅遊局) on December 19, 2019 whom have provided verbal confirmations that our Contractual Arrangements would not be challenged or subject to penalty due to violation of any PRC laws or regulations, and that they had never imposed any administrative penalties on any internet company which have adopted contractual arrangements similar to our Contractual Arrangements.

Our PRC Legal Advisor is of the view that (a) the Hubei Provincial Communications Administration (湖北省通信管理局), the Tibet Autonomous Region Communications Administration (西藏自治區通信管理局), the Xinjiang Uygur Autonomous Region Communications Administration (新疆維吾爾自治區通信管理局), the Tibet Autonomous Region Department of Culture (西藏自治區文化廳) and the Wuhan Bureau of Culture and Tourism (武漢市文化和旅遊局) are competent authorities to give the confirmations above; (b) based on these consultations, the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations; and (c) the adoption of the Contractual Arrangements does not constitute a breach of the relevant laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisor, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See “Risk Factors – Risks Relating to Our Contractual Arrangements”.

We are aware of a Supreme People’s Court ruling made in October 2012 and two arbitral decisions from the SHIAC made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (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 the registered shareholders of the Consolidated Affiliated Entities 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

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the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisor is of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisor is 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 Article 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable the Consolidated Affiliated Entities to transfer their economic benefits to WFOE as service fees for engaging WFOE as their exclusive service provider and (b) to ensure that the registered shareholders of the Consolidated Affiliated Entities 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 our Consolidated Affiliated Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, our PRC Legal Advisor is of the view that the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Combination of Financial Results of our Consolidated Affiliated Entities

According to IFRS 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.

Under the Exclusive Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOE, each of our PRC Holdcos will pay services fees to WFOE. The services fees, subject to WFOE’s adjustment, are equal to the entirety of the total consolidated profit of our PRC Holdcos (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOE may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. WFOE also have the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, WFOE has the ability, at its sole discretion, to extract all of the economic benefit of our PRC Holdcos through the Exclusive Business Cooperation Agreements.

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In addition, under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as WFOE's prior written consent is required before any distribution can be made. In the event that the registered shareholders of the Consolidated Affiliated Entities receive any profit distribution or dividend from our Consolidated Affiliated Entities, such registered shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As the Reorganization mainly involved the entering into the Contractual Arrangements and adding new holding companies at the top of the existing group of business, the historical financial information for the Track Record Period of the Company has been presented as a continuation of the existing group of business by applying the pooling of interests method as if the Reorganization has been completed at the beginning of the Track Record Period. Equity interests in subsidiaries other than the Shareholders of the Company, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the pooling of interests method.

The Contractual Arrangements enable WFOE to exercise effective control over the Consolidated Affiliated Entities and accordingly, WFOE has the right to variable returns from its involvement with the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are accounted as subsidiaries of the Company for the purpose of the historical financial information for the Track Record Period and the historical financial information of the Consolidated Affiliated Entities for the Track Record Period are consolidated in the historical financial information of the Company for the Track Record Period.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial information.

In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of combining the results of our Consolidated Affiliated Entities is disclosed in note 2.1 to the Accountants' Report in Appendix I to this prospectus.

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OUR DIRECTORS' VIEW

Based on the above, our Directors are of the view that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC. Our Directors further believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were negotiated on an arm's length basis and entered into between WFOE, our Consolidated Affiliated Entities and the respective registered shareholders of the PRC Holdcos; (ii) by entering into the Exclusive Business Cooperation Agreements (as defined below) with WFOE, which is a PRC subsidiary of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, 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.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Foreign Investment Law

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**FIL**”) was adopted by the National People's Congress on March 15, 2019, which became effective on January 1, 2020 and replaced the major existing laws and regulations governing foreign investment in the PRC, including the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《外資企業法》). The FIL constitutes the legal foundation for foreign investment in the PRC. The FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the FIL, China adopts a system of national treatment plus Negative List with respect to foreign investment administration, and the Negative List will be issued by, amended or released upon approval by the State Council, from time to time. The Negative List sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the Negative List for investment in restricted industries. Foreign investment and domestic investment in industries outside the scope of the Negative List shall be treated equally. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Implementation Regulations**”) which became effective on January 1, 2020. The Implementation Regulations provide that foreign investments in sectors on the Negative List shall comply with special management measures in respect of shareholding, senior management personnel and other matters stipulated under the Negative List.

The FIL defines the foreign investment as the investment activities directly or indirectly conducted by foreign investors in the PRC, and sets forth the specific situations that should be regarded as foreign investment. Furthermore, the FIL stipulates that foreign investment includes the investment made in the PRC by foreign investors through any other means under

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the laws, administrative regulations and provisions stipulated by the State Council. Our PRC Legal Advisor confirmed that the FIL does not specify contractual arrangements as a form of foreign investment. In that regard, the FIL will not have a material impact on the Contractual Arrangements and each of the agreements under the Contractual Arrangements, and the legality and validity of the Contractual Arrangements would not be affected. See “Risk Factors – Risks Relating to Our Contractual Arrangements” for further details of the risks we face relating to our Contractual Arrangements.

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 and compliance with the Contractual Arrangements in our annual reports; and
- (d) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that our executive Directors, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao are the registered shareholders of Wuhan Fulu, and Mr. Zhang Yuguo is also a registered shareholder of Kashgar Yiqiwan, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently under the following measures:

- (a) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is applicable for him or her to do so, and if he is to be regarded as having any material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

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- (b) each of our Directors is aware of his/her fiduciary duties as a Director which requires, amongst other things, that he/she acts for the benefits and in the best interests of our Group;
- (c) we have appointed three independent non-executive Directors, comprising more than one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
- (d) we will disclose in our announcements, circulars, annual and interim reports, whatever appropriate, in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his or her associate that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practical Date, Mr. Fu Xi (through his wholly-owned FuXi Limited, Fuzhi Holdings and Fuxu Holdings) held an aggregate of 58.88% of the total issued share capital of our Company. Mr. Zhang Yuguo (through his wholly-owned Zhangyuguo Holdings), Mr. Shui Yingyu (through his wholly-owned Shuiyingyu Holdings) and Mr. Zhao Bihao (through his wholly-owned Zhaobihao Holdings) held 15.33%, 7.03% and 5.61% of the total issued share capital of our Company, respectively.

Since they joined the Group and during the Track Record Period, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao have jointly effected their control of our Group as a unified group of Shareholders. Although they had not entered into any formal agreement to act in concert prior to February 21, 2020, they voted unanimously at all Shareholders meetings in respect of decisions on the business operations, governance and key matters of our Group. On February 21, 2020, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao entered into a concert party agreement (the “**Concert Party Agreement**”) to confirm and acknowledge they had been acting in concert as shareholders of the Group prior to February 21, 2020. They have further undertaken to continue to act in concert, and agreed to, among others, vote unanimously at all Shareholders’ meetings, discuss and reach consensus with each other before proposing to Shareholders’ meetings, and act in concert in respect of the business operations, governance and other key matters of our Company which shall be decided by the Shareholders. If they cannot agree on a relevant issue, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao shall act in accordance with the direction of Mr. Fu Xi. As such, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao are parties acting in concert.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon the Listing, Mr. Fu Xi, FuXi Limited, Fuzhi Holdings, Fuxu Holdings, Mr. Zhang Yuguo, Zhangyuguo Holdings, Mr. Shui Yingyu, Shuiyingyu Holdings, Mr. Zhao Bihao and Zhaobihao Holdings will be a group of Controlling Shareholders of our Company and each of them will be a Controlling Shareholder of our Company immediately following the Capitalization Issue and the Global Offering and assuming the Over-allotment Option is not exercised, collectively interested in 65.14% of our total issued share capital. In addition, as Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao are parties acting in concert, Mr. Fu Xi, FuXi Limited, Fuzhi Holdings, Fuxu Holdings, Mr. Zhang Yuguo, Zhangyuguo Holdings, Mr. Shui Yingyu, Shuiyingyu Holdings, Mr. Zhao Bihao and Zhaobihao Holdings will be regarded as a group of Controlling Shareholders under the Listing Rules. Details of the shareholding of the each of the Controlling Shareholders (a) immediately prior to the Capitalization Issue and the Global Offering; and (b) immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) are set out below:

Ultimate beneficial owner	Direct Shareholders of our Company	Shareholding immediately prior to the Capitalization Issue and the Global Offering	Shareholding immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)
Mr. Fu Xi	FuXi Limited	46.43%	34.82%
	Fuzhi Holdings	6.00%	4.50%
	Fuxu Holdings	6.45%	4.84%
	Total interests of Mr. Fu Xi	58.88%	44.16%
Mr. Zhang Yuguo	Zhangyuguo Holdings	15.33%	11.50%
Mr. Shui Yingyu	Shuiyingyu Holdings	7.03%	5.28%
Mr. Zhao Bihao	Zhaobihao Holdings	5.61%	4.21%
	Total interests of the Controlling Shareholders	86.85%	65.14%

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

COMPETING INTERESTS

As of the Latest Practicable Date, Mr. Zhao Bihao, our executive Director and a Controlling Shareholder, held 70% of the equity interests in Luqu (Shanghai) Technology Co., Ltd. (祿趣(上海)科技有限公司), a company previously engaged in products related to gaming transactions and gaming services. The company ceased to have any operation in December 2019 and is expected to be dissolved or transferred to an independent third party before the Listing.

Each of our Controlling Shareholders and Directors confirms that he, she or it or his/her/its respective close associates does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has undertaken to us in the Deed of Non-competition that he/it will not, and will procure his/its close associates (other than members of our Group) not to directly or indirectly (whether or not through his/its own, jointly with any person, corporation, partner, joint venture or any other contractual arrangements, and whether or not in exchange for profit or other benefits) participate, acquire or hold any right or interest in or otherwise be involved in or undertake any business that directly or indirectly competes, or may compete, with the existing business activity of our Group or any business activities which our Group may undertake in the future (in all cases, whether or not as shareholder, partner, agent or any other capacity, and whether or not for profits, returns or any benefits) (the “**Restricted Activity**”), or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by our Group from time to time except where our Controlling Shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of our Group and they do not control over the board of directors of such company.

Further, each of our Controlling Shareholders has undertaken to procure that if any new business investment or other business opportunity relating to the Restricted Activity (the “**Competing Business Opportunity**”) is identified by or made available to him/it or any of his/its close associates, he/it shall, and shall procure that his/its close associates shall, refer such Competing Business Opportunity to our Company on a timely basis and refer the Competing Business Opportunity to our Company by giving written notice (the “**Offer Notice**”) to our Company of such Competing Business Opportunity within 30 business days of identifying the target company (if relevant) and the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon receiving the Offer Notice, our Company shall seek approval from our Board or a board committee (in each case comprising only independent non-executive Directors) which has no interest in the Competing Business Opportunity (the “**Independent Board**”) as to whether to pursue or decline the Competing Business Opportunity (any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity).

The Independent Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our Group’s strategies and development plans and the general market conditions of our business. If appropriate, the Independent Board may appoint independent financial advisors and legal advisors to assist in the decision-making process in relation to such Competing Business Opportunity.

The Independent Board shall, within 30 business days of receipt of the Offer Notice, inform our Controlling Shareholders in writing, on behalf of our Company, its decision whether to pursue or decline the Competing Business Opportunity.

Our Controlling Shareholders shall be entitled but not obliged to pursue such Competing Business Opportunity if he/it has received a notice from the Independent Board declining such Competing Business Opportunity or if the Independent Board failed to respond within such 30 business days’ period mentioned above.

If there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by our Controlling Shareholders, he/it shall refer such revised Competing Business Opportunity to our Company as if it were a new Competing Business Opportunity.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-competition also includes the following provisions:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- each of our Controlling Shareholders shall and shall procure his/its relevant close associates to provide all information necessary for the annual review by our independent non-executive Directors for the enforcement of the Deed of Non-competition;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- we shall disclose the review by our independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-competition and the decisions on matters reviewed by our independent non-executive Directors (including the reasons for not taking up the Competing Business Opportunity referred to our Company) either through our annual report or by way of announcement to the public in compliance with the Listing Rules;
- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-competition in accordance with the principle of voluntary disclosure in the corporate governance report; and
- in the event that any of our Directors and/or their respective close associates has material interests in any matter to be deliberated by our Board in relation to the compliance and enforcement of Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

The Deed of Non-competition will lapse automatically if our Controlling Shareholders and their close associates cease to be interested in, whether directly or indirectly, 30% or more of our Shares or if our Shares cease to be listed on the Stock Exchange.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after the Listing.

Management Independence

Our Board will comprise of five executive Directors and three independent non-executive Directors upon the Listing:

On the basis of the following reasons, our Directors are satisfied that they are able to perform their roles in our Company and manage our business independently from the Controlling Shareholders after the Listing.

- (a) The Concert Party Agreement explicitly provides that the provisions in the Concert Party Agreement would only bind Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao, our executive Directors and Controlling Shareholders, when they exercise the rights and powers in their capacity as a Shareholder of the Company. The Concert Party Agreement will not apply to the circumstances when they exercise their rights and powers in their capacity as a Director of the Company and they shall fulfill their fiduciary duties when exercising their rights and powers in their capacity as a Director of the Company. Each Director is aware of his fiduciary

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

duties as a Director which require, among other things, that he acts for the benefit and in the best interest of our Company and avoid any conflict between his duties as a Director and his personal interests;

- (b) the three independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions;
- (c) 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 associates (“**Conflicting Transaction(s)**”), 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. The interested Director(s) shall not attend any independent Board committee meetings comprising our independent non-executive Directors only. In the event that there is a Conflicting Transaction which shall be submitted to our independent non-executive Directors for their consideration and approval, they shall have extensive experience and knowledge to oversee such Conflicting Transaction from different aspects;
- (d) the Board acts collectively by majority decisions in accordance with the Articles of Association and applicable laws, and no single Director will have any decision-making power unless authorized by the Board;
- (e) our Company has also established an internal control mechanism to identify connected transactions to ensure that our Controlling Shareholders or Directors with conflicting interests in a proposed transaction will declare the nature of their interest to the Board at their earliest convenience and abstain from voting on the relevant resolutions;
- (f) in order to allow the non-conflicting members of the Board to function properly with the necessary professional advice, our Company will engage third party professional advisors to advise the Board when necessary, depending on the nature and significance of any proposed transactions to be entered into between our Group and any of our Directors and/or their respective associates; and
- (g) connected transactions between our Group and our Controlling Shareholders or their associates are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement and independent Shareholders’ approval (where applicable).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational Independence

We have full rights to make business decisions and to carry out our business independently from our Controlling Shareholders and their respective associates. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholders and their respective associates after the Listing:

- (a) we are not reliant on trademarks owned by our Controlling Shareholders, or by other companies controlled by our Controlling Shareholders;
- (b) we are the holder of all relevant licenses material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;
- (c) we have independent access to our customers;
- (d) we have our own administrative and corporate governance infrastructure, including our own accounting, legal and human resources departments; and
- (e) none of our Controlling Shareholders or their respective associates have any interests in any business which competes or is likely to compete with the business of our Group.

Save as disclosed in “Connected Transactions”, there were no significant business transactions between our Group and our Controlling Shareholders and/or their associates during the Track Record Period. While our Group will continue to operate independently from the Controlling Shareholders and their associates, there will be certain transactions between our Group and the Controlling Shareholders which will continue following the Listing. Such transactions will, however, not be significant business transactions and therefore, our Directors believe that our operations are independent from our Controlling Shareholders. For details of such transactions, please refer to “Connected Transactions”.

Financial Independence

We have an independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

During the Track Record Period, Mr. Fu Xi, and Mr. Shui Yingyu, both our Controlling Shareholders and executive Directors, provided personal guarantees, and Wuhan Xunyu, an associate of Mr. Fu Xi and Mr. Zhang Yuguo, our Controlling Shareholders and executive Directors, provided security support by way of mortgage respectively in respect of certain bank borrowings by our Group (the “**Guaranteed Loans**”). Please refer to note 32 of the Accountants’ Report in Appendix I to this prospectus for further details. As of March 31, 2020, the outstanding principal amount of the Guaranteed Loans is RMB65 million.

We have obtained confirmations from the banks providing us with the Guaranteed Loans confirming that they will give their consents to release of the guarantees provided by our Controlling Shareholders prior to the Listing and the replacement by corporate guarantee to be given by our Company upon the Listing as may be requested by the banks.

Saved as disclosed as above, no loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates will be outstanding as of the Listing Date. Based on the above, our Directors are of the view that we are capable of carrying on our business independently of, and do not place undue reliance on our Controlling Shareholders and their close associates after the Listing.

CORPORATE GOVERNANCE

Our Company will adopt the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**Code**”) and will comply with the code provisions in the Code upon the Listing. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, the responsibilities and remuneration of directors and communications with shareholders.

Our Company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, which provides, among other matters, prohibitions on directors’ dealings in securities and protection of minority shareholders’ rights.

Additionally, we will also adopt the following corporate governance measures to manage potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders’ meeting is held for considering proposed transactions in which our Controlling Shareholders have a material interest, our Controlling Shareholders shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (b) where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) our Board will consist of a balanced composition of executive and non-executive Directors, including not less than one-third of (or at least three) independent non-executive Directors, to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, individually and collectively, possess the requisite knowledge and experience. They are committed to providing impartial and professional advice to protect the interests of our minority Shareholders;
- (d) in the event that our independent non-executive Directors are requested to review any conflict of interests between our Group and our Controlling Shareholders, our Controlling Shareholders shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in our annual reports or by way of announcements; and
- (e) we have appointed First Shanghai Capital Limited as our compliance advisor and will appoint a Hong Kong legal advisor upon the Listing, who will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors' duties and corporate governance.

Based on the above, our Directors are therefore satisfied that appropriate corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' rights after the Listing.

CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, our Directors, substantial Shareholders and chief executive or those of our subsidiaries, any person who was a Director or a director of any of our subsidiaries within 12 months prior to the Listing Date and any of their associates will become a connected person of our Company upon the Listing. Upon the Listing, our transactions with any of such connected persons will constitute connected transactions under Chapter 14A of the Listing Rules.

Our Directors confirm that the following transactions which will continue after the Listing will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

SUMMARY OF OUR CONNECTED PERSONS

The table below sets forth parties who will become our connected persons upon the Listing and the nature of their relationship with our Group. We have entered into certain transactions with the following connected persons, which will constitute our continuing connected transactions upon the Listing:

Name	Connected Relationship
Wuhan Xunyue	an associate of Mr. Fu Xi and Mr. Zhang Yuguo, both of whom are our executive Directors and Controlling Shareholders
Mr. Fu Xi	as an executive Director and a Controlling Shareholder
Mr. Zhang Yuguo	as an executive Director and a Controlling Shareholder
Mr. Shui Yingyu	as an executive Director and a Controlling Shareholder
Mr. Zhao Bihao	as an executive Director and a Controlling Shareholder

CONNECTED TRANSACTIONS

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Continuing connected transaction	Applicable Listing Rules	Waivers sought	Historical amounts for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 (RMB in millions)	Proposed annual cap for the years ending December 31, 2020, 2021 and 2022 (RMB in millions)
<i>Exempt Continuing Connected Transactions</i>				
Property Lease Framework Agreement	Rule 14A.76(1)	N/A	2017: 0.35 2018: 2.02 2019: 1.04 2020(1Q): 0.18	2020: 1.2 2021: 1.25 2022: 1.3

Non-exempt Continuing Connected Transactions

Contractual Arrangements	14A.34, 14A.35, 14A.36, 14A.49, 14A.52 to 59, 14A.71	Requirements as to announcement, circular, independent Shareholders' approval, annual caps, limiting the period of agreement to a fixed term under Chapter 14A of the Listing Rules	N/A	N/A
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FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Property Lease Framework Agreement

Principal terms

Our Company entered into a property lease framework agreement on August 29, 2020 (the “**Property Lease Framework Agreement**”) with Wuhan Xunyue, pursuant to which, Wuhan Xunyue leases a property located in Wuhan, PRC (the “**Property**”) for use as office for our subsidiaries, including Wuhan Fulu, Wuhan Yiqiyue, Wuhan Lishuo, Wuhan Tianshi, Wuhan Souka and Hubei Kejin. The initial term of the Property Lease Framework Agreement and any separate contracts entered into under it shall expire on December 31, 2022 and such term can be renewed subject to mutual written consent of our Company and Wuhan Xunyue, and approval in accordance with applicable laws, regulations and the Listing Rules. Wuhan Xunyue will enter into separate contracts with our Group to set out specific terms and conditions of the relevant leases in accordance with the principles provided in the Property Lease Framework Agreement.

CONNECTED TRANSACTIONS

The rental amount was determined following arm's length negotiations between Wuhan Xunyue and the relevant member of our Group and calculated on a per month per square meter basis, with reference to (i) the historical rents of the Property; (ii) the prevailing market rents of similar premises in the same or nearby areas or similar locations in the PRC; and (iii) the historical trend and the expected increase in the rents in the PRC property market.

The historical amounts of rental fees paid by the Group in respect of the Property for the three years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 are RMB349,315.00, RMB2,016,988.39, RMB1,037,623.80 and RMB176,069.76. The fluctuation in the historical rental amount was primarily due to variation in the office space size we rented during the Track Record Period.

Annual caps

The maximum aggregate annual rental amounts payable to Wuhan Xunyue in respect of the Property Lease Framework Agreement for each of the three years ending December 31, 2022 shall not exceed RMB1.2 million, RMB1.25 million and RMB1.3 million.

The above proposed annual caps for the rental amounts payable to Wuhan Xunyue are determined following arm's length negotiations and with reference to the following:

- the prevailing market rents of similar premises in the same or nearby areas or similar locations in the PRC; and
- an approximately estimated 5% increase in the annual rent for the Property for each of the three years ending December 31, 2022, taking into account the general trend in macroeconomic conditions and the ordinary market practice.

Listing Rules implications

Wuhan Xunyue is owned as to 60% by Mr. Fu Xi and 40% by Mr. Zhang Yuguo, both of whom are executive Directors and Controlling Shareholders. Therefore Wuhan Xunyue is an associate of Mr. Fu Xi and Mr. Zhang Yuguo and thus a connected person of our Company.

As the relevant applicable percentage ratios with respect to the transactions contemplated under the Property Lease Framework Agreement on an annual basis are less than 5% and the annual consideration is less than HK\$3 million, the transactions under of the Property Lease Framework Agreement constitutes de minimis transactions under Rule 14A.76(1) of the Listing Rules, and are fully exempt from the annual reporting, announcement, independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We set out below a summary of the continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Contractual Arrangements

Background

As disclosed in the “Contractual Arrangements”, due to regulatory restrictions on foreign ownership in Relevant Businesses in the PRC, we conduct our business through our PRC Holdcos, namely, Wuhan Fulu and Kashgar Yiqiwan. We do not hold any equity interests in our Consolidated Affiliated Entities which are held by their registered shareholders, including Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao, who are our connected persons. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefit from our Consolidated Affiliated Entities in consideration for the services provided by WFOE to the Consolidated Affiliated Entities; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in Consolidated Affiliated Entities when and to the extent permitted by PRC laws.

See “Contractual Arrangements” for further detailed terms of the Contractual Arrangements.

Listing Rules Implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon the Listing as certain parties to the Contractual Arrangements, including Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao, are connected persons of the Group.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of our Group (“**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute our continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such

CONNECTED TRANSACTIONS

transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the annual reporting requirement under Rule 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

WAIVERS

In respect of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements, (ii) the requirement of setting an annual cap for the transaction under the Contractual Arrangements under Rule 14A.53(1) of the Listing Rules, and (iii) the requirement to limit the term of the Contractual Arrangements to three years or less, for so long as our Shares are listed on the Stock Exchange, subject, however, to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of our independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. 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 our Company (as set out in paragraph (e) below) will, however, continue to be applicable.

(c) Economic benefit flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's option (to the extent permitted under the applicable PRC laws) to acquire all or part of the entire equity interests and assets at a consideration which shall be the higher of (a) a nominal price or (b) the lowest price as permitted under applicable PRC laws, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to WFOE by the Consolidated Affiliated Entities under the Exclusive Business Cooperation Agreements, and (iii) our Group's right to control the management and operation of, as well as the substance of, all of the voting rights of the Consolidated Affiliated Entities.

CONNECTED TRANSACTIONS

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch companies) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual reports for the relevant years that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

CONNECTED TRANSACTIONS

- Our Company's auditor will carry out review procedures annually on the transactions, pursuant to the Contractual Arrangements, and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", our Consolidated Affiliated Entities will be treated as our Company's subsidiaries, and at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group's management and our Company's auditor full access to its relevant records for the purpose of our Company's auditor's review of the connected transactions.

In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Rule 14A.105 of the Listing Rules in respect of the transactions contemplated under any New Intergroup Agreement, (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from the Consolidated Affiliated Entities pursuant to any New Intergroup Agreement under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of any New Intergroup Agreement to three years or less under Rule 14A.52 of the Listing Rules, for so long as Shares are listed on the Stock Exchange subject however to the condition that the Contractual Arrangements subsist and that the Consolidated Affiliated Entities will continue to be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

DIRECTORS' CONFIRMATION

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions set out above (i) have been and will be entered into in the ordinary and usual course of business of the Company on normal commercial terms or better, (ii) are fundamental to our Group's legal structure and business operations, and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

As the transactions contemplated under the Contractual Arrangements and the New Intergroup Agreements have been and will be entered into in the ordinary and usual course of our business, our Directors are also of view that it is unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to the requirements set out under Chapter 14A of the Listing Rules.

SOLE SPONSOR'S CONFIRMATION

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, have participated in the due diligence and discussions with our management and our PRC Legal Advisor. Based on the foregoing, the Sole Sponsor is of the view that the Contractual Arrangements are fundamental to our Group's legal structure and business operations and it is justifiable and normal business practice for agreements under the Contractual Arrangements to have a term of longer than three years to ensure that (i) the financial and operational policies of the Consolidated Affiliated Entities can be effectively controlled by WFOE, (ii) WFOE can obtain the economic benefits derived from the Consolidated Affiliated Entities, and (iii) any possible leakage of assets and values of the Consolidated Affiliated Entities can be prevented on an uninterrupted basis.

In addition, the Sole Sponsor is of the view that the non-exempt continuing connected transactions described above, and for which waivers have been sought, have been entered into on normal commercial terms and are fair and reasonable and are in the interests of our Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board consists of eight Directors, comprising of five executive Directors and three independent non-executive Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Key responsibilities
Executive Directors					
Mr. Fu Xi (符熙先生)	31	Chairman of the Board, executive Director and chief executive officer of the Group	March 24, 2009	October 31, 2019	Responsible for the Group's strategies, corporate culture and oversees the senior management.
Mr. Zhang Yuguo (張雨果先生)	33	Executive Director and senior vice president of the Group	May 5, 2009	October 31, 2019	Responsible for the operation of the Group's Fulu Open Platform as well as the operation and development of the Group's e-commerce business relating to telecommunications, online games, leisure and entertainment, lifestyle services and membership cards and coupons.
Mr. Shui Yingyu (水英聿先生)	33	Executive Director and senior vice president of the Group	November 1, 2010	October 31, 2019	Responsible for the Group's risk control and management as well as daily business operation.

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Key responsibilities
Mr. Zhao Bihao (趙筆浩先生)	39	Executive Director and senior vice president of the Group	April 1, 2013	October 31, 2019	Responsible for the Group's branding, marketing, as well as investments and financing.
Mr. Mao Feng (茅峰先生)	41	Executive Director, chief financial officer and vice president of the Group	July 2, 2018	January 11, 2020	Responsible for the Group's financial management, financing, and investor relations.
Independent non-executive Directors					
Mr. Li Wai Chung (李偉忠先生)	42	Independent non-executive Director	January 11, 2020 ⁽¹⁾	January 11, 2020 ⁽¹⁾	Responsible for addressing conflicts and giving strategic advice and guidance on the business and operations of our Group.
Ms. Wang Yuyun (王雨雲女士) (alias Wang Yuyun (王雨蘊))	42	Independent non-executive Director	January 11, 2020 ⁽¹⁾	January 11, 2020 ⁽¹⁾	Responsible for addressing conflicts and giving strategic advice and guidance on the business and operations of our Group.
Mr. Wong Sincere (黃誠思先生)	56	Independent non-executive Director	January 11, 2020 ⁽¹⁾	January 11, 2020 ⁽¹⁾	Responsible for addressing conflicts and giving strategic advice and guidance on the business and operations of our Group.

Note:

(1) The appointment is effective from August 29, 2020.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Fu Xi (符熙先生)

Mr. Fu Xi, 31, is the Chairman, executive Director and chief executive officer of the Company. He was appointed as an executive Director of Company on October 31, 2019 upon the incorporation of our Company. Mr. Fu is also the chairman of the Nomination Committee of the Board. Mr. Fu is responsible for the Company's strategies, corporate culture and oversees the senior management. He has held directorships in the Group's various subsidiaries, including as the executive director of Wuhan Fulu since March 2009, Xinjiang Fulu since December 2016, Tibet Fulu since December 2016, Wuhan Lishuo since January 2017, Hubei Kejin since May 2017, Xinjiang Huluwa since February 2019 and Tibet Huluwa since May 2019.

Mr. Fu has over 10 years of management and operation experience in the IT industry.

Mr. Fu graduated from Zhongnan University of Economics and Law (中南財經政法大學) in Wuhan, PRC in June 2009 and majored in computer information management.

Mr. Zhang Yuguo (張雨果先生)

Mr. Zhang Yuguo, 33, is an executive Director of the Company and the senior vice president of the Group. He joined the Group as the vice president in May 2009 and was appointed as an executive Director of the Company on October 31, 2019 upon the incorporation of our Company. He has served as the executive director and general manager of Kashgar Yiqiwan and Wuhan Yilu since March 2017 and August 2019, respectively. Mr. Zhang is mainly responsible for managing the open platform business division. In particular, he is in charge of the operation of the Group's Fulu Open Platform as well as the operation and development of the Group's e-commerce business relating to telecommunications, online games, leisure and entertainment, lifestyle services and membership cards and coupons.

Mr. Zhang has over 10 years of management and business experience in the IT industry.

Mr. Zhang completed his high school education in April 2005.

Mr. Shui Yingyu (水英聿先生)

Mr. Shui Yingyu, 33, is an executive Director of the Company and the senior vice president of the Group. He was appointed as an executive Director of Company on October 31, 2019 upon the incorporation of our Company. He has served as the deputy general manager in charge of managing accounting and finance since November 2010. He is responsible for risk control and management as well as daily business operation of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shui has over 10 years of management and operation experience in the internet media operation industry. Mr. Shui founded Hefei Sanqi Media Co., Ltd. (合肥三啟傳媒有限公司) (“**Hefei Sanqi**”) in 2009 at which he served as a director from October 2009 to October 2010, responsible for the overall business operation and management of the company. Hefei Sanqi is a limited liability company established in the PRC on October 30, 2009, and was primarily engaged in the design and production of advertising and website. Hefei Sanqi was voluntarily dissolved on December 22, 2017.

Mr. Shui received his bachelor’s degree in administrative management from Anhui University (安徽大學) in Anhui, PRC in July 2012.

Mr. Zhao Bihao (趙筆浩先生)

Mr. Zhao Bihao, 39, is the executive Director of the Company and the senior vice president of the Group. He was appointed as an executive Director of Company on October 31, 2019. He has served as the deputy general manager of the Group in charge of marketing and planning since November 2010. He was appointed as the senior vice president of the Group in April 2013 and is primarily responsible for the branding, marketing, as well as investment and financing of the Group.

Mr. Zhao has approximately 14 years of management and operation experience in market operations and promotion. From October 2005 to March 2013, Mr. Zhao was a promotion director of Perfect World Co., Ltd. (完美世界股份有限公司) (“**Perfect World**”, a company listed on the Shenzhen Stock Exchange with the stock code of 002624, primarily engaging in development, production and marketing of online games, TV shows and movies), responsible for promoting and marketing.

Mr. Zhao received his associate degree in computer science from Wuhan University of Science and Technology (武漢科技大學) in Wuhan, PRC in July 2002.

Mr. Mao Feng (茅峰先生)

Mr. Mao Feng, 41, is the executive Director of the Company, the chief financial officer and vice president of our Group. He was appointed as an executive Director of Company on January 11, 2020. He has been responsible for the Group’s financial management, financing and investor relations since he joined the Group in July 2018.

Mr. Mao has nearly 20 years of experience in accounting and finance. Prior to joining the Group, Mr. Mao was a partner of Asia Pacific CPA (Group) Co., Ltd. (亞太(集團)會計師事務所) from March 2015 to June 2018. From December 2013 to March 2015, he worked at Ruihua Certified Public Accountants (瑞華會計師事務所). From August 2010 to January 2013, Mr. Mao served as the vice general manager in Shanghai Chengqi Business Consulting Co., Ltd (上海誠齊商務諮詢有限公司). From September 2006 to December 2008, he served as the finance manager of Shanghai Maoyuan Garment Co., Ltd. (上海懋源製衣有限公司). From July 2001 to September 2006, he worked at Deloitte Touche Tohmatsu Hua Yong Certified Public Accountants LLP (德勤華永會計師事務所).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Mao received his bachelor's degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, PRC in July 2001.

Independent non-executive Directors

Mr. Li Wai Chung (李偉忠先生)

Mr. Li Wai Chung, 42, is an independent non-executive Director and also the chairman of the Audit Committee of the Board. He was appointed as an independent non-executive Director on January 11, 2020, effective from August 29, 2020.

Mr. Li has been an independent non-executive director and the chairman of the audit committee of the board of directors of Taizhou Water Group Co., Ltd. (台州市水務集團股份有限公司) (a company listed on the Stock Exchange with the stock code of 1542) since June 2019. Mr. Li has served as an executive director and a chief financial officer of Tyfon Culture Holdings Limited (泰豐文化控股有限公司) (a company currently applying for listing on the Main Board of the Stock Exchange) since June 15, 2020. He has also served as the general manager and sole shareholder of Shenzhen Youxin Consulting Management Co., Ltd. (深圳友信顧問管理有限公司) from October 2017 to June 2020.

From October 2017 to October 2018, he worked at Shanghai Yongxuan Venture Capital Management Co., Ltd. (上海永宣創業投資管理有限公司). From August 2016 to September 2017, he worked at Lens International (HK) Limited, the holding company of Lens Technology Co., Ltd (藍思科技股份有限公司) (a company listed on the Shenzhen Stock Exchange with the stock code of 300433), as the general manager of investment department, mainly responsible for managing investment projects of the company and formulating investment strategies. From April 2006 to July 2016, he worked at Shanghai Prime Machinery Co., Ltd. (上海集優機械股份有限公司) (a company listed on the Stock Exchange with the stock code of 2345) as the vice president, secretary of the board, assistant president, company secretary and qualified accountant. He was an audit manager of Deloitte China (including Deloitte Touche Tohmatsu CPA and Hong Kong Deloitte Touche Tohmatsu) from October 2005 to April 2006.

Mr. Li received a bachelor's degree in business administration, majoring in accounting and finance, from University of Hong Kong in November 2000 and a master's degree in business administration from University of Hong Kong in November 2013. Mr. Li is a fellow member of the Association of Chartered Certified Accountant. He also holds the chartered accountant qualifications from the Institute of Chartered Accountants in England and Wales. He used to be a member of the Hong Kong Institute of Certified Public Accountant.

Ms. Wang Yuyun (王雨雲女士) (alias Wang Yuyun (王雨蘊))

Ms. Wang Yuyun, 42, is an independent non-executive Director and also the chairman of the Remuneration Committee of the Board. She was appointed as an independent non-executive Director on January 11, 2020, from August 29, 2020.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wang joined Perfect World in December 2004 when it was founded. From December 2004 to January 2008, she worked at Perfect World (Beijing) Network Technology Co., Ltd. (完美世界(北京)網絡技術有限公司) as the director of marketing center. From January 2008 to September 2014, she served as the vice president and the official spokesman of Perfect World. Concurrently, she has been the legal representative and chairman of Perfect World Education Investment Co., Ltd. (完美世界教育投資公司) (“**Perfect World Education**”) since February 2014. She has served as the senior vice president of Perfect World as well as the legal representative and chairman of Perfect World Education and Perfect World Education Technology (Beijing) Co., Ltd (完美世界教育科技(北京)有限公司), respectively, since September 2014. Currently, her main responsibilities at Perfect World include managing government relations and public affairs, brand building and promotion, and strategic cooperation management.

Ms. Wang received a doctor’s degree in business administration from University of Nice in France in April 2018 and a EMBA degree from National University of Singapore in Singapore in June 2012.

Mr. Wong Sincere (黃誠思先生)

Mr. Wong Sincere, 56, is an independent non-executive Director. He was appointed as an independent non-executive Director on January 11, 2020, effective from August 29, 2020.

Mr. Wong has served as an independent non-executive director of Bank of Gansu Co., Ltd (甘肅銀行股份有限公司) (a company listed on the Stock Exchange with the stock code of 2139) and U Banquet Group Holding Limited (a company listed on the Stock Exchange with the stock code of 1483), since August 2017 and September 2018, respectively.

Mr. Wong is the founding partner of Wong Heung Sum & Lawyers (黃香沈律師事務所) (formerly known as Sincere Wong & Co. (黃誠思律師事務所)). From January 2019 to March 2020, Mr. Wong served as a non-executive director of MOS House Group Limited (a company listed on the Stock Exchange with the stock code of 1653). From August 2011 to April 2016, Mr. Wong worked at the Listing Department of Hong Kong Exchanges and Clearing Limited, and he served as a vice president at the time of his departure from the Hong Kong Exchange, primarily responsible for reviewing IPO applications and making recommendations to the Listing Committee. From July 2010 to May 2011, he served as the head of legal department and company secretary of Sateri Holdings Limited (subsequently renamed Bracell Limited, a company listed on the Stock Exchange with the stock code of 1768). Bracell Limited was delisted by way of privatization in October 2016. From November 2006 to June 2010, he served as the chief legal officer of Shui On Construction and Materials Limited (now known as SOCAM Development Limited, a company listed on the Stock Exchange with the stock code of 983). From February 2005 to November 2006, he served as the in-house legal counsel of China Resources Enterprise, Limited (now known as China Resources Beer (Holdings) Company Limited, a company listed on the Stock Exchange with the stock code of 291). From September 1996 to January 2005, he served as the in-house legal counsel of Hutchison Whampoa Group (和記黃埔集團).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong passed the Common Professional Examination at Wolverhampton Polytechnic (now known as University of Wolverhampton) in July 1990, and the Solicitors' Final Examination of the Law Society of England and Wales with first class honours in October 1991. He received his bachelor's degree in social science from The Chinese University of Hong Kong in December 1986.

Mr. Wong was admitted as a solicitor of the High Court of Hong Kong in October 1993 and a solicitor of the Supreme Court of England & Wales in February 1994, respectively.

SENIOR MANAGEMENT

The senior management team of our Group, in addition to our executive Directors listed above, has the following members:

Senior Management

Name	Age	Position	Date of joining our Group	Date of appointment as member of our senior management	Responsibility
Mr. Chen Tianjun (陳天君先生)	37	Vice president of the Group	April 2017	January 11, 2020	Responsible for business development and cooperation of business with various major platforms
Mr. Xu Jian (徐健先生)	30	Vice president of the Group	September 2015	January 11, 2020	Responsible for business development and operation of business relating to mobile games, gaming transactions and gaming services
Mr. Ren Wei (任歲先生)	43	Chief technology officer and vice president of the Group	November 2011	January 11, 2020	Responsible for technical reserves, development and implementation of technological strategies, and management of the research team

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Tianjun (陳天君先生)

Mr. Chen Tianjun, 37, has been the vice president of the Group's since April 2017, responsible for the new business development of the business department and cooperation with various major platforms.

Prior to joining the Group, Mr. Chen has been running his own business through three companies, namely Shanghai Fire Beast Network Technology Co., Ltd. (上海火獸網絡科技有限公司) since August 2014, Hangzhou Yingxiang Network Technology Co., Ltd. (杭州鷹翔網絡科技有限公司) since April 2016 and Hangzhou Cool land Magic Technology Co., Ltd. (杭州酷境魔視科技有限公司) since August 2016. He served as the legal representative and chief executive officer of these three companies. From May 2008 to August 2016, he served as the manager of Taobao (China) Software Co., Ltd. (淘寶(中國)軟件有限公司), responsible for the virtual product business. From November 2002 to March 2003 and from August 2003 to May 2004, he worked at Shanghai Shengda Network Development Co., Ltd. (上海盛大網絡發展有限公司), a company previously listed on Nasdaq and delisted from Nasdaq in 2012). From April 2003 to July 2003 and from June 2004 to November 2007, he worked at Shengqu Information Technology (Shanghai) Co., Ltd. (盛趣信息技術(上海)有限公司).

Mr. Chen graduated from Yancheng Institute of Technology (鹽城工學院) in Yancheng, PRC in July 2002. In January 2006, he received his diploma degree in administrative management from Shanghai TV University (上海電視大學) through long-distance and part-time study.

Mr. Xu Jian (徐健先生)

Mr. Xu Jian, 30, has been the vice president of the Group's since January 2018, responsible for business development and operation of products relating to mobile games, gaming transactions and gaming services. Mr. Xu joined our Group as a project manager in September 2015. Mr. Xu has also been an executive director of Wuhan Yiqiyou since June 2017.

Mr. Xu received his bachelor's degree in computer science from China University of Geosciences (中國地質大學) in Wuhan, PRC in July 2015.

Mr. Ren Wei (任巍先生)

Mr. Ren Wei, 43, has been the chief technology officer of the Group since November 2019, responsible for technical reserves, development and implementation of technological strategies, and management of research team of the Group. He joined our Group in November 2011 as the manager of our R&D department.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. Ren has over 11 years of working experience in computer technology companies, including: Wuhan Chaojiwanjia Technology Co., Ltd. (武漢超級玩家科技股份有限公司) (formerly known as Wuhan Chaowan Online Technology Co., Ltd. (武漢超玩在線科技有限公司)), a company primarily engaged in the research and development of online games, from February 2009 to September 2011; Baofuda Technology (Wuhan) Co., Ltd. (保富達科技(武漢)有限公司), a company primarily involved in the development of computer software, from March 2008 to February 2009; Shenzhen Huolitianhui Technology Co., Ltd. (深圳市活力天匯科技股份有限公司), a company primarily involved in internet retail services, from September 2006 to March 2008; and Wuhan Huanda Technology Development Co., Ltd. (武漢市環大科技開發有限公司), a company primarily involved in computer engineering, bioengineering and chemical engineering, from August 2001 to August 2006.

Mr. Ren received his bachelor's degree in computer software from Hubei University (湖北大學) in Wuhan, China in July 1998.

Save as disclosed above, none of our Directors and senior management has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

Save as disclosed in this “Directors and Senior Management” section, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that need 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)(a) to (v) of the Listing Rules and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

As of the Latest Practicable Date, save for the interests in the Shares of each executive Director, which are disclosed in the “Appendix IV – Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – 1. Disclosure of Interests”, none of the other Directors held any interest in the Shares within the meaning of Part XV of the SFO.

To the knowledge, information and belief of the Board, our Directors and senior management do not have any relationship amongst them.

JOINT COMPANY SECRETARIES

Mr. Mao Feng (茅峰先生)

Mr. Mao Feng is our joint company secretary and also an executive Director, vice president and chief financial officer of our Company. See “ – Board of Directors – Executive Directors” in this section for Mr. Mao's biography.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Lam Yuk Ling (林玉玲女士)

Ms. Lam Yuk Ling, 39, was appointed as our joint company secretary on January 11, 2020, effective upon the Listing.

Ms. Lam has over 10 years of working experience in company secretarial profession and is a manager of the listing services department of TMF Hong Kong Limited, a company engaged in the business of providing corporate services. Ms. Lam currently also acts as the company secretary of Beijing Digital Telecom Co., Ltd. (北京迪信通商貿股份有限公司) (a company listed on the Stock Exchange with the stock code of 6188), Yadea Group Holdings Ltd. (a company listed on the Stock Exchange with the stock code of 1585), Xinchengyue Holdings Limited (新城悅控股有限公司) (a company listed on the Stock Exchange with the stock code of 1755), Tenfu (Cayman) Holdings Company Limited (天福(開曼)控股有限公司) (a company listed on the Stock Exchange with the stock code of 6868), Prinx Chengshan (Cayman) Holding Limited (浦林成山(開曼)控股有限公司) (a company listed on the Stock Exchange with the stock code of 1809), and Dowway Holdings Limited (天平道合控股有限公司) (a company listed on the Stock Exchange with the stock code of 8403).

Ms. Lam obtained a bachelor's degree in arts from The Hong Kong Polytechnic University in November 2004 and a master's degree in law from University of London in August 2019. She 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.

Ms. Lam is not our employee and does not have day-to-day knowledge of our operations. Ms. Lam will coordinate with Mr. Mao, the other joint company secretary and our executive Director and chief financial officer, in discharging her duties as one of the joint company secretaries.

BOARD COMMITTEES

Our Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee in compliance with the Listing Rules. These committees operate in accordance with their respective terms of reference established by our Board.

Audit Committee

We have established the Audit Committee in compliance with Rules 3.21 of the Listing Rules (with effect from the Listing) and with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and the internal control system of our Group, manage risk, perform internal audit, provide advice and comments to our Board and perform other duties and responsibilities as may be assigned by our Board.

DIRECTORS AND SENIOR MANAGEMENT

The Audit Committee consists of three members, namely Mr. Li Wai Chung, Ms. Wang Yuyun and Mr. Wong Sincere. The chairman of the Audit Committee is Mr. Li Wai Chung, who is an independent non-executive Director with the appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Nomination Committee

We have established the Nomination Committee (with effect from the Listing) with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and composition of our Board on a regular basis and make recommendations to our Board regarding any proposed changes to the composition of our Board; identify, select and make recommendations to our Board on the selection of individuals nominated for directorship, and ensure the diversity of our Board members; assess the independence of our independent non-executive Directors and make recommendations to our Board on relevant matters relating to the appointment, reappointment and removal of our Directors and succession planning for our Directors.

The Nomination Committee consists of three members, namely Mr. Fu Xi, Mr. Wong Sincere and Mr. Li Wai Chung. The chairman of the Nomination Committee is Mr. Fu Xi.

Remuneration Committee

We have established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules (with effect from the Listing) and with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary duties of the Remuneration Committee are to establish, review and provide advice to our Board on the structure of remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning remuneration, determine the terms of the specific remuneration package of each executive Director and senior management and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

The Remuneration Committee consists of three members, namely Ms. Wang Yuyun, Mr. Fu Xi and Mr. Wong Sincere. The chairman of the Remuneration Committee is Ms. Wang Yuyun.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY POLICY

The Board will adopt a board diversity policy (the “**Board Diversity Policy**”) prior to the Listing in order to enhance the effectiveness of our Board and to maintain high standard of corporate governance. Our Company recognizes and embraces the benefits of having a diverse Board and sees diversity at the Board level, including gender diversity, as an important element in maintaining the Company’s competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. Pursuant to the board diversity policy, in reviewing and assessing suitable candidates to serve as a Director of the Company, the Nomination Committee will consider a number of factors, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience.

Our Directors have a balanced mixed of knowledge and skills, including but not limited to overall business management, finance and accounting, investment and law. They obtained degrees in various majors including business administration, computer science, accounting, finance and law. Furthermore, our Board has a relatively wide range of ages, ranging from 31 years old to 55 years old, and we have both male and female representatives on the Board. The Board of Directors is of the view that our Board satisfies the Board Diversity Policy.

The Nomination Committee is responsible for reviewing the diversity of the Board. After the Listing, the Nomination Committee will monitor and evaluate the implementation of the Board Diversity Policy from time to time to ensure its continued effectiveness. Our Company will take opportunities to increase the proportion of female members of the Board when selecting and recommending suitable candidates for Board appointments to help enhance gender diversity in accordance with stakeholder expectations and recommended best practices. Our Company also intends to promote gender diversity when recruiting staff at the mid to senior level so that our Company will have a pipeline of female senior management and potential successors to the Board. The Nomination Committee will also include in successive annual reports a summary of the Board Diversity Policy, including any measurable objectives set for implementing the Board Diversity Policy and the progress on achieving these objectives.

DIRECTORS’ AND SENIOR MANAGEMENT’S REMUNERATION

For details of the service contracts and appointment letters that we have entered into with our Directors, see “Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – 3. Particulars of Directors’ Service Contracts and Appointment Letter” in Appendix IV to this prospectus.

The remuneration of our Directors are paid in the form of salaries, allowances, benefits in kind, pension scheme contributions and share-based payments. The aggregate amount of salaries, allowances and benefits in kind, pension scheme contributions and share-based payments we paid to our Directors for the years ended December 31, 2017, 2018 and 2019 and

DIRECTORS AND SENIOR MANAGEMENT

the three months ended March 31, 2020 were approximately RMB790,000, RMB4,118,000, RMB4,788,000 and RMB442,000, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in the Accountants' Report in Appendix I to this prospectus.

Under the arrangements currently in force, it is estimated that the aggregate amounts of remuneration costs (including salaries, allowances, benefits in kind, pension scheme contributions and share-based payments) payable by our Group to our Directors for the year ended December 31, 2020 is expected to be approximately RMB4,700,000.

The five highest paid individuals of our Group for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 include nil, one, one and two Directors, respectively whose remuneration is included in the aggregate amount of salaries, allowances, benefits in kind, pension scheme contributions and share-based payments we paid to the relevant Directors as set above. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, the aggregate amount of salaries, allowances, benefits in kind, pension scheme contributions and equity-settled share-based payments paid who are not a Director is RMB10,440,000, RMB10,899,000, RMB16,762,000 and RMB472,000, respectively. Further details on the remuneration of the five highest paid individuals during the Track Record Period is set out in the Accountants' Report in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to any Director or any of the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by any Director or any of the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments 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 our Directors by our Group.

EMPLOYEE SHAREHOLDING VEHICLES

To align the interest of key employees with the overall interests of Wuhan Fulu and to enable those employees to share the fruition of the development of Wuhan Fulu, Mr. Fu Xi, together with certain key employees of the Group established Tibet Fuxu and Tibet Fulong on January 19, 2017 and January 12, 2017, respectively, as the employee shareholding vehicles. To continue to fulfill the purpose of our employees vehicles after the Listing and as part of the Reorganization, the partners of Tibet Fuxu and Tibet Fulong incorporated Luzhi Holdings in the BVI on September 20, 2019 to substantially reflect the interest of Tibet Fuxu and Tibet Fulong in Wuhan Fulu. See "History, Reorganization and Corporate Structure – Employee Shareholding Vehicles" for details.

COMPLIANCE ADVISOR

We have engaged First Shanghai Capital Limited as our compliance advisor under Rule 3A.19 of the Listing Rules. The key terms of the engagement are as follows:

- (a) the term will be from the Listing Date to the date when our Company complies with Rule 13.46 of the Listing Rules in respect of the financial results of the first full financial year after the Listing Date is issued, or the termination date of the agreement, whichever is earlier;
- (b) the compliance advisor will provide guidance and advice as to the on-going compliance, requirements and other issues arising out of the Listing Rules and other applicable laws, rules, codes, and guidelines;
- (c) the compliance advisor will, as soon as practicable, inform us of any amendment or supplement to the Listing Rules announced by the Stock Exchange, and of new applicable laws, rules, codes and guidelines or amendments to the same; and
- (d) the compliance advisor will be one of the communication channels between us and the Stock Exchange.

Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer. Mr. Fu Xi is both the chairman of the Board and chief executive officer. Mr. Fu Xi is a key person to our Group's establishment and development. With extensive experience in the industry, Mr. Fu Xi is responsible for the Group's strategies, corporate culture and oversees our senior management team. Mr. Fu Xi acting as both the chairman of the Board and chief executive officer will provide strong and consistent leadership to our Group and facilitate the efficient execution of our business strategies. We consider it appropriate and beneficial to our business development and prospects that Mr. Fu continues to act as both the chairman of the Board and chief executive officer after the Listing, and therefore currently do not propose to separate these two functions.

While this would constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of our Company, given that: (i) our Board currently comprises five executive Directors (including Mr. Fu Xi), and three independent non-executive Directors. Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao, our executive Directors and Controlling Shareholders, have entered into a concert party agreement (the “**Concert Party Agreement**”) to undertake to act in concert through voting unanimously at Shareholders' meetings in their capacity as our Shareholders in respect of the matters of the Company. However, the Concert Party Agreement explicitly provides that notwithstanding the acting in concert arrangement under the Concert Party Agreement, Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao shall still comply with their fiduciary duties as a Director of our Company when exercising their powers as a Director. Please see “Relationship with Our Controlling Shareholders” for more information on the Concert Party Agreement; (ii) Mr. Fu and our other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals (including three independent non-executive Directors who have extensive experience in finance, management and law) who meet regularly to discuss issues affecting the operations of our Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

Save as disclosed above, we are in compliance with the requirements under all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

SHARE CAPITAL

The authorized and issued share capital of our Company are as follows:

Authorized Share Capital

Shares	Description	Nominal value of each Share (US\$)	Total nominal value of Shares US\$
500,000,000	As of the Latest Practicable Date	0.0001	50,000.00
500,000,000	Immediately following the completion of the Capitalization Issue and the Global Offering	0.0001	50,000.00

Issued Share Capital

Shares	Description	Nominal value of each Share (US\$)	Total nominal value of Shares US\$
100,000,000	As of the Latest Practicable Date	0.0001	10,000.00

Assuming the Over-allotment Option is not exercised at all, the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

Issued share capital		Total nominal value (US\$)	Approximate percentage of issued share capital
100,000,000	Shares in issue immediately before the Capitalization Issue and the Global Offering	10,000.00	25.00%
200,000,000	Shares to be issued under the Capitalization Issue	20,000.00	50.00%
100,000,000	Shares to be issued under the Global Offering (assuming the Over-allotment Option is not exercised)	10,000.00	25.00%
400,000,000	Shares in total	40,000.00	100.00%

SHARE CAPITAL

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

<u>Issued share capital</u>		<u>Total nominal value</u> (US\$)	<u>Approximate percentage of issued share capital</u>
100,000,000	Shares in issue immediately before the Capitalization Issue and the Global Offering	10,000.00	24.10%
200,000,000	Shares to be issued under the Capitalization Issue	20,000.00	48.19%
115,000,000	Shares to be issued under the Global Offering (assuming the Over-allotment Option is fully exercised)	11,500.00	27.71%
<u>415,000,000</u>	Shares in total	<u>41,500.00</u>	<u>100.00%</u>

Notes:

- (1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.
- (2) Assuming an additional of total of 15,000,000 Share will be issued upon exercise of the Over-allotment Option in full.

ASSUMPTIONS

The above table assume that: (i) the Global Offering becomes unconditional and the Shares are issued pursuant to the Capitalization Issue and the Global Offering; and (ii) without taking into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

RANKING

The Offer Shares will be ordinary shares in the share capital of our Company and will carry the same rights in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalization Issue.

SHARE CAPITAL

ALTERATION OF SHARE CAPITAL

Our Company may from time to time by ordinary resolution or special resolution (as the case may be) of Shareholders alter the share capital of our Company. For a summary of the provisions in the Articles regarding alterations of share capital, see “Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – 2.1 Shares – (c) Alteration of Capital” in Appendix III to this prospectus for further information.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

As a matter of the Cayman Companies Law, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in “Summary of the Constitution of Our Company and Cayman Islands Company Law” in Appendix III to this prospectus.

GENERAL MANDATE TO ISSUE NEW SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- 20% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option); and
- the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed “– General Mandate to Repurchase Shares” in this section.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

SHARE CAPITAL

Please see “Appendix IV – Statutory and General Information – A. Further Information about Our Group – 4. Resolutions of our Shareholders’ Meeting convened on August 29, 2020” for more details of this general mandate to allot, issue and deal with Shares.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in “Appendix IV – Statutory and General Information – A. Further Information about Our Group – 4. Resolutions of our Shareholders’ Meeting convened on August 29, 2020”.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

Please see “Appendix IV – Statutory and General Information – A. Further Information about Our Group – 4. Resolutions of our Shareholders’ Meeting convened on August 29, 2020” for further details of the repurchase mandate.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), the following persons are expected to have an interest and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Shares held as of the Latest Practicable Date		Shares held immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	
		Number	Percentage	Number	Percentage
Mr. Fu Xi (符熙) ⁽¹⁾	Interest in controlled corporations	58,878,200	58.88%	176,634,600	44.16%
FuXi Limited ⁽¹⁾	Beneficial interest	46,428,100	46.43%	139,284,300	34.82%
	Interest in controlled corporations	12,450,100	12.45%	37,350,300	9.34%
Fuzhi Holdings ⁽¹⁾	Beneficial interest	6,000,000	6.00%	18,000,000	4.50%
Fuxu Holdings ⁽¹⁾	Beneficial interest	6,450,100	6.45%	19,350,300	4.84%
Mr. Zhang Yuguo (張雨果) ⁽²⁾	Interest in a controlled corporation	15,333,200	15.33%	45,999,600	11.50%
Zhangyuguo Holdings ⁽²⁾	Beneficial interest	15,333,200	15.33%	45,999,600	11.50%
Ms. Li Dongzhi (李東芝) ⁽²⁾	Interest of spouse	15,333,200	15.33%	45,999,600	11.50%
Mr. Shui Yingyu (水英聿) ⁽³⁾	Interest in a controlled corporation	7,034,400	7.03%	21,103,200	5.28%
Shuiyingyu Holdings ⁽³⁾	Beneficial interest	7,034,400	7.03%	21,103,200	5.28%
Ms. Wang Longmei (王龍妹) ⁽³⁾	Interest of spouse	7,034,400	7.03%	21,103,200	5.28%
Mr. Zhao Bihao (趙筆浩) ⁽⁴⁾	Interest in a controlled corporation	5,609,600	5.61%	16,828,800	4.21%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Shares held as of the Latest Practicable Date		Shares held immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	
		Number	Percentage	Number	Percentage
Zhaobihao Holdings ⁽⁴⁾	Beneficial interest	5,609,600	5.61%	16,828,800	4.21%
Ms. Dun Yumei (頓語眉) ⁽⁴⁾	Interest of spouse	5,609,600	5.61%	16,828,800	4.21%
Luzhi Holdings ⁽⁵⁾	Beneficial interest	13,144,600	13.14%	39,433,800	9.86%
Xu Jian (徐健) ⁽⁵⁾	Interest in a controlled corporation	13,144,600	13.14%	39,433,800	9.86%

Notes:

- (1) Fuzhi Holdings and Fuxu Holdings are both wholly-owned subsidiaries of FuXi Limited. Under the SFO, FuXi Limited is deemed to be interested in the Shares held by Fuzhi Holdings and Fuxu Holdings. Mr. Fu Xi holds the entire share capital of FuXi Limited. Under the SFO, Mr. Fu Xi is deemed to be interested in the Shares held by Fuzhi Holdings, Fuxu Holdings and FuXi Limited.

Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao, each of whom an executive Director, entered into a concert party agreement on February 21, 2020 to confirm and acknowledge the nature of their acting-in-concert relationship. For details, please see “Relationship with Our Controlling Shareholders”.
- (2) Mr. Zhang Yuguo holds the entire share capital of Zhangyuguo Holdings. Under the SFO, Mr. Zhang Yuguo is deemed to be interested in the Shares held by Zhangyuguo Holdings. Ms. Li Dongzhi is deemed to be interested in all the Shares held by Mr. Zhang Yuguo, her spouse.
- (3) Mr. Shui Yingyu holds the entire share capital of Shuiyingyu Holdings. Under the SFO, Mr. Shui Yingyu is deemed to be interested in the Shares held by Shuiyingyu Holdings. Ms. Wang Longmei is deemed to be interested in all the Shares held by Mr. Shui Yingyu, her spouse.
- (4) Mr. Zhao Bihao holds the entire share capital of Zhaobihao Holdings. Under the SFO, Mr. Zhao Bihao is deemed to be interested in the Shares held by Zhaobihao Holdings. Ms. Dun Yumei is deemed to be interested in all the Shares held by Mr. Zhao Bihao, her spouse.
- (5) Luzhi Holdings, is owned as to 14.52%, 3.65%, 2.99%, 2.72%, 2.72%, 34.36%, 10.24%, 3.39%, 3.21%, 7.14% and 11.00% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao and Mr. Chen Tianjun, respectively, each of whom an employee of the Group as of the Latest Practicable Date, and 4.06% by Mr. Tian Xuan, who is a former employee of the Group. Under the SFO, because Mr. Xu Jian holds 34.36% of the total issued share capital of Luzhi Holdings, Mr. Xu Jian is deemed to be interested in the Shares held by Luzhi Holdings.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Capitalization Issue and the Global Offering, have any interest and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company.

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OVERVIEW

We are a leading third-party virtual goods and services platform operator in China. According to Frost & Sullivan:

- we were the largest third-party virtual goods and services platform operator in China with a market share of 7.7% by revenue in 2019;
- we were the largest third-party leisure and entertainment-related virtual goods and services platform operator in China with a market share of 11.7% by revenue and 7.6% by GMV in 2019;
- we were the largest third-party games-related virtual goods and services platform operator in China with a market share of 11.8% by revenue and 6.6% by GMV in 2019;
- we ranked fifth among third-party lifestyle-related virtual goods and services platform operators in China with a market share of 0.9% by revenue and 0.7% by GMV in 2019; and
- we ranked seventh among third-party telecommunications-related virtual goods and services platform operators in China with a market share of 1.6% by revenue and 2.6% by GMV in 2019.

Our platform connects virtual goods vendors and virtual goods sales channels to provide a comprehensive range of virtual goods-related services and value-added services. In the twelve months ended March 31, 2020, our platform facilitated transactions for an aggregate of over 910 virtual goods vendors and over 1,450 virtual goods sales channels. From our inception to March 31, 2020, our platform facilitated the sale of over 22,000 types of virtual goods to over 460 million consumers.

We design and run mini-games and reward-points programs and other user management tools to promote the sale of virtual goods to consumers. We also facilitate the sale of virtual goods offered by different virtual goods vendors in bundled packages to boost consumer spending.

We provide virtual goods-related and value-added services in a wide variety of industries, including leisure and entertainment, games, telecommunications and lifestyle services-related industries. We earn commissions from virtual goods-related services provided to virtual goods vendors and service fees from value-added services provided to virtual goods vendors and virtual goods sales channels.

In 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, our total revenue was RMB243.8 million, RMB208.9 million, RMB241.9 million, RMB59.3 million and RMB80.0 million, and our net profit was RMB78.0 million, RMB62.7 million, RMB80.6 million, RMB19.9 million and RMB36.2 million, in each case respectively.

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BASIS OF PRESENTATION

Our Company was incorporated as an exempt liability company in the Cayman Islands on October 31, 2019. Pursuant to a Reorganization described in “History, Reorganization and Corporate Structure”, the Company became the holding company of the companies now comprising our Group on December 25, 2019. The Reorganization mainly involved (i) entering into VIE arrangements and (ii) inserting a new holding company for the existing group of businesses.

The historical financial information for the relevant periods has been presented as a continuation of the existing group of businesses by applying the pooling of interests method as if the Reorganization had been completed at the beginning of the relevant periods.

Our consolidated historical financial information has been prepared in accordance with IFRS. We adopted IFRS9, IFRS15 and IFRS16 consistently throughout the Track Record Period. The adoption of IFRS9, IFRS15 and IFRS16 does not have a significant impact on our financial position and performance as compared to that of IASs 39, 18 and 17.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe our results of operations have been, and will continue to be affected by a number of key factors, including the following:

The Growth of China’s Virtual Goods and Services Industry

Our results of operations substantially depend on the growth of the virtual goods and services industry in China. China’s rapid economic growth, increased consumer spending, the growing popularity of e-commerce and the prevalent use of digital payments by consumers have driven the growth of China’s virtual goods and services industry.

The virtual goods and services industry in China grew from RMB645.6 billion in 2014 to RMB1,293.5 billion in 2019, representing a CAGR of 14.9%, and is expected to grow to RMB2,100.2 billion in 2024, representing a CAGR of 10.2% from 2019, according to Frost & Sullivan. Continued growth in the virtual goods and services industry and our ability to capitalize on industry trends will significantly affect the demand for our services and financial results. Please see “Industry Overview” for more details.

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Our Ability to Maintain Relationships with Virtual Goods Vendors and Virtual Goods Sales Channels

We generate revenue primarily by providing virtual goods-related and value-added services to virtual goods vendors. We help virtual goods vendors monetize their products and services through diverse sales channels.

In the twelve months ended March 31, 2020, our platform connected over 910 virtual goods vendors, including games-related companies, leisure and entertainment companies, telecommunications companies and lifestyle services companies. During the same period, our platform connected over 1,450 virtual goods sales channels, including major e-commerce platforms and online payment platforms.

The number and quality of virtual goods vendors and virtual goods sales channels that connect to our platform and our ability to maintain relationships with them are critical to our business. Our strong relationships with virtual goods vendors and virtual goods sales channels generate significant network effects, which we believe is a key factor of our success. Please see “Business – Our Strengths – Quality platform participants with powerful network effect” for more details.

Commission Rates

We generate significant portion of revenue from virtual goods-related commissions paid by virtual goods vendors. Our commission rates typically represent a percentage of the transaction value of the virtual goods sold on our platform. The rates we charge for our services fluctuate based on prevailing economic conditions, the competitive landscape, the volume of transactions on our platform, the availability of comparable services from our competitors and other factors.

We pay commissions to some virtual goods sales channels based on transaction volumes. The commissions paid to virtual goods sales channels constitute a large portion of our cost of sales. To maintain relationships with virtual goods sales channels, we must pay commissions at a level comparable to the commissions paid by our competitors. If we need to increase commissions for virtual goods sales channels due to competition or otherwise, our operating costs will increase accordingly.

Our Service Offerings

We generate the majority of our revenue by providing virtual goods-related services. Our revenue growth depends on our ability to improve our existing services, enhance user experience and capture new opportunities to provide value-added services. Since our existing service offerings may have different pricing strategies and cost structures, expansion of our business and changes to our revenue mix may also affect our financial results.

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Competition

Competition in China's virtual goods and services industry significantly affects our results of operations. We face competition from other third party virtual goods and services platform operators who seek to expand their scopes of business.

We may also face competition from virtual goods vendors if they increase their direct selling efforts. In addition, we may face new competitors as we expand into new markets, such as the games-related services market. Our ability to compete successfully depends on our ability to differentiate our services from the services provided by our competitors based on industry experience, business relationships, services offerings and operating capabilities.

As competition intensifies, we may face compressed margins and lower revenue. Our ability to manage these competitive pressures will significantly affect our financial results.

CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements and related notes, we must make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on other assumptions that we believe reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Our estimates during the Track Record Period were generally accurate as compared to actual results and our estimates are unlikely to change materially in the near future.

Our management has identified below the accounting policies, estimates and judgments that are most critical to the preparation of our consolidated financial information.

Revenue recognition

We recognize revenue from contracts with customers when control of goods or services is transferred to customers at amounts that reflect the consideration we expect to receive for those goods or services. We provide agency services to facilitate virtual goods vendors to sell virtual goods to virtual goods sales channels or end consumers.

We do not control the virtual goods sold through our platform. Therefore, we are not the principal in the transactions and record revenues on a net basis. We generally recognize revenue from rendering online transaction services upon rendering the services when control over virtual goods is transferred from virtual goods vendors to virtual goods sales channels or end consumers.

We sell virtual goods directly to end consumers that shop at the online stores operated by us. Control over virtual goods sold to an end consumer is deemed to be transferred when the virtual goods vendor distributes the virtual goods to the consumer.

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We sell virtual goods to virtual goods sales channels under other circumstances (i.e. not through online stores operated by us). Control over virtual goods sold to these sales channels is deemed to be transferred when (a) virtual goods vendors distribute virtual goods to end consumers or (b) we deliver virtual prepaid cards and other similar virtual goods to these sales channels.

Impairment of financial assets

Financial assets (except for trade receivables) at amortized cost are subject to impairment and are classified within the following stages for measurement of expected credit losses:

- for financial instruments for which credit risk has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to 12-month expected credit losses.
- for financial instruments for which credit risk has increased significantly since initial recognition but which are not credit-impaired financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses.
- for financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired), the loss allowance is measured at an amount equal to lifetime expected credit losses.

For trade receivables and contract assets that do not contain a significant financing component or when we apply the practical expedient of not adjusting the effect of a significant financing component, we do not track changes in credit risk. Instead, we recognize a loss allowance based on lifetime expected credit losses at each reporting date.

We have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For trade receivables and contract assets that contain a significant financing component and lease receivables, we also choose to calculate expected credit losses with policies as described above.

Intangible assets

We measure intangible assets acquired separately on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever the intangible asset may be impaired. We review the amortization period and the amortization method for an intangible asset with a finite useful life at least at each financial year end. Intangible assets including software and others with definite useful lives are amortized on the straight-line basis over the useful economic lives of 10 years.

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DESCRIPTION OF KEY INCOME STATEMENT LINE ITEMS

The following table sets forth selected items in our consolidated statements of profits or loss for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
Revenue	243,759	208,913	241,919	59,252	79,977
Cost of sales	(57,935)	(50,142)	(48,403)	(15,463)	(10,967)
Gross profit	185,824	158,771	193,516	43,789	69,010
Other income and gains	2,812	4,296	7,789	303	2,166
Selling and distribution expenses	(36,704)	(25,252)	(37,249)	(7,523)	(10,598)
Administrative expenses	(26,422)	(34,368)	(47,549)	(6,952)	(15,417)
Research and development costs	(9,942)	(24,370)	(20,508)	(3,813)	(5,729)
Impairment losses on financial and contract assets, net	(16,237)	(3,184)	(2,433)	(1,931)	(419)
Other expenses	(664)	(524)	(274)	(59)	(256)
Finance costs	(4,783)	(7,049)	(7,948)	(1,631)	(1,512)
Profit before taxation	93,884	68,320	85,344	22,183	37,245
Income tax	(15,889)	(5,623)	(4,729)	(2,253)	(1,083)
Profit for the year/period	77,995	62,697	80,615	19,930	36,162
Attributable to:					
Owners of the parent	78,132	62,809	80,638	19,950	36,162
Non-controlling interests	(137)	(112)	(23)	(20)	–
Non-IFRS Measure					
Adjusted Profit for the year/period ⁽¹⁾	88,276	76,214	106,060	19,930	44,903

Note:

- (1) We define “adjusted profit for the year/period” as profit or loss for the year, adding back share-based payment expenses and listing expenses. Adjusted profit for the year/period is not a measure required by or presented in accordance with IFRS. The use of adjusted profit for the year/period has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “– Non-IFRS Measure”.

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Non-IFRS Measure

To supplement our consolidated financial statements which are presented in accordance with IFRS, we use a non-IFRS measure, adjusted profit for the year/period, which is not required by, or presented in accordance with, IFRS. We believe that such non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating items that our management does not consider to be indicative of our operating performance.

We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted profit for the year/period may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation, or as substitute for analysis of, our results of operations or financial position as reported under IFRS. We defined adjusted profit for the year/period as profit for the year/period adjusted by adding back (1) share-based payment expenses because these expenses are non-cash expenses and unrelated to our principal businesses that we do not expect to incur in the future and (2) listing expenses.

The following table reconciles our adjusted profit for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	<i>(in thousands)</i>				
Profit for the year/period	77,995	62,697	80,615	19,930	36,162
Adjustments:					
Share-based payment expenses ⁽¹⁾	10,281	13,517	19,924	–	–
Listing expenses	–	–	5,521	–	8,741
Adjusted profit for the year/period	88,276	76,214	106,060	19,930	44,903

Note:

- (1) Represents share-based payment expenses we recognized in connection with (a) our grant of shares of a subsidiary to key employees without vesting conditions and (b) the purchase of shares of a subsidiary by key employees at a price lower than fair value in 2018 and 2019.

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Our revenue primarily includes (a) commissions from virtual goods-related services and (b) service fees from online store operation services and other value-added services. The following table sets forth revenue breakdown by types of services, in absolute amount and as a percentage of total revenue, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentage)</i>										
Virtual goods-related services	243,516	99.9	206,204	98.7	220,230	91.0	58,305	98.4	56,831	71.1
Value-added services										
Online store operation services	–	–	763	0.4	20,225	8.4	739	1.2	21,509	26.9
Others ⁽¹⁾	243	0.1	1,946	0.9	1,464	0.6	208	0.4	1,637	2.0
Total	243,759	100.0	208,913	100.0	241,919	100.0	59,252	100.0	79,977	100.0

Note:

- (1) Include user acquisition and management services (e.g. mini-game development services) and IT solutions.

We provide services to virtual goods vendors in a wide variety of industries, including leisure and entertainment, games, telecommunications and lifestyle industries. We generate revenue in the four reporting segments as described below:

- *Leisure and entertainment.* Revenue primarily includes commissions earned from facilitating the sale of virtual goods offered by leisure and entertainment content providers and service fees earned from related value-added services provided to leisure and entertainment content providers.
- *Games.* Revenue primarily includes commissions earned from facilitating the sale of virtual goods offered by game producers and service fees earned from related value-added services provided to game producers.

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- *Telecommunications.* Revenue primarily includes commissions earned from providing virtual goods-related agency services and service fees earned from value-added services to telecom operators.
- *Lifestyle.* Revenue primarily includes commissions earned from facilitating the sale of virtual goods offered by lifestyle services providers and service fees earned from related value-added services provided to lifestyle services providers.

The following table sets forth segment revenue, in absolute amount and as a percentage of total revenue, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentage)</i>										
Leisure and entertainment	148,932	61.1	115,440	55.2	130,524	54.0	32,188	54.3	35,950	45.0
Games	53,269	21.9	65,989	31.6	93,404	38.5	22,839	38.5	35,123	43.9
Telecommunications	37,372	15.3	18,602	8.9	15,642	6.5	3,141	5.3	7,509	9.4
Lifestyle	4,186	1.7	8,882	4.3	2,349	1.0	1,084	1.9	1,395	1.7
Total	243,759	100.0	208,913	100.0	241,919	100.0	59,252	100.0	79,977	100.0

The following table sets forth the GMV attributable to different industries for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2017		2018		2019		2019		2020	
	GMV	%	GMV	%	GMV	%	GMV	%	GMV	%
<i>(RMB in thousands, except for percentages)</i>										
Leisure and entertainment	577,809	4.3	843,323	6.3	1,224,294	9.6	285,237	6.6	384,436	10.4
Games	5,096,416	38.1	3,976,606	29.9	3,648,882	28.5	1,575,692	36.5	656,918	17.7
Telecommunications	7,145,070	53.4	7,797,801	58.6	7,668,902	59.8	2,366,664	54.9	2,569,810	69.2
Lifestyle services	568,078	4.2	686,690	5.2	273,062	2.1	83,550	1.9	99,992	2.7
Total	13,387,372	100.0	13,304,420	100.0	12,815,141	100.0	4,311,143	100.0	3,711,156	100.0

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Cost of sales

Our cost of sales primarily consists of commissions paid to virtual goods sales channels and labor-related costs. We pay some virtual goods sales channels such as e-commerce platforms and online payment platforms commissions based on the GMV of virtual goods sold through them. Our cost of sales accounted for 23.8%, 24.0%, 20.0%, 26.1% and 13.7% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

The following table sets forth the components of cost of sales, in absolute amount and as a percentage of total cost of sales, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentage)</i>										
Commissions	29,482	50.8	25,219	50.3	25,446	52.5	9,187	59.4	5,779	52.7
Labor-related costs	23,089	39.9	17,307	34.5	17,504	36.2	4,796	31.0	4,417	40.3
Others ⁽¹⁾	5,364	9.3	7,616	15.2	5,453	11.3	1,480	9.6	771	7.0
Total	57,935	100.0	50,142	100.0	48,403	100.0	15,463	100.0	10,967	100.0

Note:

(1) Primarily include fixed-fees paid to virtual goods sales channels and server and software costs.

The following table sets forth segment cost of sales, in absolute amount and as a percentage of total cost of sales, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentage)</i>										
Leisure and entertainment	9,459	16.3	12,116	24.1	12,568	25.9	2,186	14.2	3,285	30.0
Games	31,289	54.0	30,462	60.8	27,923	57.7	11,341	73.3	4,370	39.8
Telecommunications	15,615	27.0	5,961	11.9	7,059	14.6	1,765	11.4	2,979	27.2
Lifestyle	1,572	2.7	1,603	3.2	853	1.8	171	1.1	333	3.0
Total	57,935	100.0	50,142	100.0	48,403	100.0	15,463	100.0	10,967	100.0

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Gross profit and gross profit margin

Our leisure and entertainment segment accounted for the largest portion of our total gross profit, followed by games segment, telecommunications segment and lifestyle segment.

Our total gross profit margin was 76.2%, 76.0%, 80.0%, 73.9% and 86.3% in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

The following table sets forth our gross profit and gross profit margin by reporting segment for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentage)</i>										
Leisure and entertainment	139,473	93.6	103,324	89.5	117,956	90.4	30,002	93.2	32,665	90.9
Games	21,980	41.3	35,527	53.8	65,481	70.1	11,498	50.3	30,753	87.6
Telecommunications	21,757	58.2	12,641	68.0	8,583	54.9	1,376	43.8	4,530	60.3
Lifestyle	2,614	62.4	7,279	82.0	1,496	63.7	913	84.2	1,062	76.1
Total	185,824	76.2	158,771	76.0	193,516	80.0	43,789	73.9	69,010	86.3

Other income and gains

Other income and gains consists primarily of government grants. We receive grants from the PRC government to support our innovation and research and development efforts and our business expansion from time to time, depending on government policies and budgets. We also started to enjoy value-added tax preferential policies in 2019.

Our other income and gains accounted for 1.2%, 2.1%, 3.2%, 0.5% and 2.7% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

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Selling and distribution expenses

Our selling and distribution expenses consist primarily of marketing expenses incurred in connection with promoting virtual goods on e-commerce platforms and expenses we incurred in participating in trade shows to promote virtual goods of certain virtual goods vendors. Our selling and distribution expenses accounted for 15.1%, 12.1%, 15.4%, 12.7% and 13.3% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

The following table sets forth the components of our selling and distribution expenses, in absolute amount and as a percentage of total selling and distribution expenses, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentage)</i>										
Marketing expenses	30,825	84.0	16,730	66.3	29,914	80.3	5,544	73.7	8,927	84.2
Salary and welfare	3,239	8.8	4,906	19.4	4,305	11.6	1,288	17.1	1,431	13.5
Others ⁽¹⁾	2,640	7.2	3,616	14.3	3,030	8.1	691	9.2	240	2.3
Total	36,704	100.0	25,252	100.0	37,249	100.0	7,523	100.0	10,598	100.0

Note:

- (1) Primarily includes entertainment and travel expenses, amortization and depreciation and consulting service fees.

Administrative expenses

Administrative expenses consist primarily of salary and welfare, share-based payment expenses, lease-related expenses, professional service fees, office expenses and depreciation and amortization. Our administrative expenses accounted for 10.8%, 16.5%, 19.7%, 11.7% and 19.3% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

FINANCIAL INFORMATION

The following table sets forth the components of our administrative expenses, in absolute amount and as a percentage of administrative expenses, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentage)</i>									
Salary and welfare	9,362	35.4	11,403	33.2	12,996	27.3	4,337	62.4	4,834	31.4
Share-based payment expenses ⁽¹⁾	10,281	38.9	13,517	39.3	19,924	41.9	–	–	–	–
Lease-related expenses	1,878	7.1	3,115	9.1	2,529	5.3	742	10.7	499	3.2
Professional service fees	2,555	9.7	1,855	5.4	8,066	17.0	989	14.2	9,026	58.5
Office expenses	579	2.2	773	2.2	498	1.0	76	1.1	77	0.5
Depreciation and amortization	313	1.2	999	2.9	1,737	3.6	331	4.8	510	3.3
Others ⁽²⁾	1,454	5.5	2,706	7.9	1,799	3.9	477	6.8	471	3.1
Total	26,422	100.0	34,368	100.0	47,549	100.0	6,952	100.0	15,417	100.0

Notes:

- (1) Represents share-based payment expenses recognized in connection with (a) our grant of shares of a subsidiary to key employees without vesting conditions and (b) the purchase of shares of a subsidiary by key employees at a price lower than fair value in 2018 and 2019.
- (2) Primarily includes entertainment, travel expenses, and bank handling fees.

Research and development costs

Research and development costs consist primarily of salary and welfare and server hosting fees. Our research and development costs accounted for 4.1%, 11.7%, 8.5%, 6.4% and 7.2% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

FINANCIAL INFORMATION

The following table sets forth the components of our research and development costs, in absolute amount and as a percentage of research and development costs, for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentage)</i>										
Salary and welfare	9,543	95.9	23,435	96.2	18,649	91.0	3,389	88.9	5,411	94.4
Server hosting fees	277	2.8	820	3.4	1,706	8.3	390	10.2	291	5.2
Depreciation	115	1.2	106	0.4	92	0.4	25	0.7	25	0.4
Others	7	0.1	9	0.0	61	0.3	9	0.2	2	0.0
Total	9,942	100.0	24,370	100.0	20,508	100.0	3,813	100.0	5,729	100.0

Impairment losses on financial and contract assets

We recognize an allowance for expected credit losses (“ECLs”) for debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with contracts and the cash flows that we expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Impairment losses on financial and contract assets accounted for 6.7%, 1.5%, 1.0%, 3.3% and 0.5% of total revenue in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

Finance costs

Financial costs consists of interests on bank and other borrowings and interests on lease liabilities. Financial costs accounted for 2.0%, 3.4%, 3.3%, 2.8% and 1.9% of our total revenue in 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, respectively.

Income tax

Cayman Islands

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Under the current law of the Cayman Islands, our Company is not subject to tax on its income or capital gains. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

FINANCIAL INFORMATION

Hong Kong

Our wholly-owned subsidiary, Fulu (Hong Kong) Limited (福祿(香港)有限公司) is subject to Hong Kong profit tax at the rate of 16.5% on profits derived in Hong Kong. In 2017, 2018, 2019 and the three months ended March 31, 2020, we did not have any taxable income in Hong Kong.

PRC

Our PRC subsidiaries are subject to income tax in the PRC. Under the PRC Enterprise Income Tax Law, or the EIT Law, we and our PRC subsidiaries are subject to EIT at a statutory rate of 25%.

One of our PRC Holdcos, Wuhan Fulu, has qualified as a “High-and-New-Technology Enterprise” since 2015 and qualified as a “Key Software Enterprise” in 2018 under PRC tax laws and regulations. Accordingly, Wuhan Fulu was entitled to reduced income tax rates of 15%, 10%, 15% and 15% in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively.

Each of Wuhan Yiqiyong and Wuhan Souka, two subsidiaries of our PRC Holdco, has qualified as a “High-and-New-Technology Enterprise” since November 2017 and November 2019, respectively, and has been subject to a reduced income tax rate of 15% since qualifying as a “High-and-New-Technology Enterprise”.

Kashgar Yiqiwan, one of our PRC Holdcos established in the Xinjiang Autonomous Region, and Tibet Fulu and Tibet Huluwa, two subsidiaries of our PRC Holdco established in the Tibet Autonomous Region, enjoy a reduced income tax rate of 15% for enterprises located in China’s western development zone during the Track Record Period.

Xinjiang Fulu and Xinjiang Huluwa, two subsidiaries of our PRC Holdcos located in the Kashgar Economic Development Zone of Xinjiang Autonomous Region, have been exempt from income tax since May 2018 and October 2019, respectively, because of favorable tax policies promulgated by the State Administration of Taxation for enterprises incorporated in Kashgar or Khorgos that operate in encouraged industries.

In 2017, 2018, 2019 and the three months ended March 31, 2019 and 2020, our effective income tax rate was 16.9%, 8.2%, 5.5%, 10.2% and 2.9% respectively.

FINANCIAL INFORMATION

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three months ended March 31, 2020 compared to the same period in 2019

Revenue

Our total revenue increased by 35.0% from RMB59.3 million in the three months ended March 31, 2019 to RMB80.0 million in the same period in 2020.

Revenue by nature

The increase in revenue was primarily due to an increase in services fees from online store operation services, primarily driven by an increase in online stores we operated for virtual goods vendors and the GMV of transactions that occurred in these stores.

Revenue by segment

Leisure and entertainment. Revenue from the leisure and entertainment segment increased by 11.7% from RMB32.2 million in the three months ended March 31, 2019 to RMB36.0 million in the same period in 2020, primarily driven by an increase in the leisure and entertainment virtual goods transactions we facilitated. The GMV of leisure and entertainment virtual goods transactions we facilitated increased by 34.8% from RMB285.2 million in the three months ended March 31, 2019 to RMB384.4 million in the same period of 2020.

Games. Revenue from the games segment increased by 53.8% from RMB22.8 million in the three months ended March 31, 2019 to RMB35.1 million in the same period in 2020. The GMV of games-related virtual goods transactions we facilitated decreased by 58.3% from RMB1,575.7 million in the three months ended March 31, 2019 to RMB656.9 million in the same period in 2020. The revenue from the games segment increased while the GMV of the games-related virtual goods transactions we facilitated decreased, primarily because (1) we strategically reduced our provision of games-related virtual goods from which we earned lower commissions and increased our provision of games-related prepaid virtual cards from which we earned higher commissions and (2) services fees from operating online stores for third-party games-related virtual goods and services platform operators increased.

Telecommunications. Revenue from the telecommunications segment increased by 139.1% from RMB3.1 million in the three months ended March 31, 2019 to RMB7.5 million in the same period in 2020, primarily driven by an increase in the commission rates and GMV of the telecommunications virtual goods transactions we facilitated. The commission rates increased because (1) we facilitated more virtual goods transactions for new virtual goods vendors and (2) virtual goods transactions conducted through a new e-commerce platform increased; we typically earn higher commissions from these transactions. The GMV of telecommunications virtual goods transactions we facilitated increased by 8.6% from RMB2,366.7 million in the three months ended March 31, 2019 to RMB2,569.8 million in the same period in 2020.

FINANCIAL INFORMATION

Lifestyle. Revenue from the lifestyle segment increased by 28.7% from RMB1.1 million in the three months ended March 31, 2019 to RMB1.4 million in the same period in 2020, primarily driven by an increase in the lifestyle virtual goods transactions we facilitated. The GMV of lifestyle virtual goods transactions we facilitated increased by 19.7% from RMB83.6 million in the three months ended March 31, 2019 to RMB100.0 million in the same period in 2020.

Cost of sales

Our total cost of sales decreased by 29.1% from RMB15.5 million in the three months ended March 31, 2019 to RMB11.0 million in the same period in 2020.

Cost of sales by nature

The decrease in cost of sales was primarily due to a decrease in commissions paid to virtual goods sales channels. Commissions decreased primarily because we facilitated fewer games-related virtual goods transactions in the three months ended March 31, 2020.

Cost of sales by segment

Leisure and entertainment. Cost of sales from the leisure and entertainment segment increased by 50.3% from RMB2.2 million in the three months ended March 31, 2019 to RMB3.3 million in the same period in 2020, reflecting an increase in the volume of leisure and entertainment virtual goods transactions we facilitated.

Games. Cost of sales from the games segment decreased by 61.5% from RMB11.3 million in the three months ended March 31, 2019 to RMB4.4 million in the same period in 2020, primarily due to (i) a decrease in commissions charged by virtual goods sales channels as we facilitated fewer games-related virtual goods transactions and (ii) a decrease in the number of employees in our games operations team.

Telecommunications. Cost of sales from the telecommunications segment increased by 68.8% from RMB1.8 million in the three months ended March 31, 2019 to RMB3.0 million in the same period in 2020, reflecting an increase in the volume of telecommunications virtual goods transactions we facilitated through e-commerce platforms; we generally pay commissions to e-commerce platforms for these services.

Lifestyle. Cost of sales from the lifestyle segment remained stable at RMB0.2 million and RMB0.3 million in the three months ended March 31, 2019 and 2020.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 57.6% from RMB43.8 million in the three months ended March 31, 2019 to RMB69.0 million in the same period in 2020. Gross profit margin increased from 73.9% in the three months ended March 31, 2019 to 86.3% in the same period in 2020.

Other income and gains

Other income and gains increased by 614.9% from RMB0.3 million in the three months ended March 31, 2019 to RMB2.2 million in the same period in 2020, primarily because we started to enjoy value-added tax preferential policies in April 2019.

FINANCIAL INFORMATION

Selling and distribution expenses

Selling and distribution expenses increased by 40.9% from RMB7.5 million in the three months ended March 31, 2019 to RMB10.6 million in the same period in 2020, primarily due to a RMB3.4 million increase in marketing expenses, as we paid more advertising fees to certain e-commerce platforms (including the largest e-commerce platform in China) to enhance our promotion of the virtual goods sold by these platforms.

Administrative expenses

Administrative expenses increased by 121.8% from RMB7.0 million in the three months ended March 31, 2019 to RMB15.4 million in the same period in 2020, primarily due to a RMB8.7 million increase in expenses related to our contemplated initial public offering.

Research and development costs

Research and development costs increased by 50.2% from RMB3.8 million in the three months ended March 31, 2019 to RMB5.7 million in the same period in 2020, primarily reflecting our enhanced R&D efforts.

Impairment losses on financial and contract assets

Impairment losses on financial and contract assets decreased by 78.3% from RMB1.9 million in the three months ended March 31, 2019 to RMB0.4 million in the same period in 2020, primarily due to a decrease in contract assets.

Finance cost

Finance cost remained stable at RMB1.6 million and RMB1.5 million in the three months ended March 31, 2019 and 2020.

Income tax

Income tax decreased by 51.9% from RMB2.3 million in the three months ended March 31, 2019 to RMB1.1 million in the same period in 2020, and our effective income tax rate decreased from 10.2% in the three months ended March 31, 2019 to 2.9% in the same period in 2020, primarily reflecting an increase in profit contributed by subsidiaries that enjoyed preferential tax treatment. Please see “– Description of Major Components of Our Results of Operations – Income Tax” for more details.

Profit for the period

As a result of the foregoing, our profit for the period increased by 81.4% from RMB19.9 million in the three months ended March 31, 2019 to RMB36.2 million in the same period in 2020.

FINANCIAL INFORMATION

Year Ended December 31, 2019 compared to Year Ended December 31, 2018

Revenue

Our total revenue increased by 15.8% from RMB208.9 million in 2018 to RMB241.9 million in 2019.

Revenue by nature

The increase in revenue was primarily due to increases in commissions from virtual goods related services and services fees from online store operation services.

The increase in commissions primarily reflected an increase in commissions from leisure and entertainment and games-related virtual goods and services, partially offset by decreases in commissions from telecommunications and lifestyle virtual goods and services.

The increase in service fees was primarily due to increased stores we operated for virtual goods vendors and the GMV of transactions that occurred in these stores.

Revenue by segment

Leisure and entertainment. Revenue from the leisure and entertainment segment increased by 13.1% from RMB115.4 million in 2018 to RMB130.5 million in 2019, primarily driven by an increase in the leisure and entertainment virtual goods transactions we facilitated in 2019. The GMV of leisure and entertainment virtual goods transactions we facilitated increased by 45.2% from RMB843.3 million in 2018 to RMB1,224.3 million in 2019.

Games. Revenue from the games segment increased by 41.5% from RMB66.0 million in 2018 to RMB93.4 million in 2019. The GMV of games-related virtual goods transactions we facilitated decreased by 8.2% from RMB3,976.6 million in 2018 to RMB3,648.9 million in 2019. Our revenue from the games segment increased while the GMV of games-related virtual goods transactions we facilitated decreased, principally because we were more focused on facilitating the sale of certain games-related virtual goods with higher commission rates.

Telecommunications. Revenue from the telecommunications segment decreased by 15.9% from RMB18.6 million in 2018 to RMB15.6 million in 2019. The GMV of telecommunications virtual goods transactions we facilitated decreased by 1.7% from RMB7,797.8 million in 2018 to RMB7,668.9 million in 2019. Revenue and GMV from the telecommunications segment decreased primarily because we ceased providing certain types of services, such as top-up card recycling services. We ceased these services primarily to focus on providing services more aligned with our strategies such as leisure and entertainment and games related services, which we believe have significant growth potential.

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Lifestyle. Revenue from the lifestyle segment decreased by 73.6% from RMB8.9 million in 2018 to RMB2.3 million in 2019, which was in line with the decrease in GMV during the same period. The GMV of lifestyle virtual goods transactions we facilitated decreased by 60.2% from RMB686.7 million in 2018 to RMB273.1 million in 2019. Our revenue and GMV from the lifestyle segment in 2018 were higher because we facilitated more lifestyle virtual goods transactions, primarily driven by enhanced promotion efforts of certain virtual goods vendors.

Cost of sales

Our total cost of sales decreased by 3.5% from RMB50.1 million in 2018 to RMB48.4 million in 2019.

Cost of sales by nature

The decrease in cost of sales was primarily due to a decrease in other costs. Other costs decreased in 2019 primarily because we ceased providing top-up card recycling services in April 2018, which required payment of fixed fees to certain virtual goods sales channels. The decrease in other costs was partially offset by increases in commissions paid to virtual goods sales channels and labor-related costs, reflecting the growth of our business.

Cost of sales by segment

Leisure and entertainment. Cost of sales from the leisure and entertainment segment increased by 3.7% from RMB12.1 million in 2018 to RMB12.6 million in 2019, reflecting an increase in the volume of leisure and entertainment virtual goods transactions we facilitated.

Games. Cost of sales from the games segment decreased by 8.3% from RMB30.5 million in 2018 to RMB27.9 million in 2019, primarily due to a decrease in the number of employees in our games operations team.

Telecommunications. Cost of sales from the telecommunications segment increased by 18.4% from RMB6.0 million in 2018 to RMB7.1 million in 2019 primarily because a virtual goods sales channel increased the commissions it charged us.

Lifestyle. Cost of sales from the lifestyle segment decreased by 46.8% from RMB1.6 million in 2018 to RMB0.9 million in 2019, primarily because we facilitated fewer lifestyle virtual goods transactions.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 21.9% from RMB158.8 million in 2018 to RMB193.5 million in 2019. Gross profit margin increased from 76.0% in 2018 to 80.0% in 2019.

FINANCIAL INFORMATION

Other income and gains

Other income and gains increased by 81.3% from RMB4.3 million in 2018 to RMB7.8 million in 2019, primarily because we started to enjoy value-added tax preferential policies in 2019.

Selling and distribution expenses

Selling and distribution expenses increased by 47.5% from RMB25.3 million in 2018 to RMB37.2 million in 2019, primarily due to a RMB13.2 million increase in marketing expenses, as we paid more advertising fees to certain e-commerce platforms (i.e. Tmall, JD Mall and Pinduoduo) to enhance our promotion of the virtual goods sold by these platforms. The advertising activities in which we participate primarily include (a) advertising on Tmall, such as Zhi Tong Che (直通車) (i.e. a pay per click ads service), Zuan Zhan (鑽展) (i.e. a cost per thousand views banner ads that appear on most visible areas on Tmall) and Tao Bao Ke (淘寶客) (i.e. a cost per sale ads service), (b) Jing Zhun Tong (京准通) (a comprehensive marketing platform) on JD Mall, and (c) Duo Duo Jin Bao (多進寶) (i.e. a cost per sale ads service) on Pinduoduo. We were not obligated to participate in advertising events organized by these e-commerce platforms.

Administrative expenses

Administrative expenses increased by 38.4% from RMB34.4 million in 2018 to RMB47.5 million in 2019, primarily due to (i) a RMB6.4 million increase in share-based payment expenses in connection with purchase of shares of a subsidiary by key employees at a price lower than fair value in 2019, and (ii) a RMB5.5 million increase in IPO expenses as we incurred more fees in preparation for our contemplated initial public offering.

Research and development costs

Research and development costs slightly decreased from RMB24.4 million in 2018 to RMB20.5 million in 2019, because we capitalized R&D expenses of RMB5.3 million incurred in 2019.

Impairment losses on financial and contract assets

Impairment losses on financial and contract assets decreased by 23.6% from RMB3.2 million in 2018 to RMB2.4 million in 2019, primarily because we recognized an impairment loss of RMB3.2 million in 2018 as a virtual goods sales channel did not pay for the virtual goods we provided to its customers or refund the deposits received from us.

Finance costs

Finance costs increased by 12.8% from RMB7.0 million in 2018 to RMB7.9 million in 2019, primarily due to a RMB1.0 million increase in interest on amounts due to related parties in 2019.

FINANCIAL INFORMATION

Income tax

Income tax decreased by 15.9% from RMB5.6 million in 2018 to RMB4.7 million in 2019, and our effective income tax rate decreased from 8.2% in 2018 to 5.5% in 2019, primarily reflecting an increase in profit contributed by subsidiaries that enjoyed preferential tax treatment. Please see “– Description of Major Components of Our Results of Operations – Income Tax” for more details.

Profit for the period

As a result of the foregoing, our profit for the period increased by 28.6% from RMB62.7 million in 2018 to RMB80.6 million in 2019.

Year Ended December 31, 2018 compared to Year Ended December 31, 2017

Revenue

Our total revenue decreased by 14.3% from RMB243.8 million in 2017 to RMB208.9 million in 2018.

Revenue by nature

The decrease in revenue was primarily due to a decrease in commissions from virtual goods related services. The decrease in commissions primarily reflected decreases in commissions from telecommunications and leisure and entertainment virtual goods-related services, partially offset by increases in commissions from games-related and lifestyle virtual goods-related services.

Revenue by segment

Leisure and entertainment. Revenue from the leisure and entertainment segment decreased by 22.5% from RMB148.9 million in 2017 to RMB115.4 million in 2018. The GMV of leisure and entertainment virtual goods transactions we facilitated increased by 46.0% from RMB577.8 million in 2017 to RMB843.3 million in 2018. Our revenue from the leisure and entertainment segment decreased while the GMV of leisure and entertainment virtual goods transactions increased, primarily because (1) we facilitated fewer leisure and entertainment service transactions for which there is a longer lag time between our payment for virtual goods to virtual providers and the receipt of payment for these virtual goods from virtual goods sales channels; we typically earn higher commissions from these transactions, and (2) lower commissions paid by certain virtual goods vendors.

FINANCIAL INFORMATION

Games. Revenue from the games segment increased by 23.9% from RMB53.3 million in 2017 to RMB66.0 million in 2018. The GMV of games-related virtual goods transactions we facilitated decreased by 22.0% from RMB5,096.4 million in 2017 to RMB3,976.6 million in 2018. Our revenue from the games segment increased while the GMV of games-related virtual goods transactions we facilitated decreased, principally because we offered more games-related services with higher commission rates.

Telecommunications. Revenue from the telecommunications segment decreased by 50.2% from RMB37.4 million in 2017 to RMB18.6 million in 2018. The GMV of telecommunications virtual goods transactions we facilitated increased by 9.1% from RMB7,145.1 million in 2017 to RMB7,797.8 million in 2018. Our revenues from the telecommunications segment decreased while the GMV of telecommunications transactions we facilitated increased, primarily because (i) we facilitated fewer telecommunications service transactions for which there is a longer lag time between our payment for virtual goods to virtual providers and the receipt of payment for these virtual goods from virtual goods sales channels; we typically earn higher commissions from these transactions, and (ii) we ceased providing top-up card recycling services in April 2018, from which we generally earn higher commissions.

Lifestyle. Revenue from the lifestyle segment increased by 112.2% from RMB4.2 million in 2017 to RMB8.9 million in 2018. The GMV of lifestyle virtual goods transactions we facilitated increased by 20.9% from RMB568.1 million in 2017 to RMB686.7 million in 2018. Revenue and GMV of the lifestyle segment increased, primarily because we received higher commissions from certain virtual goods vendors.

Cost of sales

Our total cost of sales decreased by 13.5% from RMB57.9 million in 2017 to RMB50.1 million in 2018.

Cost of sales by nature

The decrease in cost of sales was primarily due to decreases in commissions paid to virtual goods sales channels and labor-related costs.

Commissions decreased primarily because we facilitated fewer transaction for which we pay higher commissions to virtual goods sales channels.

The decrease in labor-related costs was primarily due to a decrease in the number of our employees in our operations team because of our enhanced operating efficiency.

Cost of sales by segment

Leisure and entertainment. Cost of sales from the leisure and entertainment segment increased by 28.1% from RMB9.5 million in 2017 to RMB12.1 million in 2018, reflecting an increase in the volume of leisure and entertainment virtual goods transactions we facilitated.

FINANCIAL INFORMATION

Games. Cost of sales from the games segment decreased by 2.6% from RMB31.3 million in 2017 to RMB30.5 million in 2018, primarily due to decreased labor-related costs, partially offset by an increase in platform maintenance fees and other costs.

Telecommunications. Cost of sales from the telecommunications segment decreased by 61.8% from RMB15.6 million in 2017 to RMB6.0 million in 2018, primarily because we facilitated fewer transactions for which we pay higher commissions to virtual goods sales channels.

Lifestyle. Cost of sales from the lifestyle segment remained stable at RMB1.6 million in each of 2017 and 2018.

Gross profit and gross profit margin

As a result of the foregoing, gross profit decreased by 14.6% from RMB185.8 million in 2017 to RMB158.8 million in 2018. Gross profit margin slightly decreased from 76.2% in 2017 to 76.0% 2018, respectively.

Other income and gains

Other income and gains increased from RMB2.8 million in 2017 to RMB4.3 million in 2018, primarily attributable to an increase in government grants to reward our innovation efforts.

Selling and distribution expenses

Selling and distribution expenses decreased by 31.2% from RMB36.7 million in 2017 to RMB25.3 million in 2018, primarily due to a decrease in marketing expenses, reflecting a decrease in advertising fees paid to certain e-commerce platforms as we used more effective and cost-efficient forms of advertising to promote the virtual products sold by these e-commerce platforms.

Administrative expenses

Administrative expenses increased by 30.1% from RMB26.4 million in 2017 to RMB34.4 million in 2018, primarily because of (1) a RMB3.2 million increase in share-based payment expenses because (a) we granted shares of a subsidiary to key employees in 2017 and (b) certain key employees purchased shares of a subsidiary at a price lower than fair value in 2018, (2) a RMB2.0 million increase in salary and welfare, and (3) a RMB1.2 million increase in lease-related expenses as we leased more properties as office premises.

Research and development costs

Research and development costs increased by 145.1% from RMB9.9 million in 2017 to RMB24.4 million in 2018, primarily reflecting our enhanced R&D efforts.

FINANCIAL INFORMATION

Impairment losses on financial and contract assets

Impairment losses on financial and contract assets decreased by 80.4% from RMB16.2 million in 2017 to RMB3.2 million in 2018, primarily because we made impairments on other receivables of RMB16.0 million in 2017 due to failure by Shanghai Saijie Company Limited (上海賽傑會務服務有限公司)(“**Saijie**”), a third-party virtual goods and services platform operator based in Shanghai, China, to provide virtual goods after receiving our prepayments. We stopped cooperating with Saijie in August 2017 after Saijie failed to provide the virtual goods or return our prepayments. In January 2018, we brought a lawsuit to request that Saijie return our prepayments. In September 2018, the court ruled in our favor.

We calculate impairment losses on other receivables using the allowance for expected credit losses (“ECLs”) approach. See “Financial Information – Description of Major Components of Our Results of Operations – Impairment Losses on Financial and Contract Assets” and “Financial Information – Critical Accounting Policies – Impairment of Financial Assets” for details.

Finance costs

Finance costs increased by 47.4% from RMB4.8 million in 2017 to RMB7.0 million in 2018, primarily due to an increase in interests on bank and other borrowings from RMB4.1 million in 2017 to RMB6.5 million in 2018.

Income tax

Income tax decreased by 64.6% from RMB15.9 million in 2017 to RMB5.6 million in 2018, and our effective income tax rate decreased from 16.9% in 2017 to 8.2% in 2018, primarily because of an increase in profit contributed by subsidiaries that enjoyed preferential tax treatment. Please see “– Description of Major Components of our Results of Operations – Income Tax” in this section for more details.

Profit for the year

As a result of the foregoing, our profit for the year decreased by 19.6% from RMB78.0 million in 2017 to RMB62.7 million in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of liquidity have been cash from operations, bank and other borrowings and capital injections from Shareholders. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we had cash and cash equivalents of RMB4.7 million, RMB12.0 million, RMB9.0 million and RMB11.3 million, respectively. Our principal uses of cash have been, and are expected to continue to be, working capital and capital expenditures for the expansion of our business. We expect to fund our future operations and expansion plans principally with cash generated from our operations, bank loans, net proceeds from the Global Offering and other funds raised from capital markets from time to time, when necessary.

FINANCIAL INFORMATION

Cash flow

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

Selected cash flow statement data

	For the year ended December 31,			Three months ended March 31,	
	2017	2018	2019	2019	2020
	<i>(RMB in thousands)</i>				
Net cash (used in)/					
generated from operating					
activities					
Operating cash flow					
before change in					
working capital	109,852	92,439	117,065	24,806	39,721
Changes in working					
capital	(125,881)	(43,493)	(51,225)	14,256	(50,780)
Income tax paid	(7,457)	(9,242)	(9,153)	–	–
Subtotal	(23,486)	39,704	56,687	39,062	(11,059)
Net cash (used in)/					
generated from investing					
activities	(2,493)	(4,988)	(6,473)	(3,881)	38
Net cash generated from/					
(used in) financing					
activities	11,875	(27,416)	(53,208)	(43,226)	13,354
Net (decrease)/increase					
in cash and cash					
equivalents	(14,104)	7,300	(2,994)	(8,045)	2,333
Cash and cash equivalent					
at the end of the year/					
period	<u>4,677</u>	<u>11,977</u>	<u>8,983</u>	<u>3,932</u>	<u>11,316</u>

FINANCIAL INFORMATION

Net cash (used in)/generated from operating activities

Net cash outflow used in operating activities in the three months ended March 31, 2020 was RMB11.1 million, primarily attributable to profit before taxation of RMB37.2 million, as adjusted by (i) non-cash items, which primarily comprised finance costs of RMB1.5 million, and (ii) changes in working capital, which primarily comprised (a) a RMB46.2 million increase in prepayments, other receivables and other assets, primarily reflecting (i) an increase in prepayments to virtual goods vendors, primarily driven by the growth of our business and (ii) an increase in other receivables, primarily representing amounts due from certain virtual goods sales channels, (b) a RMB8.8 million increase in trade receivables and contract assets, primarily due to an increase in service fees due from third-party games-related virtual goods and services platform operators, (c) a RMB7.2 million increase in trade payables, primarily reflecting the overall growth of our business, and (d) a RMB3.0 million decrease in other payables and accruals, primarily due to (1) a decrease in receipts in advance in the three months ended March 31, 2020 because virtual goods sales channels made more advances at the end of 2019 which were utilized in the first quarter of 2020 and (2) the payment of annual bonuses for 2019 in the first quarter of 2020.

Net cash inflow from operating activities in the three months ended March 31, 2019 was RMB39.1 million, primarily attributable to profit before taxation of RMB22.2 million, as adjusted by (i) non-cash items, which primarily comprised finance costs of RMB1.6 million, and (ii) changes in working capital, which primarily comprised (a) a RMB22.8 million decrease in prepayments, other receivables and other assets, (b) a RMB17.4 million decrease in other payables and accruals, and (c) a RMB5.8 million decrease in trade receivables and contract assets. The decrease in prepayments, other receivables and other assets was primarily because we made more prepayments at the end of 2018 in connection with promotion campaigns held by virtual goods vendors. The decrease in other payables and accruals was primarily because (1) we paid annual bonuses for 2018 in the first quarter of 2019, and (2) virtual goods sales channels utilized advances in the first quarter of 2019 which we had received at the end of 2018. Trade receivables and contract assets decreased primarily because we received commissions earned in the fourth quarter of 2018 in the first quarter of 2019.

Net cash inflow from operating activities in 2019 was RMB56.7 million, primarily attributable to profit before taxation of RMB85.3 million, as adjusted by (i) non-cash items, which primarily comprised (a) finance costs of RMB8.0 million, (b) depreciation of right-of-use assets of RMB2.0 million, and (c) depreciation of items of property, plant and equipment of RMB1.7 million, and (ii) changes in working capital, which primarily comprised (a) a RMB41.3 million increase in trade receivables and contract assets, (b) a RMB27.9 million increase in prepayments, other receivables and other assets, (c) a RMB12.8 million increase in trade payables, and (d) a RMB12.5 million increase in other payables and accruals. The increases in trade receivables and contract assets, prepayments, other receivables and other assets, trade payables and other payables and accruals primarily reflected the overall growth of our business.

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Net cash inflow from operating activities in 2018 was RMB39.7 million, primarily attributable to profit before taxation of RMB68.3 million, as adjusted by (i) non-cash items, which primarily comprised (a) equity-settled share-based payments expenses of RMB13.5 million in 2018, and (b) RMB7.0 million of finance costs and (ii) changes in working capital, which primarily comprised (a) a RMB98.7 million increase in prepayments, other receivables and other assets, (b) a RMB51.2 million increase in other payables and accruals, and (c) a RMB13.7 million decrease in trade payables. Prepayments, other receivables and other assets and other payables and accruals increased primarily because we facilitated more leisure and entertainment virtual goods transactions. Trade payables decreased primarily because in April 2018, we ceased providing certain types of services, such as gift card recycling services. We typically recognize more trade payables in connection with these services as compared with our other services.

Net cash outflow used in operating activities in 2017 was RMB23.5 million, primarily attributable to profit before taxation of RMB93.9 million, as adjusted by (i) non-cash items, which primarily comprised (a) equity-settled share-based payments expenses of RMB10.3 million and (b) a RMB4.8 million of finance costs and (ii) changes in working capital, which primarily comprised (a) a RMB86.6 million increase in trade receivables and contract assets, primarily reflecting increases in amounts due from virtual goods sales channels and incentive fees due from virtual goods vendors, (b) a RMB77.6 million increase in prepayments, other receivables and other assets, primarily reflecting an increase in prepayments and deposits we paid to virtual goods vendors, (c) an increase in trade payables of RMB23.1 million, primarily reflecting an increase in unsettled payables to virtual goods vendors, and (d) a RMB17.3 million increase in other payables and accruals, primarily reflecting increased receipts in advance from virtual goods sales channels and payroll and welfare payables. These changes in working capital primarily reflected the growth of our business.

We plan to improve our operating cash flow position by (1) enhancing our profit margins, please see “Business – Our Business Model and Transaction Process – Pricing – Value-added Services” for the measures that we have adopted to enhance our margins, (2) improving our working capital management by negotiating more favorable payment terms with our business partners (i.e. virtual goods vendors and virtual goods sales channels) and (3) adjusting the amount of prepayments and the volumes of virtual goods transactions that we facilitate based on our working capital resources.

Net cash used in investing activities

Net cash inflow from investing activities in the three months ended March 31, 2020 was RMB38,000, comprising interest received of RMB38,000.

Net cash outflow used in investing activities in the three months ended March 31, 2019 was RMB3.9 million, including (i) investment in intangible assets of RMB2.9 million and (ii) purchase of property, plant and equipment of RMB1.0 million.

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Net cash outflow used in investing activities in 2019 was RMB6.5 million, primarily attributable to (i) investment in intangible assets of RMB5.3 million, primarily reflecting the development and launch of our Fulu Open Platform and (ii) purchase of property, plant and equipment of RMB1.2 million.

Net cash outflow used in investing activities in 2018 was RMB5.0 million, primarily due to (i) purchase of investments measured at fair value of RMB2.8 million and (ii) purchase of property, plant and equipment of RMB1.5 million.

Net cash outflow used in investing activities in 2017 was RMB2.5 million, primarily due to (i) purchase of property, plant and equipment of RMB3.1 million and (ii) payment of RMB0.8 million for the acquisition of certain subsidiaries. These amounts were partially offset by interest received of RMB1.7 million.

Net cash generated from/(used in) financing activities

Net cash inflow from financing activities in the three months ended March 31, 2020 was RMB13.4 million, primarily due to (i) new bank and other borrowings of RMB34.0 million, (ii) borrowings from related parties of RMB16.4 million, (iii) repayment of bank and other borrowings of RMB16.0 million, (iv) repayment of borrowings from related parties of RMB12.6 million and (v) dividends paid of RMB6.6 million.

Net cash outflow used in financing activities in the three months ended March 31, 2019 was RMB43.2 million, primarily due to (i) repayment of bank and other borrowings of RMB81.4 million, (ii) new bank and other borrowings of RMB36.9 million, and (iii) dividends paid of RMB2.7 million.

Net cash outflow used in financing activities in 2019 was RMB53.2 million, primarily due to (i) repayment of bank and other borrowings of RMB319.4 million, (ii) dividends paid of RMB17.7 million and (iii) interest paid of RMB7.4 million. These amounts were partially offset by new bank and other borrowings of RMB287.9 million.

Net cash outflow used in financing activities in 2018 was RMB27.4 million, primarily due to (i) repayment of bank and other borrowings of RMB298.2 million, (ii) dividends paid of RMB11.2 million and (iii) interest paid of RMB6.7 million. These amounts were partially offset by (i) new bank and other borrowings of RMB284.2 million and (ii) a capital contribution from our Controlling Shareholders of RMB9.7 million.

Net cash inflow from financing activities in 2017 was RMB11.9 million, primarily due to new bank and other borrowings of RMB739.2 million, partially offset by (i) repayment of bank and other borrowings of RMB645.8 million, (ii) a decrease in due to related parties of RMB80.8 million and (iii) interest paid of RMB5.7 million.

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Current assets and current liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of	As of
	2017	2018	2019	March 31,	July 31,
				2020	2020
	<i>(RMB in thousands)</i>				
Current assets					
Trade receivables	46,206	31,835	53,419	74,348	81,021
Contract assets	41,328	34,998	54,727	42,645	29,812
Prepayments, other receivables and other assets	209,281	307,953	338,627	384,836	358,752
Due from related parties	1,242	5,043	12,380	12,301	12,300
Pledged deposits	828	4,050	600	600	50
Cash and cash equivalents	4,677	11,977	8,983	11,316	64,385
Total current assets	303,562	395,856	468,736	526,046	546,320
Current liabilities					
Trade payables	24,373	10,669	23,476	30,635	63,299
Other payables and accruals	52,886	104,472	117,513	114,644	91,679
Lease liabilities	1,827	2,186	1,580	2,021	2,103
Due to related parties	514	1,554	3,441	7,177	361
Interest-bearing bank and other borrowings	107,000	92,960	61,480	79,520	65,000
Tax payable	15,170	11,526	7,212	8,316	6,451
Dividends payable	–	–	15,000	8,352	–
Total current liabilities	201,770	223,367	229,702	250,665	228,893
Net current assets	101,792	172,489	239,034	275,381	317,427

FINANCIAL INFORMATION

We had net current assets of RMB317.4 million as of July 31, 2020 compared with net current assets of RMB275.4 million as of March 31, 2020. The increase in net current assets was primarily attributable to (i) a RMB53.1 million increase in cash and cash equivalents, (ii) a RMB23.0 million decrease in other payables and accruals and (iii) a RMB14.5 million decrease in interest-bearing bank and other borrowings, partially offset by (i) a RMB32.7 million increase in trade payables and (ii) a RMB26.1 million decrease in prepayments, deposits and other receivables. The increases in cash and cash equivalent and trade payables was primarily driven by the overall growth of our business. The decrease in other payables and accruals primarily reflected utilization of advances made by virtual goods sales channels. Interest-bearing bank and other borrowings decreased primarily because we had repaid the outstanding borrowings from third-parties as of July 31, 2020.

We had net current assets of RMB275.4 million as of March 31, 2020 compared with net current assets of RMB239.0 million as of December 31, 2019. The increase in net current assets was primarily attributable to (i) a RMB46.2 million increase in prepayments, deposits and other receivables, (ii) a RMB18.0 million increase in interest-bearing bank and other borrowings and (iii) a RMB8.8 million increase in trade receivables and contract assets. The increases in prepayments, deposits and other receivables, interest-bearing bank and other borrowings, trade receivables and contract assets were primarily driven by the overall growth of our business.

We had net current assets of RMB239.0 million as of December 31, 2019 compared with net current assets of RMB172.5 million as of December 31, 2018. The increase in net current assets was primarily attributable to (i) a RMB41.3 million increase in trade receivables and contract assets, (ii) a RMB31.5 million decrease in interest-bearing bank and other borrowings, (iii) a RMB30.7 million increase in prepayments, deposits and other receivables and (iv) a RMB7.3 million increase in amount due from related parties. The increases in trade receivables and contract assets and prepayments, deposits and other receivables were primarily driven by the overall growth of our business. Our interest-bearing bank and other borrowings decreased primarily because we relied more on cash generated from operations to expand our business. The increase in amounts due from related parties primarily reflected an increase in taxes due from senior management members in connection with our grant of shares of a subsidiary to our senior management.

We had net current assets of RMB172.5 million as of December 31, 2018 compared with net current assets of RMB101.8 million as of December 31, 2017. The increase in net current assets was primarily attributable to a RMB98.7 million increase in prepayments, other receivables and other assets and a RMB51.6 million increase in other payables and accruals. The increases in prepayments, other receivables and other assets and other payables and accruals were primarily driven by the overall growth of our business.

FINANCIAL INFORMATION

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Non-current assets				
Property, plant and equipment	3,051	3,236	2,781	2,358
Right-of-use assets ⁽¹⁾	6,338	5,121	2,489	2,513
Other intangible assets	22	845 ⁽²⁾	5,810	5,656
Financial assets measured at fair value through other comprehensive income	—	2,750	—	—
Goodwill	674	674	674	674
Deferred tax assets	3,958	3,933	4,043	4,064
Total non-current assets	14,043	16,559	15,797	15,265

Notes:

- (1) We lease various properties for operation. We recognize leases of buildings as right-of-use assets if they meet certain criteria set out in IFRS 16.
- (2) Other intangible assets primarily consist of software and Fulu Open Platform. We launched our Fulu Open Platform in July 2019 and recognized the development costs as intangible assets.

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	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Current assets				
Trade receivables	46,206	31,835	53,419	74,348
Contract assets	41,328	34,998	54,727	42,645
Prepayments, other receivables and other assets	209,281	307,953	338,627	384,836
Due from related parties	1,242	5,043	12,380	12,301
Pledged deposits	828	4,050	600	600
Cash and cash equivalents	4,677	11,977	8,983	11,316
Total current assets	303,562	395,856	468,736	526,046
Non-current liabilities				
Lease liabilities	4,656	3,166	1,067	720
Total non-current liabilities	4,656	3,166	1,067	720
Current liabilities				
Trade payables	24,373	10,669	23,476	30,635
Other payables and accruals	52,886	104,472	117,513	114,644
Lease liabilities	1,827	2,186	1,580	2,021
Due to related parties	514	1,554	3,441	7,177
Interest-bearing bank and other borrowings	107,000	92,960	61,480	79,520
Tax payable	15,170	11,526	7,212	8,316
Dividends payable	–	–	15,000	8,352
Total current liabilities	201,770	223,367	229,702	250,665
Net assets	111,179	185,882	253,764	289,926
Equity attributable to owners of the parent				
Share capital	–	–	70	70
Reserves	111,317	186,132	253,694	289,856
Subtotal	111,317	186,132	253,764	289,926
Non-controlling interests	(138)	(250)	–	–
Total Equity	111,179	185,882	253,764	289,926

FINANCIAL INFORMATION

Trade receivables and contract assets

Trade receivables and contract assets primarily consist of (1) amount due from virtual goods sales channels, and (2) amount due from virtual goods vendors.

The following table sets forth our trade receivables as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Trade receivables	46,438	33,190	55,382	76,552
Impairment	(232)	(1,355)	(1,963)	(2,204)
Total	46,206	31,835	53,419	74,348

The following table sets forth our contract assets as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Contract assets	41,334	35,048	54,881	42,825
Impairment	(6)	(50)	(154)	(180)
Total	41,328	34,998	54,727	42,645

We generally grant credit periods of within three months. We determine credit periods on a case-by-case basis, taking into account a vendor's or a virtual goods sales channel's credit history and ability to pay and its relationship with us.

Our trade receivables and contract assets increased by 8.2% from RMB108.1 million as of December 31, 2019 to RMB117.0 million as of March 31, 2020, primarily due to an increase in service fees due from third-party games-related virtual goods and services platform operators.

Our trade receivables and contract assets increased by 61.8% from RMB66.8 million as of December 31, 2018 to RMB108.1 million as of December 31, 2019, primarily due to (i) an increase in amount due from virtual goods sales channels, and (ii) an increase in commissions earned from games-related virtual goods transactions facilitated in 2019.

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Our trade receivables and contract assets decreased by 23.6% from RMB87.5 million as of December 31, 2017 to RMB66.8 million as of December 31, 2018 primarily reflecting a decrease in amount due from virtual goods sales channels.

We make provisions for impairment of trade receivables and contract assets when we determine that the chances of recovering the relevant amounts due are remote. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we made provisions for the impairment of trade receivables of RMB0.2 million, RMB1.4 million, RMB2.0 million and RMB2.2 million, respectively. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we made provisions for the impairment of contract assets of RMB6,000, RMB50,000, RMB154,000 and RMB180,000, respectively.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Within 3 months	45,058	29,942	46,181	68,626
4 months to 6 months	1,055	1,119	4,159	3,672
7 months to 12 months	93	250	2,496	1,504
Over 1 year	–	524	583	546
Total	46,206	31,835	53,419	74,348

The following table sets forth an aging analysis of our contract assets as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Within one year	41,328	34,998	54,727	42,645

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The following table sets forth the turnover days calculated based on ending balance for our trade receivables and contract assets for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
Turnover days for trade receivables ⁽¹⁾	69	68	64	72
Turnover days for contract assets ⁽¹⁾	62	67	68	55
Turnover days for trade receivables and contract assets ⁽²⁾	131	135	132	127

(1) Calculated by dividing the average/ending balance of trade receivables/contract assets by revenue for the relevant period multiplied by the number of days during the period. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

(2) Calculated by dividing the average/ending balance of the sum of trade receivables and contract assets by revenue for the relevant period multiplied by the number of days during the period. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

Turnover days for trade receivables and contract assets remained stable at 69 days and 62 days in 2017, 68 days and 67 days in 2018, and 64 days and 68 days in 2019, in each case respectively. Turnover days for trade receivables increased to 72 days for the three months ended March 31, 2020, while turnover days for contract assets decreased to 55 days in the same period, primarily because some contract assets were reclassified as trade receivables after conditions in the relevant contracts were satisfied. The aggregate turnover days for trade receivables and contract assets as a group remained stable at 131 days, 135 days, 132 days and 127 days during the Track Record Period.

As of July 31, 2020, we had settled RMB59.8 million, or 78.1%, of our trade receivables and RMB37.5 million, or 87.6%, of our contract assets as of March 31, 2020.

Prepayments, other receivables and other assets

As is typical for a third-party virtual goods and services platform operator in China, we generally make prepayments to virtual goods vendors for virtual goods sold through different virtual goods sales channels connected to our platform. We generally prepay virtual goods vendors for virtual goods transactions that we expect to facilitate during periods ranging from several days to a few months. This requires that we maintain certain levels of working capital to fund our operations. Please see “Business – Our Business Model and Transaction Process – Our Working Capital Cycle” for details.

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The following table sets forth our prepayments, other receivables and other assets as of the dates indicated.

	As of December 31,			As of
	2017	2018	2019	March 31,
				2020
	<i>(RMB in thousands)</i>			
Prepayments to virtual goods providers				
Non-refundable	122,001	226,917	215,882	269,584
Refundable	12,910	15,629	21,555	7,376
Total prepayments to virtual goods providers	134,911	242,546	237,437	276,960
Prepayments for various services	394	1,286	2,766	1,784
Prepaid value-added tax	6,562	7,397	18,747	21,067
Deposits to virtual goods providers	29,275	37,952	53,112	53,868
Other receivables	54,452	37,081	46,594	51,338
Impairment allowance	(16,313)	(18,309)	(20,029)	(20,181)
Total	209,281	307,953	338,627	384,836

Prepayments, other receivables and other assets primarily consist of prepayments and deposits we paid to virtual goods vendors before we provide virtual goods-related services for them. We categorize prepayments as refundable or non-refundable based on whether we can require the counterparties to return the prepayments before virtual goods are delivered to end consumers or virtual goods sales channels (assuming the counterparties perform their obligations under the relevant contracts).

Our prepayments, other receivables and other assets increased by 13.6% from RMB338.6 million as of December 31, 2019 to RMB384.8 million as of March 31, 2020, primarily due to (i) a RMB39.5 million increase in prepayments to virtual goods vendors, primarily reflecting the growth of our business and (ii) a RMB4.7 million increase in other receivables, primarily representing amounts due from certain virtual goods sales channels.

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Our prepayments, other receivables and other assets increased by 10.0% from RMB308.0 million as of December 31, 2018 to RMB338.6 million as of December 31, 2019, primarily due to (i) a RMB15.2 million increase in deposits to virtual goods vendors, reflecting our cooperation with additional virtual goods vendors and the overall growth of our business, (ii) a RMB11.4 million increase in prepaid value-added tax, reflecting the overall growth of our business, and (iii) a RMB9.5 million increase in other receivables, primarily representing amounts due from certain virtual goods sales channels and receivables recognized in connection with our disposal of certain long-term investments.

Our prepayments, other receivables and other assets increased by 47.1% from RMB209.3 million as of December 31, 2017 to RMB308.0 million as of December 31, 2018, primarily due to (i) a RMB107.6 million increase in prepayments to virtual goods providers and (ii) a RMB8.7 million increase in deposits. These increases reflected the growth of our leisure and entertainment segment. The GMV of leisure and entertainment-related virtual goods transactions we facilitated increased from RMB577.8 million in 2017 to RMB843.3 million in 2018 and further increased to RMB1.2 billion in 2019. As the volumes of leisure and entertainment virtual goods transactions increased, we made more prepayments and deposits to virtual goods vendors accordingly.

We make provisions for impairment of prepayments, other receivables and other assets when we determine that the chances of recovering the relevant amounts due are remote. As of December 31, 2017, 2018 and 2019 and March 31, 2020, we made provisions for the impairment of trade receivables of RMB16.3 million, RMB18.3 million, RMB20.0 million and RMB20.2 million, respectively.

The following table sets forth an aging analysis of our prepayments to virtual goods providers as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Within 3 months	125,730	215,008	163,134	217,023
4 months to 6 months	6,837	26,474	61,386	19,440
7 months to 12 months	2,344	–	7,847	28,665
Over 1 year	–	1,064	5,069	11,832
Total	134,911	242,546	237,437	276,960

Our prepayments to virtual goods vendors aged over one year as of March 31, 2020 primarily consisted of prepayments to two online entertainment content providers. As of the Latest Practicable Date, we had utilized RMB1.6 million, or 13.9%, of these prepayments.

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The following table sets forth the turnover days for our prepayments to virtual goods vendors for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,
	2017	2018	2019	2020
Prepayment turnover days⁽¹⁾	4	5	7	6

- (1) Calculated by dividing the average/ending balance of prepayments by GMV for the relevant period multiplied by the number of days during the period. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

As of July 31, 2020, we had utilized RMB226.8 million, or 81.9%, of our prepayments to virtual goods providers as of March 31, 2020.

No prepayments or deposits to virtual goods vendors were attributable to agreements made between us and our business partners that have been expired.

Most of the unsettled prepayments were due from our major customers, which are typically leaders in their respective industries and have good credit histories. As of July 31, 2020, the unutilized outstanding balance of prepayments as of March 31, 2020 that were overdue for over three months were RMB30.3 million, primarily consisting of prepayments of:

- (a) RMB12.1 million to a leading video content provider in China, primarily relating to the facilitation of the sale of membership cards that can be used to access premium video content on the video content provider's platform;
- (b) RMB7.1 million to a leading online media, video, search and gaming company in China, primarily relating to the facilitation of the sale of membership cards that can be used to access premium video content on the platform of this company;
- (c) RMB3.7 million to a leading audio content provider, primarily relating to the facilitation of sale of membership cards and virtual currencies that can be used to access premium audio content on the audio content provider's platform; and
- (d) RMB3.1 million to a leading Chinese digital reading platform, primarily relating to the facilitation of the sale of virtual currencies that can be used to purchase knowledge content on the digital reading platform.

We do not anticipate any material difficulties in collecting our unsettled prepayments. We expect to substantially utilize the outstanding balance of the prepayments as of March 31, 2020 prior to December 31, 2020.

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Trade payables

Trade payables primarily consist of unsettled payables to virtual goods vendors.

The following table sets forth an aging analysis of our trade payables as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Within 3 months	24,373	10,669	22,648	30,194
4 to 6 months	—	—	355	144
7 to 12 months	—	—	473	297
Total	24,373	10,669	23,476	30,635

We generally settle trade payables within three months.

Our trade payables increased by 120.0% from RMB10.7 million as of December 31, 2018 to RMB23.5 million as of December 31, 2019 and to RMB30.6 million as of March 31, 2020, primarily reflecting the overall growth of our business.

Our trade payables decreased by 56.2% from RMB24.4 million as of December 31, 2017 to RMB10.7 million as of December 31, 2018, primarily because starting from April 2018, we ceased providing certain types of services, such as gift card recycling services. We typically recognize more trade payables in connection with these services as compared with our other services.

The following table sets forth the turnover days for our trade payables for the periods indicated.

	For the year ended December 31,			Three months ended March 31,
	2017	2018	2019	2020
Trade payable turnover days	36	31	26	30

- (1) Calculated by dividing the average/ending balance of trade payables by revenue for the relevant period multiplied by the number of days during the period. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

FINANCIAL INFORMATION

Our trade payables turnover days decreased from 36 days in 2017 to 31 days in 2018, 26 days in 2019 primarily because in April 2018, we ceased providing certain types of services, such as gift card recycling services. We typically recognize more trade payables in connection with these services as compared with our other services. Our trade payables turnover days slightly increased to 30 days in the three months ended March 31, 2020, primarily due to our enhanced efforts to manage our working capital.

As of July 31, 2020, we had settled RMB26.8 million, or 87.5%, of our trade payables as of March 31, 2020.

Other payables and accruals

The following table sets forth our other payables and accruals as of the dates indicated.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
	<i>(RMB in thousands)</i>			
Receipts in advance	23,929	69,455	70,522	61,986
Payroll and welfare payables	18,611	19,862	17,100	14,418
Other payables and accruals	1,784	3,044	6,288	14,786
Other tax and surcharges payables	8,562	11,730	22,653	22,411
Interest payables	—	381	950	1,043
Total	52,886	104,472	117,513	114,644

Other payables and accruals primarily consist of receipts in advance from virtual goods sales channels and payroll and welfare payables.

Our other payables and accruals decreased from RMB117.5 million as of December 31, 2019 to RMB114.6 million as of March 31, 2020, primarily due to (1) a decrease in receipts in advance of RMB8.5 million because virtual goods sales channels made more advances by the end of 2019 which were utilized in the beginning of 2020 and (2) a decrease in payroll and welfare payables of RMB2.7 million because we paid annual bonuses for 2019 in the first quarter of 2020. The decreases were partially offset by an increase in other payables and accruals relating to expenses in connection with our contemplated initial public offering of RMB8.7 million.

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Our other payables and accruals slightly increased from RMB104.5 million as of December 31, 2018 to RMB117.5 million as of December 31, 2019, primarily due to an increase in other tax payables and surcharges of RMB10.9 million, primarily reflecting our withholding individual income tax for certain directors and senior officers who received share-based compensation from us. Our other payables and accruals increased by 97.5% from RMB52.9 million as of December 31, 2017 to RMB104.5 million as of December 31, 2018, primarily due to a RMB45.5 million increase in receipts in advance, primarily because we facilitated more virtual goods transactions that generally require prepayments.

As of July 31, 2020, we had settled RMB81.5 million, or 71.4%, of our other payables and accruals as of March 31, 2020.

Financial assets measured at fair value through other comprehensive income

Our financial assets measured at fair value through other comprehensive income primarily consist of our equity investments in unlisted companies, including (1) investment in 5% equity interest of Weifen (Shanghai) Sports and Culture Co., Ltd. and (2) investment in 1% equity interest of Hangzhou Jiwei Logic Technology Co., Ltd.

We determined the fair value of these two investments (“**Level Three Financial Assets**”) based on the consideration paid by the Company for these investments, which occurred in September and December 2018, respectively. In determining the investment considerations, the Company’s management team have:

- reviewed due diligence reports and feasibility reports of the equity investments prepared by an investment team consisting of employees from the Company’s legal and business teams; and
- considered the valuations of the investee in its previous round of financing.

When valuing these Level 3 Financial Assets, our Directors are aware of and have complied with the “Guidance Note on Directors’ Duties in the Context of Valuations in Corporate Transactions” issued by the SFC on May 15, 2017. As the investment transactions occurred close to December 31, 2018, the Directors believe that the investment considerations generally represented the fair value of these investments as of December 31, 2018.

The Company believes it is not required to provide quantitative information on the significant unobservable inputs used in the fair value measurement of level three financial assets in accordance with IFRS13.93 (d) (*An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment)*).

FINANCIAL INFORMATION

Our Directors are of the view that the valuation of our Level Three Financial Assets is fair and reasonable and our financial statements are properly prepared.

The Reporting Accountants have performed procedures on the investment valuations in accordance with Hong Kong Standard on Auditing 540 issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Sole Sponsor has performed the following due diligence work in relation to the valuation of the two Level Three Financial Assets:

- conducting due diligence interviews with the Company to understand, among others, (1) the nature and background of the Level Three Financial Assets, and (2) that the Group determined the fair value of the Level Three Financial Assets based on the consideration paid by the Company because the time gap between the completion of the investments and December 31, 2018 was relatively short;
- obtaining and reviewing the relevant documents from the Company to understand the bases for the consideration paid for the Level Three Financial Assets by the Company;
- conducting desktop searches for public information to check whether any material information had likely affected the consideration paid for the two Level Three Financial Assets; and
- discussing with the Reporting Accountants the audit procedures they have conducted and their views on the historical financial information as a whole.

Based on the due diligence conducted by the Sole Sponsor as stated above, and having considered the confirmations from the Directors and the discussion with the Reporting Accountants, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to question the valuation results determined by the Company and reviewed by the Reporting Accountants.

FINANCIAL INFORMATION

INDEBTEDNESS, OFF-BALANCE SHEET COMMITMENTS, AND CONTINGENT LIABILITIES

Borrowings

The following table sets forth our interest-bearing bank and other borrowings as of the dates indicated.

	As of December 31,			As of March 31,	As of July 31,
	2017	2018	2019	2020	2020
	<i>(RMB in thousands)</i>				
Bank loans	20,000	49,960	61,480	65,520	65,000
Secured	20,000	49,000	60,520	65,520	65,000
Unsecured	–	960	960	–	–
Other borrowings⁽¹⁾	87,000	43,000	–	14,000	–
Unsecured	87,000	43,000	–	14,000	–
Lease Liabilities	6,483	5,352	2,647	2,741	2,242
Total	113,483	98,312	64,127	82,261	67,242

Note:

- Our other borrowings primarily consisted of borrowings from non-bank companies and individuals.

During the Track Record Period, we obtained financing primarily from PRC banks, related parties and other third parties.

Borrowings from banks

During the Track Record Period, we obtained financing from China Merchants Bank, Hankou Bank, China Construction Bank, China CITIC Bank and China Industrial Bank.

As of December 31, 2017, 2018 and 2019 and March 31 and July 31, 2020, we had bank borrowings of RMB20.0 million, RMB50.0 million, RMB61.5 million, RMB65.5 million and RMB65.0 million, respectively. As of July 31, 2020, we did not have any unutilized banking facilities.

As of December 31, 2017, 2018 and 2019, March 31 and July 31, 2020, RMB20.0 million, RMB45.0 million, RMB60.0 million, RMB65.0 million and RMB65.0 million of our bank borrowings were secured by guarantees provided by certain Controlling Shareholders or entities controlled by certain Controlling Shareholders. The banks providing these guaranteed loans have agreed to (1) release the guarantees for these loans prior to the Listing and (2) replace the current guarantees with corporate guarantees to be provided by our Company upon the Listing. See “Relationship with Controlling Shareholders – Financial Independence” for details.

FINANCIAL INFORMATION

CMB International Capital Limited, a wholly owned subsidiary of China Merchants Bank, is the sole sponsor for this offering. Other than disclosed in the foregoing sentence, none of our bank lenders had in the past or present, relationships (family, employment, business or otherwise), with us, our subsidiaries, shareholders, directors, senior management or any of their respective associates, other than a lender/borrower relationship.

Borrowings from related parties

During the Track Record Period and up to July 31, 2020, we also obtained financing from related parties, including Mr. Shui Yingyu and Mr. Zhao Bihao, who are Controlling Shareholders, executive Directors and senior vice presidents of our Company. As of the date of the prospectus, we had repaid all outstanding borrowings from related parties.

Borrowings from other third parties

During the Track Record Period, we also obtained borrowings from other third parties to meet our short-term liquidity needs. We typically obtained financing from various third parties in different industries when our major virtual goods vendor partners conducted promotion campaigns or when we expected market demand for virtual goods to increase in the short term. These third parties primarily included other virtual goods ecosystem participants (i.e., companies and individuals that operate in the same industry as our company or in our upstream or downstream industries) and lenders introduced by virtual goods ecosystem participants. Because these companies and individuals were familiar with our company and our businesses, they typically offered us more flexible and tailored financing terms than other financing channels. We used borrowings from these third parties primarily to fund prepayments to our major virtual goods vendor partners and typically repaid such borrowings within short timeframes (e.g. 10-20 days) using the proceeds of virtual goods transactions facilitated for major virtual goods vendors. As of July 31, 2020, we had repaid all outstanding borrowings from other third parties.

In 2017, 2018, 2019 and the seven months ended July 31, 2020, we obtained borrowings from other third parties of RMB688.2 million, RMB223.3 million, RMB183.5 million and RMB75.6 million and repaid third-party borrowings of RMB601.2 million, RMB267.3 million, RMB226.5 million and RMB75.6 million, in each case respectively.

We obtained financing of RMB688.2 million from other third parties in 2017 primarily to fund liquidity needs driven by increased demand for our leisure and entertainment virtual goods-related services. As we enhanced our efforts to diversify financing channels (e.g. financing through bank and other borrowing and cash generated from operations) as our business grew, our borrowings from third parties other than the banks and the related parties decreased to RMB183.5 million and RMB75.6 million in 2019 and the seven months ended July 31, 2020.

FINANCIAL INFORMATION

Our third-party lenders during the Track Record Period primarily consisted of: 1) virtual goods ecosystem participants, 2) individuals introduced by virtual goods ecosystem participants and 3) individuals that were a shareholder or an existing employee of our company.

Virtual goods ecosystem participants

We became acquainted with lenders that are virtual goods ecosystem participants primarily through common connections and our business dealings in the pan-entertainment and third-party virtual goods and services industry. These lenders included:

- Our business partners. We obtained financing from twelve business partners, including ten business partners with which we no longer cooperated (“former business partners”) and two business partners with which we still maintain business relationships (“existing business partners”).
 - (1) ten former business partners. We facilitated virtual goods transactions involving these business partners before we ceased cooperating with them. We ceased our cooperation with these business partners after 1) we found other business partners who offered better cooperation terms or switched our focus to facilitating virtual goods transactions with higher commissions, and 2) certain business partners left the virtual goods and services industry.
 - (2) three existing business partners. We have been facilitating virtual goods transactions involving two business partners since 2017 and the third business partner since 2018.
- Other virtual goods ecosystem participants (*i.e.*, a games developer, two third party virtual goods and services platform operators and a merchant in the games industry). None of these lenders had in the past or present, relationships (family, employment, business or otherwise), with us, our subsidiaries, shareholders, directors, senior management or any of their respective associates, other than a lender/borrower relationship.

In 2017, 2018, 2019 and the seven months ended July 31, 2020, lenders in the virtual goods ecosystem lent our company RMB476.9 million, RMB156.0 million, RMB125.4 million and RMB58.6 million, respectively.

Individuals introduced by virtual goods ecosystem participants

In 2017, 2018, 2019 and the seven months ended July 31, 2020, we obtained financing of RMB211.3 million, RMB57.3 million, RMB58.1 million and nil from over ten individuals introduced by virtual goods ecosystem participants, respectively. None of these individuals had in the past or present, relationships (family, employment, business or otherwise), with us, our subsidiaries, shareholders, directors, senior management or any of their respective associates, other than a lender/borrower relationship.

FINANCIAL INFORMATION

Individuals who were our former shareholder or current employee

During the Track Record Period, we obtained financing from:

- a former shareholder of our company. The shareholder transferred his equity interest in our company to Mr. Shui Yingyu and left our company in 2015 to pursue other endeavors. The former shareholder lent us RMB10.0 million in 2018 (i.e. after he left our Company); and
- a current employee of our Company. The employee joined our Company in November 2019 and lent our Company RMB17.0 million in the seven months ended July 31, 2020. As of July 31, 2020, we had repaid the outstanding borrowings from the employee.

Except as disclosed above, none of these lenders had in the past or present, other relationships, with us, our subsidiaries, shareholders, directors, senior management or any of their respective associates, other than a lender/borrower relationship.

We typically obtained financing from other third parties at an interest rate of 0.05% per day, or 18.25% per annum. During the Track Record Period, we also obtained borrowing from a virtual goods sales channel partner at an interest rate of 0.015% per day, or 5.48% per annum, and paid a merchant in the games industry interest on borrowings with maturity exceeding one month at a rate of 0.04% per day, or 14.60% per annum.

We expect to further diversify our financing channels after the listing. We expect it will be easier to obtain financing with favorable terms that suit our liquidity needs from financial institutions and capital markets once we become a listed company in Hong Kong. We also plan to use the proceeds of this offering to increase capital resources available for facilitating virtual goods transactions. Please see “Future Plan and Use of Proceeds” for more details. In addition, we have flexibility to adjust the amount of prepayments and the volumes of virtual goods transactions that we aim to facilitate based on the availability of funding and the terms offered by virtual goods vendors. Accordingly, even if we fail to obtain financing from other third parties, our operations and financial results will not be materially affected.

The General Lending Provisions (貸款通則) promulgated by the PBOC in 1996 prohibit lending or other financing arrangements between non-financial institutions and the PBOC may impose penalties on a lender that is not a financial institution in an amount equal to one to five times of the lender’s income from the lending activities. However, according to the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) promulgated on August 6, 2015 (“Provisions”) and effective on September 1, 2015, (i) lending contracts entered into by non-financial institutions to support production or business operations are valid and (ii) PRC courts would support a company’s claim for interests in respect of such lending contracts as long as the annual interest rates do not exceed 24%. On August 20, 2020, China’s Supreme Court published a ruling to revise the ceiling on annual interest rates for private lending to four times the benchmark loan prime rate (LPR) (i.e. 15.4% based on the latest one-year LPR). PRC courts will not support a company’s claim for interests exceeding this ceiling.

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The lending arrangements between us and third-party enterprise lenders described under “– borrowings from other third parties” may not fully comply with the General Lending Provisions (貸款通則). However, based on the facts described below, our PRC Legal Advisor is of the view that (1) we would not be subject to fines or other penalties and liabilities for failing to fully comply with the General Lending Provisions (貸款通則) and (2) the agreements between us and third-party enterprise lenders are legally binding on the parties to the agreements:

- we have repaid all of the borrowings/financing provided by third-party enterprise lenders;
- we were not a lender in the lending arrangements with third-party enterprises and did not violate the General Lending Provisions (貸款通則) as a borrower;
- the interest rates on the loans provided by third-party enterprise lenders did not exceed the maximum interest rates allowed on private loans under the prevailing PRC laws and regulations during the Track Record Period; and
- the third-party enterprise lending arrangements did not fall within the circumstances that may make a contract void under the relevant PRC laws.

Because our bank borrowings and borrowings from individuals did not fall within the circumstances that may make a contract void under the relevant PRC laws, our PRC Legal Advisor has advised that, such borrowings/financing did not violate the General Lending Provisions (貸款通則) or other applicable PRC laws and regulations.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (1) we had not experienced any difficulties in obtaining borrowings, financing or credit facilities from banks and (2) we had no material defaults in payment of trade and non-trade payables and borrowings, and had not materially breached any financial covenants.

Off-balance sheet commitments and arrangements

We did not have any off-balance sheet arrangements as of July 31, 2020.

Contingent liabilities

As of July 31, 2020, we did not have material outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, or other similar indebtedness, or hire purchase commitments, liabilities under acceptances or acceptance credits, any guarantees or other material contingent liabilities.

FINANCIAL INFORMATION

We are not involved in any legal, arbitration or administrative proceedings that if adversely determined, would materially and adversely affect our financial position or results of operations, although there can be no assurance that this will be the case in the future.

Our Directors have confirmed that there has not been any material change in our indebtedness or contingent liabilities since July 31, 2020.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Capital expenditures principally consist of expenditures for the purchases of property, plant and equipment and intangible assets. In 2017, 2018, 2019 and the three months ended March 31, 2020 our capital expenditures were RMB3.2 million, RMB2.3 million, RMB6.5 million and nil, respectively. During the Track Record Period, we financed our capital expenditures primarily through cash flow from operations and borrowings.

Capital commitments

We did not have any capital commitments as of December 31, 2017, 2018 and 2019 and March 31, 2020.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the years/periods indicated.

	Year ended December 31,			Three months ended	
	March 31,				
	2017	2018	2019	2019	2020
Gross profit margin ⁽¹⁾	76.2%	76.0%	80.0%	73.9%	86.3%
Net profit margin ⁽²⁾	32.0%	30.0%	33.3%	33.6%	45.2%
Adjusted net profit margin (Non-IFRS measure) ⁽³⁾	36.2%	36.5%	43.8%	33.6%	56.1%

Notes:

- (1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.
- (2) Net profit margin is calculated based on profit divided by revenue and multiplied by 100%.
- (3) Adjusted net profit margin equals adjusted net profit divided by revenues and multiplied by 100%. For a reconciliation from adjusted profit to profit, see “Financial Information – Non-IFRS Measures.”

FINANCIAL INFORMATION

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. The estimated total listing expenses (including underwriting commissions and other estimated expenses incurred in connection with the Global Offering) in relation to the Global Offering are approximately RMB70.7 million and represent approximately 10.0% of the gross proceeds we expect to receive from this Global Offering (based on the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). The estimated listing expenses consist primarily of (i) approximately RMB43.7 million that is directly attributable to the issue of new Shares to the public and accounted for as a deduction from equity, and (ii) approximately RMB27.0 million that has been or expected to be deducted from our consolidated statements of profits or loss, of which approximately RMB5.5 million was recognized in 2019, and RMB8.7 million was recognized in the three months ended March 31, 2020, and the remaining is expected to be recognized in the remainder of 2020. Our Directors do not expect these expenses to materially impact our results of operations for the year ended December 31, 2020.

WORKING CAPITAL

Taking into account our internal resources, our cash flow from operations, available banking facilities and the estimated net proceeds from the Global Offering, our Directors confirm that the working capital available to our Group is sufficient for at least the next 12 months from the date of this prospectus.

RELATED PARTY TRANSACTIONS

During the Track Record Period, our transactions with related parties primarily included (i) payment of remuneration to key management personnel, (ii) borrowing from and repayments of loans to certain Controlling Shareholders and officers, (iii) amounts due from certain directors and officers arising from our withholding of individual income taxes for directors and officers who received share-based compensation from us and (iv) leases of certain properties from an entity controlled by certain Controlling Shareholders, as described in Note 32 to the Accountants' Report attached as Appendix I to this prospectus. We plan to settle all non-trade related parties balances upon the Listing.

Our Directors confirm that our related-party transactions during the Track Record Period were conducted on an arm's length basis and entered into in the ordinary course of business, and would not distort our track record results or make our historical results not reflective of our future performance.

FINANCIAL INFORMATION

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to credit, liquidity and foreign currency risks in the ordinary course of business. We describe below our exposure to these risks, and the financial risk management policies and practices we use to manage these risks.

Credit risk

Our credit risk is primarily attributable to trade and other receivables. We monitor our exposure to credit risks on an ongoing basis. We conduct credit evaluations of a customer based on its credit history, ability to pay and operating environment. We typically do not require collateral from customers.

The receivables from our five largest customers accounted for 8.0%, 36.3%, 58.0% and 57.3% of total trade receivables as of December 31, 2017, 2018 and 2019 and March 31, 2020, respectively.

Liquidity risk

We regularly monitor our liquidity, our expected cash inflows and outflows, and the maturity of our loans and borrowings to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our short- and long-term liquidity requirements.

DIVIDEND

The Board of Directors is responsible for submitting proposals for dividend payments to the Shareholders' general meeting for approval. The determination of whether to pay a dividend and in which amount is based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions and other factors that the Board of Directors deems relevant.

Under PRC law, we may only pay dividends out of profit after tax. Profit after tax for a given year represents net profit as determined under PRC GAAP or IFRS or the accounting standards of the overseas jurisdiction where the shares are listed, whichever is lower, less:

- any of its accumulated losses in prior years;
- appropriations we are required to make to the statutory reserve, which is currently 10% of our net profit as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders at a general meeting.

FINANCIAL INFORMATION

We retain distributable profits not distributed in a given year and make them available for distribution in subsequent years. We generally do not distribute dividends in a year in which we do not have any distributable profits. Shareholders must also approve the payment of any dividends at a Shareholders' general meeting.

We are not allowed to distribute profits to the Shareholders until we have made up our losses and made appropriations to our statutory surplus reserve and general reserves. Shareholders must return any profit distributed in violation of relevant rules and regulations.

We distributed cash dividends of nil, RMB11.2 million, RMB17.7 million and RMB6.6 million in 2017, 2018, 2019 and the three months ended March 31, 2020, respectively. We do not plan to distribute the retained earnings of our PRC subsidiaries accumulated prior to the Listing. We primarily use cash generated from operations to pay dividends to our Shareholders.

DISTRIBUTABLE RESERVES

As of March 31, 2020, our Group had RMB219.3 million reserves available for distribution to our Shareholders.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since March 31, 2020, and there has been no event since March 31, 2020 which materially affects the information in the Accountants' Report in Appendix I to this prospectus.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets, prepared in accordance with Rule 4.29 of the Listing Rules, is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets as of March 31, 2020, as if the Global Offering had taken place on March 31, 2020.

FINANCIAL INFORMATION

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of our financial position had the Global Offering been completed as of March 31, 2020 or at any future date.

	Audited consolidated net tangible assets attributable to the equity holders of our Company as of March 31, 2020⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of our Company	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾	
		<i>(RMB in thousands)</i>		<i>(RMB)</i>	<i>(HK\$)⁽⁵⁾</i>
Based on an Offer Price of HK\$6.90 per Share	283,596	567,642	851,238	2.13	2.39
Based on an Offer Price of HK\$8.90 per Share	283,596	737,046	1,020,642	2.55	2.86

- (1) The audited consolidated net tangible assets attributable to the equity holders of our Company as of March 31, 2020 is extracted from the Accountants' Report set forth in Appendix I to this prospectus, which is based on the audited consolidated net assets attributable to the equity holders of our Company as of March 31, 2020 of RMB289.9 million with adjustments for the intangible assets other than goodwill of RMB5.7 million and goodwill of RMB0.7 million as of March 31, 2020.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$6.90 per Share and HK\$8.90 per Share after deduction of the underwriting fees and other related expenses payable by our Company, and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments described in note 2 above and on the basis that 400,000,000 Shares (being the number of Shares expected to be in issue immediately after completion of the Capitalization Issue and the Global Offering, without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option) are in issue, assuming that the Global Offering had been completed on March 31, 2020.
- (4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading result or other transactions of our Company entered into subsequent to March 31, 2020.
- (5) The translation of RMB into Hong Kong dollars has been made at a rate of RMB0.8917 to HK\$1.00. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.

OUR CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

The Company has entered into cornerstone investment agreements (the “**Cornerstone Investment Agreements**”, each a “**Cornerstone Investment Agreement**”) with certain investors (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe for certain Shares of the Company at the Offer Price (the “**Cornerstone Placing**”).

The information about the number of Offer Shares to be subscribed for by all of the Cornerstone Investors based on the total subscription price payable by all of the Cornerstone Investors (subject to the rounding down to the nearest whole board lot of 500 Shares) and the relevant assumption of the Offer Price, is set out below:

	Approximate percentage of the Shares in issue following completion of the Number of Shares to be subscribed (rounded down to nearest whole board lot of 500 Shares)	Approximate percentage of the Shares in issue following completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the Shares in issue following completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is fully exercised)	Approximate percentage of the Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is fully exercised)	Approximate percentage of the International Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the International Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is fully exercised)
Offer Price							
HK\$6.90 (being the low-end of the indicative Offer Price range stated in this prospectus)	25,092,500.00	6.27%	6.05%	25.09%	21.82%	27.88%	23.90%
HK\$7.90 (being the mid-point of the indicative Offer Price range stated in this prospectus)	21,916,500.00	5.48%	5.28%	21.92%	19.06%	24.35%	20.87%
HK\$8.90 (being the high-end of the indicative Offer Price range stated in this prospectus)	19,453,000.00	4.86%	4.69%	19.45%	16.92%	21.61%	18.53%

Note:

- (1) Calculated based on an exchange rate of US\$1.00 to HK\$7.7502, RMB1.00 to HK\$0.8917 and RMB6.9179 to US\$1.00 as described in “Information about this Prospectus and the Global Offering – Exchange Rate Conversion”. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may change due to the actual exchange rate to be used.

OUR CORNERSTONE INVESTORS

The Company is of the view that, the Cornerstone Placing will help to raise the profile of the Company and to signify that such investors have confidence in the business and prospects of the Group.

The Cornerstone Placing will form part of the International Offering and none of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to their respective Cornerstone Investment Agreements). The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Shares in issue upon completion of the Global Offering.

There are no side agreements/arrangements between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the Offer Price. None of the Cornerstone Investors are accustomed to take instructions from the Company, the Directors, the chief executive of the Company, the Controlling Shareholders, the substantial shareholders of the Company or the existing Shareholders or any of its subsidiaries or their respective close associates, in relation to the acquisition, disposal, voting or other disposition of securities of the Company registered in their name or otherwise held by them; and none of the subscription of the Offer Shares by the Cornerstone Investors is financed by the Company, the Directors, the chief executive of the Company, the Controlling Shareholders, the substantial shareholders of the Company or the existing Shareholders or any of its subsidiaries or their respective close associates. The Shares to be held by the Cornerstone Investors will count towards the public float of the Company.

The Cornerstone Investors (a) will not have any representation on the Board immediately following the completion of the Global Offering; (b) will not subscribe for any Offer Shares pursuant to the Global Offering, other than pursuant to the relevant cornerstone investment agreements; (c) will not become a substantial shareholder of the Company (as defined under the Listing Rules) immediately following the completion of the Global Offering; and (d) do not have any preferential rights compared with other public Shareholders in their respective cornerstone investment agreements.

If there is over-allocation in the International Offering, there may be delayed delivery of the Offer Shares to be subscribed by the Cornerstone Investors under the Cornerstone Placing. Four out of the five Cornerstone Investors, namely (1) CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP; (2) Optics Valley Industrial Investment; (3) Wuhan Baijie; and (4) Perfect World Interactive, have agreed that the Sole Global Coordinator may, in its sole discretion, defer the delivery of all or part of the Offer Shares that such Cornerstone Investors have subscribed for to a date later than the Listing Date. All the Cornerstone Investors, including the aforesaid Cornerstone Investors who have agreed to a potential delayed delivery arrangement, have agreed that they shall pay for the relevant Offer Shares that they have subscribed for prior to 8 a.m. of the Listing Date. The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation in the event of over-subscription under the Hong Kong Public Offering, as described in “Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and Clawback”.

OUR CORNERSTONE INVESTORS

To the best knowledge of the Company, each of the Cornerstone Investors and their respective ultimate beneficial owners is independent of each other, independent of the Company, its connected persons and their respective associates, and not an existing shareholder or close associate of the Company. For the Cornerstone Investors who will subscribe for our Shares through an asset manager that is a qualified domestic institutional investor (“**QDII**”), such asset managers are an independent third party of our Company and is not a connected client of the lead broker or of any distributors (as defined in paragraph 5 of the Placing Guidelines under the Listing Rules).

Details of the allocations to the Cornerstone Investors will be disclosed in the allotment results announcement to be published on or around Thursday, September 17, 2020.

THE CORNERSTONE INVESTORS

The Company has entered into the Cornerstone Investment Agreements with the Cornerstone Investors set out below in respect of the Cornerstone Placing:

Cornerstone Investor	Total subscription Amount ⁽¹⁾	Offer Price ⁽²⁾	Number of Shares to be subscribed (rounded down to nearest whole board lot of 500 Shares)	Approximate percentage of the Shares in issue following completion of the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the Shares in issue following completion of the Global Offering (assuming the Over-allotment Option is fully exercised)	Approximate percentage of the Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is fully exercised)	Approximate percentage of the International Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the International Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is fully exercised)
CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP	US\$8 million (approximately HK\$62.00 million)	HK\$6.90 HK\$7.90 HK\$8.90	8,985,500 7,848,000 6,966,000	2.25% 1.96% 1.74%	2.17% 1.89% 1.68%	8.99% 7.85% 6.97%	7.81% 6.82% 6.06%	9.98% 8.72% 7.74%	8.56% 7.47% 6.63%
Successful Lotus Limited (“Successful Lotus”)	US\$6 million (approximately HK\$46.50 million)	HK\$6.90 HK\$7.90 HK\$8.90	6,739,000 5,886,000 5,224,500	1.68% 1.47% 1.31%	1.62% 1.42% 1.26%	6.74% 5.89% 5.22%	5.86% 5.12% 4.54%	7.49% 6.54% 5.81%	6.42% 5.61% 4.98%
Wuhan Optics Valley Industrial Investment Co., Ltd. (武漢光谷產業投資有限公司, “Optics Valley Industrial Investment”) ⁽³⁾	RMB30 million (approximately HK\$33.64 million)	HK\$6.90 HK\$7.90 HK\$8.90	4,875,500 4,258,500 3,780,000	1.22% 1.06% 0.95%	1.17% 1.03% 0.91%	4.88% 4.26% 3.78%	4.24% 3.70% 3.29%	5.42% 4.73% 4.20%	4.64% 4.06% 3.60%

OUR CORNERSTONE INVESTORS

Cornerstone Investor	Total subscription Amount ⁽¹⁾	Offer Price ⁽²⁾	Number of Shares to be subscribed (rounded down to nearest whole board lot of 500 Shares)	Approximate percentage of the Shares in issue following completion of the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the Shares in issue following completion of the Global Offering (assuming the Over-allotment Option is fully exercised)	Approximate percentage of the Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is fully exercised)	Approximate percentage of the International Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate percentage of the International Offer Shares to be issued under the Global Offering (assuming the Over-allotment Option is fully exercised)
Wuhan Baijie Group	US\$3 million	HK\$6.90	3,369,500	0.84%	0.81%	3.37%	2.93%	3.74%	3.21%
Baidu Promotion Service Co., Ltd.	(approximately HK\$23.25 million)	HK\$7.90	2,943,000	0.74%	0.71%	2.94%	2.56%	3.27%	2.80%
(武漢百捷集團百度推廣服務有限公司, “Wuhan Baijie”) ⁽⁴⁾		HK\$8.90	2,612,000	0.65%	0.63%	2.61%	2.27%	2.90%	2.49%
Perfect World Interactive Entertainment Co., Ltd.	US\$1 million	HK\$6.90	1,123,000	0.28%	0.27%	1.12%	0.98%	1.25%	1.07%
(“Perfect World Interactive”)	(approximately HK\$7.75 million)	HK\$7.90	981,000	0.25%	0.24%	0.98%	0.85%	1.09%	0.93%
		HK\$8.90	870,500	0.22%	0.21%	0.87%	0.76%	0.97%	0.83%

- (1) Calculated based on an exchange rate of US\$1.00 to HK\$7.7502, RMB1.00 to HK\$0.8917 and RMB6.9179 to US\$1.00 as described in “Information about this Prospectus and the Global Offering – Exchange Rate Conversion”. The actual investment amount of each Cornerstone Investor in HK dollars may change due to the actual exchange rate to be used.
- (2) Being the low-end, mid-point and high-end of the proposed Offer Price range set out in this prospectus respectively.
- (3) Optics Valley Industrial Investment will subscribe for our Shares through an asset manager that is a QDII.
- (4) Wuhan Baijie will subscribe for our Shares through an asset manager that is a QDII.

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP

CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP has agreed to participate in this Cornerstone Placing. CICFH Entertainment Opportunity SPC is a fund incorporated in the Cayman Islands and is managed by CICFH International Limited (中投中財國際有限公司), a wholly-owned subsidiary of China Investment Financial Holdings Fund Management Company Limited (中投中財基金管理有限公司) (“CICFH”) as a managing shareholder. CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP was set up for the specific purpose of participating in the Cornerstone Placing. It is a general

OUR CORNERSTONE INVESTORS

practice of CICFH to set up a separate investment fund to participate in the cornerstone placing of a listing applicant so as to facilitate CICFH's internal administration and management of various investment funds it manages.

As a leading industrial investment fund company in China, CICFH participates in the management of multiple government-guided funds, and has founded industrial funds covering advanced manufacturing, new energy vehicles, digital economy, new retail and other fields in cooperation with many leading central enterprises and state-owned enterprises. CICFH also conducts in-depth mergers and acquisitions in the industries such as big culture and entertainment, big health, big intelligence and big consumption.

CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP was introduced to the Company by the Sole Global Coordinator and the Company did not have any relationship with CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP prior to the introduction made by the Sole Global Coordinator.

Successful Lotus

Successful Lotus was incorporated under the laws of the BVI with limited liability and is an investment holding company wholly-owned by Dr. Lee Ka-kit. Dr. Lee Ka-kit is (1) the chairman of Henderson Land Development Company Limited (恆基兆業地產有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 0012); and (2) the chairman of The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 003).

Successful Lotus was introduced to the Company by the Sole Global Coordinator and the Company did not have any relationship with Successful Lotus prior to the introduction made by the Sole Global Coordinator.

Optics Valley Industrial Investment

Optics Valley Industrial Investment is a limited liability company incorporated under the laws of the PRC on May 25, 2016. The principal business of Optics Valley Industrial Investment is investment in strategic new industries. Prior to agreeing to participate in the Cornerstone Placing, Optics Valley Industrial Investment has invested in a number of other companies engaged in high-tech related industries, such as new energy, biotech and high-tech equipment. Optics Valley Industrial Investment is a wholly-owned subsidiary of Hubei Science and Technology Investment Group Co., Ltd. (湖北省科技投資集團有限公司) (“**Hubei Science and Technology Investment**”), a large state-owned enterprise in Wuhan East Lake High-tech Development Zone. The Management Commission of Wuhan East Lake High-tech Development Zone (武漢東湖新技術開發區管理委員會) (“**East Lake High-tech Management Commission**”) is the controlling shareholder of Hubei Science and Technology Investment.

OUR CORNERSTONE INVESTORS

The head office and principal place of business of the Company is also located within Wuhan East Lake High-tech Development Zone. Optics Valley Industrial Investment was introduced to the Company by the East Lake High-tech Management Commission.

Wuhan Baijie

Wuhan Baijie is a limited liability company incorporated under the laws of the PRC and is principally engaged in computer network technology consulting and promotion services, advertising and value-added telecommunications services. Wuhan Baijie is a subsidiary of Wuhan Baijie Group Co., Ltd. (武漢百捷集團有限公司) (“**Baijie Group**”), a limited liability company incorporated under the laws of the PRC. Baijie Group’s principal businesses include investment holding and corporate management consulting. The ultimate beneficiary owner of Baijie Group is an individual, Mr. Wang Guoping.

The Company became acquainted with Wuhan Baijie in its daily business, which is also a company engaged in computer network technology-related business in Wuhan.

Perfect World Interactive

Perfect World Interactive is an exempted company incorporated under the laws of the Cayman Islands with limited liability on March 2, 2009, and an indirect wholly-owned subsidiary of Perfect World Co., Ltd. (完美世界股份有限公司) (“**Perfect World**”). Perfect World Interactive is principally engaged in investment holding.

Perfect World is a limited liability company incorporated under the laws of the PRC and listed on the Shenzhen Stock Exchange (stock code: 002624). Perfect World engages in the development, distribution and operation of online games, production, distribution and derivative business of TV series and movies, pan-entertainment business, artist management and related services.

The Company became acquainted with Perfect World in its ordinary course of business. As confirmed by Perfect World, the proposed investment in our Shares by Perfect World Interactive does not require any approval from its shareholders or from the Shenzhen Stock Exchange.

To the best of the knowledge, information and belief of the Company and after making reasonably enquiries, (1) CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP will use the existing funds managed by it as its source of funding; and (2) Successful Lotus, Optics Valley Industrial Investment, Wuhan Baijie and Perfect World Interactive will use their internal resources as their sources of funding.

OUR CORNERSTONE INVESTORS

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, amongst other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into, having becoming effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) and not having been terminated;
- (b) the Offer Price having been agreed between the Company and the Sole Global Coordinator (for itself and on behalf of the underwriters of the Global Offering);
- (c) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares (including the Shares to be subscribed for by the Cornerstone Investors in accordance with the relevant Cornerstone Investment Agreements as well as other applicable waivers and approvals) and such approval, permission or waiver not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, directives, requests, orders, judgments, decrees or rulings of any governmental, regulatory or administrative commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, judicial body, tribunal or arbitrator (in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign or supranational) having been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or the Cornerstone Investment Agreements and there being no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting the consummation of such transactions; and
- (e) the respective representations, warranties, undertakings, confirmations and acknowledgements of the Cornerstone Investors in the Cornerstone Investment Agreements being accurate and true in all respects and not misleading and that there are no material breaches of the Cornerstone Investment Agreements on the part of the Cornerstone Investor.

OUR CORNERSTONE INVESTORS

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company, the Sole Global Coordinator and the Sole Sponsor, it will not, whether directly or indirectly, at any time during the period of six months from the Listing Date (the “**Lock-up Period**”), directly or indirectly, (a) dispose of, in any way, any of the relevant Offer Shares or any interest in any company or entity holding any of the relevant Offer Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor provided that, amongst other requirements, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will abide by such restrictions imposed on the Cornerstone Investor, (b) allow itself to undergo a change of control (as defined in The Takeovers Code) at the level of its ultimate beneficial owner, or (c) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction.

During the Lock-up Period, the Cornerstone Investors may transfer the relevant Offer Shares to a wholly-owned subsidiary of the Cornerstone Investor, provided that prior to such transfer, such wholly-owned subsidiary undertakes in writing, and the Cornerstone Investors undertake to procure, that such wholly-owned subsidiary will be bound by the Cornerstone Investors' obligations prescribed under the Cornerstone Investment Agreements and subject to the restrictions on disposals imposed on the Cornerstone Investors.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business – Our Strategies” for a detailed description of our future plans.

We estimate that the net proceeds of the Global Offering (after deducting underwriting commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised), assuming an Offer Price of HK\$7.90 (being the mid-point of the indicative Offer Price range), will be approximately HK\$731.6 million. We will apply the net proceeds in the following manner:

- (1) approximately 30%, or HK\$219.6 million, will be used to facilitate virtual goods transactions for more virtual goods vendors and increase the varieties of virtual goods transactions we facilitate, including:
 - (a) approximately 9.0%, or HK\$65.9 million, to facilitate virtual goods transactions for more top leisure and entertainment virtual goods vendors and increase the types of virtual goods transactions we facilitate, such as education, movie tickets, animation and sports and other virtual content transactions,
 - (b) approximately 9.0%, or HK\$65.9 million, to facilitate the sale of lifestyle-related virtual gift cards and help offline merchants virtualize their products for online sales through our platform,
 - (c) approximately 6.0%, or HK\$43.9 million, to facilitate the sale of virtual cards and membership rights products, and
 - (d) approximately 6.0%, or HK\$43.9 million, to facilitate telecommunications related virtual goods transactions and provide telecommunications virtual goods vendors access to diverse virtual goods sales channels.

To achieve the objectives described in (1)(a) to (1)(d) above, of the proceeds of approximately HK\$219.6 million, we will use:

- approximately 80.0%, or HK\$175.7 million, to enhance our capital and liquidity to increase capital resources available for facilitating more transactions with existing virtual goods vendors and cooperating with additional virtual goods vendors, including capital available for making prepayments to and deposits with virtual goods vendors. China’s third-party virtual goods and services market is expected to grow to RMB625.4 billion in 2024 from RMB406.5 billion in 2019. As we generally make prepayments to virtual goods vendors for virtual goods transactions we facilitate, with additional capital, we will be better prepared to meet the increasing market demand for virtual goods related services and facilitate more virtual goods transactions to maintain and increase our market share,

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10.0%, or HK\$22.1 million, to employ 20 additional business development personnel and 12 additional operations personnel. We plan to hire such personnel by the end of 2022,
 - approximately 7.0%, or HK\$15.4 million, to invest in marketing efforts, including diversification of promotion channels and using cost per click advertising (i.e. advertising fees paid based on the number of clicks by consumers),
 - approximately 2.5%, or HK\$5.4 million, to employ 6 additional technology personnel to enhance our service network infrastructure and data analytics capabilities. We plan to hire such personnel by the end of 2022, and
 - approximately 0.5%, or HK\$1.0 million, to invest in software and hardware, such as intelligent operations, data analytics and marketing software, servers and bandwidth.
- (2) approximately 20%, or HK\$146.3 million, will be used to increase the number of our virtual goods sales channel partners, including:
- (a) approximately 15.0%, or HK\$109.7 million, to enhance our cooperation with virtual goods sales channel partners in China, including connecting to more virtual goods sales channels in Guangxi's virtual goods and services market, and
 - (b) approximately 5.0%, or HK\$36.6 million, to attract and cooperate with overseas virtual goods sales channel partners by participating in the overseas expansion of key platform participants, including expansion into Southeast Asia's virtual goods and services market.

To achieve the objectives described in (2)(a) and 2(b) above, of the proceeds of approximately HK\$146.3 million, we will use:

- approximately 51.0%, or HK\$74.7 million, to enhance our capital and liquidity. There is a lag time between our payment for virtual goods to virtual providers and the receipt of payment for virtual goods from some virtual goods sales channels (such as e-commerce platforms and online payment platforms). This time lag requires that we maintain certain level of working capital to fund our operations. As market demand for virtual goods-related increases, with additional capital, we can cooperate with additional virtual goods vendors and virtual goods sales channels and enhance our cooperation with existing virtual goods vendors and virtual goods sales channels,

FUTURE PLANS AND USE OF PROCEEDS

- approximately 38.0%, or HK\$55.6 million, to employ 50 additional business development personnel and 50 additional operations personnel (in addition to the additional personnel described in the preceding bullet points). We plan to hire such personnel by the end of 2022,
 - approximately 10.0%, or HK\$14.6 million, to invest in advertising on e-commerce platforms and other marketing campaigns to enhance our brand recognition among virtual goods sales channels and end consumers, and
 - approximately 1.0%, or HK\$1.4 million, to invest in enhancing network infrastructure to connect to additional virtual goods sales channels.
- (3) approximately 20%, or HK\$146.3 million, will be used to develop our value-added services, such as membership management and interactive advertising services, virtual employee benefit services for enterprise customers, game leveling and companion services and professional game account leasing services.

To achieve the objective above, of the proceeds of approximately HK\$146.3 million, we will use proceeds of:

- approximately 50.0%, or HK\$73.2 million, to employ 75 additional R&D personnel (in addition to the additional technology personnel described in (1)) to develop applications for new types of value-added services, such as targeted marketing applications, membership management applications and mini-games applications. See “Business – Our Technology and Infrastructure – Our Research and Development Initiatives” for details. We plan to hire such R&D personnel by the end of 2022,
 - approximately 30.0%, or HK\$43.9 million, to invest in software and hardware to be used for providing new types of value-added services we develop, and
 - approximately 20.0%, or HK\$29.3 million, to conduct promotions and other marketing campaigns to attract new customers of our value-added services.
- (4) approximately 20%, or HK\$146.3 million, will be used for potential acquisitions of businesses and assets complementary to our business, including companies in games-related industries. We select acquisition targets primarily based on customer needs, anticipated synergies from the business to be acquired and a potential target’s track record in operating its business. For example, we plan to explore acquisition opportunities in the game industry to provide more value-added services to customers, such as game leveling services and game companion services. Specifically, we may consider acquiring equity interests in companies that are industry leaders in terms of user base and market share and have experienced operation and research teams. We will also consider the competition landscape of the

FUTURE PLANS AND USE OF PROCEEDS

industry in which the target company operates, including its market share and the market shares of its competitors. As of the Latest Practicable Date, we had not identified any specific acquisition targets; and

- (5) approximately 10%, or HK\$73.1 million, will be used to fund working capital and other general corporate purposes.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$8.90, the net proceeds of the Global Offering (assuming the Over-allotment Option is not exercised), will be approximately HK\$826.6 million. We will apply the additional net proceeds for the above purposes on a pro-rata basis.

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$6.90, the net proceeds of the Global Offering (assuming the Over-allotment Option is not exercised), will be approximately HK\$636.6 million. In such case, we will reduce the allocation of such net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will be approximately HK\$841.3 million, assuming the Offer Price is set at the mid-point of the indicative Offer Price range. If the Offer Price is set at the high-end of the indicative Offer Price range, the net proceeds from the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will be approximately HK\$950.6 million. If the Offer Price is set at the low-end of the indicative Offer Price range, the net proceeds from the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will be approximately HK\$732.1 million. We will apply any additional net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately required for or applied to the above purposes, we may hold such funds in short-term deposits with licensed banks and authorized financial institutions in Hong Kong or in PRC for so long as it is in our best interests.

We will make an appropriate announcement and comply with the requirements of the Listing Rules if there is any change to the above proposed use of proceeds.

UNDERWRITING

HONG KONG UNDERWRITERS

CMB International Capital Limited

BOCOM International Securities Limited

China Everbright Securities (HK) Limited

China Merchants Securities (HK) Co., Limited

Crosby Securities Limited

Futu Securities International (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. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 10,000,000 Hong Kong Offer Shares and the International Offering of initially 90,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the “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, our Company is offering initially 10,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in the Shares in issue and to be offered as mentioned in this prospectus and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for their

UNDERWRITING

respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

If any of the events set out below occur at any time prior to 8:00 am on the Listing Date, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled to terminate the Hong Kong Underwriting Agreement by written notice to our Company with immediate effect:

- (a) there develops, occurs, exists or comes into effect:
 - (i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, epidemic, pandemic, outbreak or escalations of disease including but not limited to SARS, swine or avian flu, H5N1, H7N9, MERS, coronavirus (including COVID-19 or such related or mutated forms), strikes, lock-outs, fire, explosion, flooding, earthquake, storm, volcanic eruption, other natural disaster, civil commotion, riots, severe transport disruption, air crash, public disorder, political instability, acts of war, acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the Cayman Islands, the United States, the United Kingdom, or the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to the Group (collectively, the “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any change or development involving a prospective change in the interpretation or application thereof by any court or other governmental authority in or affecting any of the Relevant Jurisdictions; or
 - (iii) any change or development involving a prospective change or development, or any event or series of events resulting or likely to result in or representing any change or development, or any prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, currency, credit or market matters or conditions or equity securities or exchange control or any monetary or trading settlement system or other financial markets (including, without limitation, a change in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) or a change in the system under

UNDERWRITING

which the value of the Hong Kong dollar is linked to the U.S. dollar or Renminbi is linked to any foreign currency or currencies or revaluation of Hong Kong dollar or Renminbi against any foreign currencies or a change in any other currency exchange rates, in or affecting any of the Relevant Jurisdictions; or

- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at the U.S. Federal or New York State level or by any other competent authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any of the other Relevant Jurisdictions (declared by the relevant authorities) or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or
- (v) the imposition of any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (vii) any change or development or event involving a prospective change or amendment in or affecting taxation or foreign exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in any of the Relevant Jurisdictions adversely affecting an investment in the Offer Shares; or
- (viii) the outbreak or escalation of hostilities (whether or not war is or has been declared) involving or affecting any of the Relevant Jurisdictions or the declaration by any of the Relevant Jurisdictions of a national emergency or war or any other national or international calamity or crisis; or
- (ix) any Director as named in this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any government, political, regulatory body of any investigation or action against any Director in his capacity as such or an announcement by any governmental, political, regulatory body that it intends to take any such action; or

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- (x) any executive Director vacating his office; or
- (xi) any governmental authority or a political or regulatory body or organization in any Relevant Jurisdiction commencing any investigation or take other action, or announcing an intention to investigate or take other action, against any member of the Group or any Director or any Controlling Shareholder or senior management of our Company; or
- (xii) any litigation or claim being threatened or instigated against the any member of the Group, the Controlling Shareholders or any Director; or
- (xiii) any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Listing Rules or other applicable Laws; or
- (xiv) non-compliance of the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement, or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (xv) except with the prior written consent of the Sole Sponsor and the Sole Global Coordinator, the issue or requirement to issue by our Company of any supplement or amendment to this Prospectus, the Application Forms, the preliminary offering circular or the final offering circular or other documents in connection with the offer and sale of the Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or
- (xvi) an order or a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xvii) any matter or event, act or omission which gives or is likely to give rise to any liability of our Company or the Warrantors (as defined in the Hong Kong Underwriting Agreement) pursuant to the indemnities given by our Company, the Warrantors or any of them under the Hong Kong Underwriting Agreement; or

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- (xviii) a valid demand by any creditor for repayment or payment of any of the indebtedness of any member of the Group or in respect of which that member of the Group is liable prior to its stated maturity, or any loss or damage sustained by that member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xix) any matter or event, act or omission which gives or is likely to give rise to any liability of the Company or the Warrantors pursuant to the indemnities given by the Company, the Warrantors or any of them under the Hong Kong Underwriting Agreement; or
- (xx) any change or prospective change or development which has the effect of materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus;

which, in any such case individually or in the aggregate, in the “sole and absolute” opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (1) is or will or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company or the Group as a whole; or (2) has or will have or is likely to have a material adverse effect on the completion of the Hong Kong Public Offering or the International Offering or the level of applications under the Hong Kong Public Offering; or (3) makes or will make or is reasonable likely to make it impracticable or incapable for any part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering or the delivery of the Offered Shares to be performed or implemented or proceed as envisaged or to market the Global Offering in the manner contemplated by this prospectus; or (4) has or will or is reasonable likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting 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 this Prospectus, the Application Forms, the formal notice, the preliminary offering circular or the final offering circular) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, or any of the Hong Kong Underwriters:
 - (i) any statement contained in any of this prospectus, the Application Forms and the formal notice and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our

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Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incomplete, incorrect or inaccurate in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation expressed or contained in any of this prospectus, the Application Forms and the formal notice and/or 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 (including any supplement or amendment thereto), is not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions with reference to the facts and circumstances then subsisting, when taken as a whole; or

- (ii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (iii) any matter or event arising or has been discovered rendering or there coming to the notice of any of the Sole Sponsor and the Sole Global Coordinator or the Hong Kong Underwriters any matter or event showing any of the representations, warranties and undertakings given by our Company or the Warrantors in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect or incomplete, or misleading in any material respect or having been materially breached; or
- (iv) there has been a breach of any of the representations, warranties, undertakings, obligations or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by our Company and/or the Warrantors or it is (or would when repeated be) untrue, incorrect, incomplete in any material respect or misleading, provided however that where any of such representations, warranties, undertakings or provisions has been given on a materiality basis, then this termination right will be exercisable when such representation, warranty, undertaking or provision is (or would when repeated be) breached; or
- (v) any material adverse change or development or event involving a prospective material adverse change (and, in respect of such prospective material adverse change, it is not or is not likely to be remedied by our Company prior to 8:00 a.m. on the Listing Date) in the assets, liabilities, business, performance, general affairs, management, prospects, shareholders' equity, profits, losses,

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earnings, properties, results of operations, position or condition (financial or otherwise) or prospects of any member of the Group, including any litigation or claim of any third party being threatened or instigated against any member of the Group; or

- (vi) any of the experts (other than the Sole Sponsor) specified in this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (vii) our Company has withdrawn this Prospectus, the Application Forms (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (viii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue (including the Shares to be issued pursuant to (1) the Capitalisation Issue and (2) the Global Offering (including the additional Shares which may be issued upon the exercise of the Over-allotment Option)), subject only to allotment and the dispatch of share certificates in respect thereof, is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (ix) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling the Offer Shares (including the Shares allotted or sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (x) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission from this prospectus; or
- (xi) the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors having been withdrawn, terminated or cancelled or a material portion of the orders in the bookbuilding process at the time the International Underwriting Agreement is entered into having been withdrawn, terminated or cancelled and such withdrawn, terminated or cancelled orders not having been fully covered by other orders at or before 4:00 p.m. on September 15, 2020 or any replacement order having been subsequently withdrawn, terminated or cancelled.

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Undertakings pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

Except for the issue, offer or sale of the Offer Shares by our Company pursuant to the Capitalisation Issue and the Global Offering (including pursuant to the Over-Allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months from the Listing Date (the “**First Six-Month Period**”), our Company hereby undertakes to each of the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor not to, and to procure each other member of the Group not to without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, assign, grant or sell any option, warrant, right 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, or otherwise transfer or dispose of, or create an encumbrance over or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in any Shares or other securities of our Company or any shares or other securities of such other member of the Group, as applicable, or any interests in any of the foregoing (including, but not limited to, any securities that are convertible into or exercisable or exchangeable 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 the Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership (legal or beneficial) of any Shares or other securities of our Company or any shares or other securities of such other member of the Group, as applicable, or any interest therein (including, without limitation, any securities of 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 other securities of our Company or any shares or other securities of such other member of the Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or
- (d) offer to or contract to or agree to announce, or publicly disclose that our Company will or may enter into any transaction described in paragraphs (a), (b) or (c) above,

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in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of the Group, as applicable, or, in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or contracts to or announces, or publicly discloses, any intention to, enter into any such transactions, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. The Controlling Shareholders undertake to each of the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor to procure our Company to comply with the undertakings in this section headed “– Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings pursuant to the Hong Kong Underwriting Agreement – (A) Undertakings by Our Company”. For the avoidance of doubt, this section headed “– Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings pursuant to the Hong Kong Underwriting Agreement – Undertakings by our Company” does not preclude any member of the Group that is incorporated in the PRC from increasing its registered share capital as subscribed by its existing shareholders in accordance with its articles of association.

Our Company has agreed and undertaken that it will not effect any purchase of Shares, or agree to do so, which may reduce the holdings of the Shares held by the public (as defined in Rule 8.24 of the Listing Rules) below 25% on or before the date falling one year after the Listing Date without first having obtained the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters).

(B) Undertakings by our Controlling Shareholders

Each Controlling Shareholder jointly and severally undertakes to each of our Company, the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor to procure that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) save for the lending of Shares pursuant to the Stock Borrowing Agreement, the Controlling Shareholders will not, at any time during the First Six-Month Period and will procure that the relevant registered holder(s) will not, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company or any interest therein (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

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Shares), or deposit any Shares or other equity securities of our Company with a depositary in connection with the issue of depositary receipts, 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 of any Shares or other securities of our Company or any interest therein in (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 (iii) enter into any transaction with the same economic effect as any transaction specified in (a)(i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (a)(i), (ii) or (iii) above, in each case, whether any of the transactions specified in (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or other equity securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other equity securities of our Company will be completed within the First Six-Month Period and Second Six-Month Period);

- (b) the Controlling Shareholders will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (a)(i), (a)(ii), (a)(iii) or (a)(iv) above or offer to or agree to or contract to or publicly announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that any Controlling Shareholder enters into any of the transactions specified in paragraphs (a)(i), (a)(ii) or (a)(iii) above or offer to or agrees to or announce any intention to effect any such transaction, that Controlling Shareholder will take all reasonable steps to ensure that it will not create a disorderly or false market in the equity securities of our Company; and
- (d) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months from the Listing Date, it shall:
 - (i) if and when it pledges or charges any securities of our Company beneficially owned by it in favour of an authorized institution (as defined in the Banking Ordinance) for a bona fide commercial loan, immediately inform our Company in writing of such pledge or charge together with the number of Shares of other securities of our Company so pledged or charged, and our Company will forward these information to the Sole Global Coordinator as soon as reasonably practicable upon receipt of such information from the Controlling Shareholders; and

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- (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other securities of our Company will be disposed of, immediately inform our Company, the Sole Global Coordinator in writing of such indications, and our Company will forward these information to the Sole Global Coordinator as soon as reasonably practicable upon receipt of such information from the Controlling Shareholders.

Each of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu and Mr. Zhao Bihao is also subject to voluntary lock-up undertaking in favor of the Company, details of which are included in the section headed “History, Reorganization and Corporate Structure – Public Float and Voluntary Lock-up” in this prospectus.

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by our Company

We have undertaken to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules or pursuant to the Global Offering and the Capitalization Issue and Over-allotment Option, no further shares or securities convertible into shares of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the date on which our Shares first commence dealing on the Hong Kong Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing).

(B) Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), that he/she/it will not, and shall procure that any other registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**Relevant First 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 our Shares in respect of which he/she is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Parent Shares**”); or
- (b) during the period of six months commencing on the date on which the Relevant First Six-month Period expires (the “**Relevant Second 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 Parent Shares to such options, rights, interests or encumbrances, he/she would cease to be our controlling shareholder (as defined in the Listing Rules).

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Further, pursuant to Note (3) of Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the Relevant First Six-month Period and the Relevant Second Six-month Period, he/it will:

- (a) if he/it pledges or charges any of our securities beneficially owned by him/her/it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately informs us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he/it receives indications, either verbal or written, from the pledgee or chargee that any of his/her/its pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Hong Kong Underwriters' interests in our Company

Save for its obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of our Group or had any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or purchase, or nominate persons to subscribe for or purchase, any Shares or any securities in our Company or any member of our Group.

Following the completion of the Capitalization Issue and the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

International Offering

International Underwriting Agreement

In connection with the International Offering, our Company expects to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. Please see “Structure of the Global Offering – The International Offering” for more details.

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Over-allotment Option

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, we may be required to issue up to an aggregate of 15,000,000 Shares, representing not more than 15% of the maximum number of Offer Shares initially available under the Global Offering at the Offer Price to, cover over allocations (if any) in the International Offering. Please see “Structure of the Global Offering – The International Offering – Over-Allotment Option” for more details.

Commissions and Expenses

The Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price of all the Offer Shares (excluding any Hong Kong Offer Shares reallocated to the International Offering). For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

Our Company may pay to the Underwriters for their respective accounts an incentive fee up to 1.0% of the aggregate Offer Price for each Offer Share.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an Offer Price of HK\$7.90 per Offer Share (which is the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) will be approximately HK\$36.3 million, inclusive of sponsor fees.

Assuming an Offer Price of HK\$7.90 per Share (being the mid-point of the indicative Offer Price range), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering are estimated to be approximately HK\$79.3 million (assuming the Over-allotment Option is not exercised) in total.

Indemnity

Each of our Company and our Controlling Shareholders has agreed to indemnify the Hong Kong Underwriters for certain losses that they may suffer, including certain losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company and/or any of our Controlling Shareholders of the Hong Kong Underwriting Agreement.

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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.

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:

- (a) 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

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- (b) 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.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to our Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

100,000,000 Offer Shares will be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of 10,000,000 Shares (subject to reallocation) in Hong Kong as described in the paragraph headed “– The Hong Kong Public Offering” below; and
- (b) the International Offering of an aggregate of initially 90,000,000 Shares (subject to reallocation and the Over-Allotment Option) outside the United States in reliance on Regulation S, as described in the paragraph headed “– The International Offering” below.

Investors may either:

- (a) apply for Offer Shares under the Hong Kong Public Offering; or
- (b) apply for or indicate an interest for Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 25% of the total Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering, assuming the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of the total Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 10,000,000 Offer 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. The number of Shares offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 2.5% of the total Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

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 out in the paragraph headed “– Conditions of the Global Offering” below.

Allocation

Allocation of the 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.

For allocation purposes only, the total number of the Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools, pool A (being an aggregate of 5,000,000 Shares) and pool B (being an aggregate of 5,000,000 Shares). The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, such unsubscribed Hong Kong 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 the 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 Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 5,000,000 Hong Kong Offer Shares being 50% of the 10,000,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation and clawback

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 put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached (“**Mandatory Reallocation**”):

- (a) 10,000,000 Offer Shares available in the Hong Kong Public Offering, representing 10% of the Offer Shares initially available under the Global Offering;
- (b) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 30,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- (c) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 40,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- (d) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 50,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deem appropriate. In addition, the Sole Global Coordinator 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.

STRUCTURE OF THE GLOBAL OFFERING

In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, at its discretion, reallocate Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, in the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering provided that the Offer Price would be set at HK\$6.90, up to 10,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 20,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-Allotment Option).

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

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 that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$8.90 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “– Pricing of the Global Offering” below, is less than the maximum Offer Price of HK\$8.90 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in “How to Apply for Hong Kong Offer Shares”.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

Subject to reallocation as described above, the International Offering will consist of an offering of initially 90,000,000 Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering and approximately 22.5% of the total Shares in issue immediately after the completion of the Capitalization Issue and the Global Offering.

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 in Hong Kong and other jurisdictions outside the United States only in reliance on Regulation S. 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 of the Global Offering” 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. 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 the Company and the Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered the Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Reallocation and clawback

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of, amongst others, the clawback arrangement described in the paragraph headed “– The Hong Kong Public Offering – Reallocation and clawback” above, 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.

STRUCTURE OF THE GLOBAL OFFERING

Over-Allotment Option

In connection with the Global Offering, the Company is expected to grant an Over-Allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the Listing Date to Sunday, October 11, 2020, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering.

Pursuant to the Over-Allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require the Company to sell up to 15,000,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over-allocation in the International Offering, if any. If the Over-Allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of the total Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering and the exercise of the Over-Allotment Option. In the event that the Over-Allotment Option is exercised, an announcement will be made.

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 securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, a decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, 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, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares for a limited period after the Listing Date at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-Allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-Allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-Allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in

STRUCTURE OF THE GLOBAL OFFERING

compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action, which if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it, (b) may be discontinued at any time, and (c) 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. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be sold and transferred pursuant to the exercise of the Over-Allotment Option, 15,000,000 additional Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-Allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price of the Shares;
- (c) subscribing, or agreeing to subscribe, for the Shares to be sold and transferred pursuant to the exercise of the Over-Allotment Option in order to close out any position established under (a) or (b) above;
- (d) 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;
- (e) selling or agreeing to sell any Shares to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Prospective applications for investors in the Offer Shares should note that:

- (a) as a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares;

STRUCTURE OF THE GLOBAL OFFERING

- (b) the size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain;
- (c) liquidation of any such long position by the Stabilizing Manager and selling in the open market may lead to a decline in the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period, which begins on the Listing Date, and is expected to expire on Sunday, October 11, 2020, being 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 their market price, could fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market;
- (e) any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at a price at or below the Offer Price and therefore at or below the price paid by applicants for, or investors in, the Offer Shares.

An announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

Stock Borrowing Arrangement

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 15,000,000 Shares (being the maximum number of Shares which may be sold and transferred by the Company upon exercise of the Over-Allotment Option) from FuXi Limited pursuant to the Stock Borrowing Agreement.

The Stabilizing Manager may borrow from FuXi Limited on conditions including:

- (a) the stock borrowing will only be effected for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;

STRUCTURE OF THE GLOBAL OFFERING

- (b) the same number of Shares borrowed from FuXi Limited must be returned to it or its nominees (as the case may be) no later than 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 Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or (iii) such earlier time as may be agreed in writing between FuXi Limited and the Stabilizing Manager; and
- (c) no payments will be made to FuXi Limited by the Stabilizing Manager in relation to such stock borrowing arrangement.

The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Rule 10.07(3) of the Listing Rules.

Furthermore, any over-allocation in connection with the Global Offering may also be settled by way of delayed delivery of the Offer Shares to be subscribed by the Cornerstone Investors under the Cornerstone Placing. Please see the section headed “Our Cornerstone Investors” for more details.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investor indications of interest in acquiring International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, September 11, 2020 and in any event on or before Tuesday, September 15, 2020, by agreement among the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$8.90 per Share and is expected to be not less than HK\$6.90 per 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 price range stated in this prospectus.**

STRUCTURE OF THE GLOBAL OFFERING

The Sole Global Coordinator, 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 the Company, reduce the number of Offer Shares offered in 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, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.fulu.com) (1) such supplemental offering documents as may be required by laws of any governmental authority to be published in such manner as the relevant laws or governmental authority may require as soon as practicable following the decision to make the change, and (2) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction.

In the absence of any such notice so published, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon with the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants 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.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Sole Global Coordinator may at its discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price for Offer Shares under the Global Offering, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocation in the Hong Kong Public Offering are expected to be announced on Thursday, September 17, 2020 through a variety of channels in the manner described in “How to Apply for Hong Kong Offer Shares – D. Publication of Results”.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and such approval not having been withdrawn;
- (ii) the Offer Price having been duly agreed among the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around 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 agreements.

If, for any reason, the Offer Price is not agreed among the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Tuesday, September 15, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.fulu.com) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

STRUCTURE OF THE GLOBAL OFFERING

Share certificates for the Offer Shares are expected to be issued on Thursday, September 17, 2020 but will only become valid certificates of title at 8:00 a.m. on Friday, September 18, 2020 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination” has not been exercised at or before that time.

DEALING IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, September 18, 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, September 18, 2020. The Shares will be traded in board lots of 500 Shares each and the stock code of the Shares will be 2101.

HOW TO APPLY FOR HONG KONG OFFER SHARES

A. APPLICATIONS FOR HONG KONG OFFER SHARES

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 **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. Who Can Apply

You can apply for 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 (within the meaning of Regulation S), and are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company and the Sole Global Coordinator, as the Company's agent, may accept it at their discretion and on any conditions they 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 the **White Form eIPO** 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 the Company and/or any of its subsidiaries;
- you are a Director or chief executive of the Company and/or any of the Company's subsidiaries;
- you are a connected person of the Company or will become a connected person of the Company immediately upon completion of the Capitalization Issue and the Global Offering;
- you are an associate of any of the above persons; or
- you have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participated 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 the **White Form eIPO** service at www.eipo.com.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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, September 7, 2020 until 12:00 noon on Friday, September 11, 2020 from:

- (i) any of the following addresses of the Hong Kong Underwriters:

CMB International Capital Limited	45/F, Champion Tower 3 Garden Road Central Hong Kong
BOCOM International Securities Limited	9/F, Man Yee Building 68 Des Voeux Road Central Hong Kong
	15/F, Man Yee Building 68 Des Voeux Road Central Hong Kong
	1/F, CFC Tower 22-28 Mody Road Tsim Sha Tsui, Hong Kong
China Everbright Securities (HK) Limited	12/F, Everbright Centre 108 Gloucester Road Wanchai, Hong Kong
	28/F, Lee Garden One 33 Hysan Avenue Causeway Bay, Hong Kong
China Merchants Securities (HK) Co., Limited	48/F One Exchange Square 8 Connaught Place Central, Hong Kong
Crosby Securities Limited	5/F, Capital Centre 151 Gloucester Road Wanchai, Hong Kong
Futu Securities International (Hong Kong) Limited	Unit C1-2, 13/F, United Centre No. 95 Queensway Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) or any of the following branches of the receiving bank:

CMB Wing Lung Bank Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Kennedy Town Branch	28 Catchick Street
Kowloon	San Po Kong Branch	8 Shung Ling Street
	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, September 7, 2020 until 12:00 noon on Friday, September 11, 2020 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- 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 – FULU 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:

- Monday, September 7, 2020 – 10:00 a.m. to 4:00 p.m.
- Tuesday, September 8, 2020 – 10:00 a.m. to 4:00 p.m.
- Wednesday, September 9, 2020 – 10:00 a.m. to 4:00 p.m.
- Thursday, September 10, 2020 – 10:00 a.m. to 4:00 p.m.
- Friday, September 11, 2020 – 10:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, September 11, 2020, the last application day or such later time as described in the paragraph headed “– C. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. Terms and Conditions of an Application

Follow the detailed instructions in the **WHITE** or **YELLOW** Application Form carefully; otherwise, your application may be rejected.

By submitting a **WHITE** or **YELLOW** Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have relied only 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 set out in this prospectus;
- (vi) agree that none of the Company, the Relevant Persons and the **White Form eIPO** Service Provider 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 nor participated in the International Offering;
- (viii) agree to disclose to the Company, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company nor the Relevant Persons will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (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 the Company to place your name(s) or the name of HKSCC Nominees on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instruction 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 are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xvii) (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 through the **White Form eIPO** service by you or by any one as your agent or by any other person; and
- (xviii) (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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Additional Instructions for YELLOW Application Forms

You may refer to the **YELLOW** Application Form for details.

5. Applying through the White Form eIPO Service

General

Individuals who meet the criteria in the paragraph headed “– 2. Who Can Apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application through the **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Monday, September 7, 2020 until 11:30 a.m. on Friday, September 11, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, September 11, 2020 the last day for applications, or such later time under the paragraph headed “– C. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

No Multiple Applications

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Fulu Holdings Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

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 monies 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 Centre
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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong 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 Offer Shares under the International Offering;
 - (if the **electronic application instruction** 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 the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- authorize the Company to place HKSCC Nominees name on the 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;
- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company or the Relevant Persons is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose to the Company, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you;
- 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 on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company, and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is a 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 on or 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the results of the Hong Kong Public Offering;
- 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 giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, 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 and construed in accordance with the Laws of Hong Kong.

Effect of Giving Electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 500 Hong Kong Offer Shares. Instructions for more than 500 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.

Time for Inputting Electronic application instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Monday, September 7, 2020 – 9:00 a.m. to 8:30 p.m.
- Tuesday, September 8, 2020 – 8:00 a.m. to 8:30 p.m.
- Wednesday, September 9, 2020 – 8:00 a.m. to 8:30 p.m.
- Thursday, September 10, 2020 – 8:00 a.m. to 8:30 p.m.
- Friday, September 11, 2020 – 8:00 a.m. to 12:00 noon

CCASS **Investor Participants** can input **electronic application instructions** from 9:00 a.m. on Monday, September 7, 2020 until 12:00 noon on Friday, September 11, 2020 (24 hours daily, except on Friday, September 11, 2020, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, September 11, 2020, the last day for applications or such later time as described in the paragraph headed “– C. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

- (1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. Warning for Electronic Applications

The application for 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 **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic applications. The Company, the Relevant Persons and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allocated 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 connecting to the CCASS Phone System or the 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 Friday, September 11, 2020, the last day for applications, or such later time as described in the paragraph headed “– C. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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.

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 the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR HONG KONG OFFER SHARES

B. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$8.90 per Offer Share. You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms. This means that for one board lot of 500 Hong Kong Offer Shares, you will pay HK\$4,494.84.

The Application Forms have tables showing the exact amount payable for the number of Offer Shares that may be applied for.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 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.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering – Pricing of the Global Offering”.

C. EFFECT OF BAD WEATHER ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, September 11, 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, September 11, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

HOW TO APPLY FOR HONG KONG OFFER SHARES

D. PUBLICATION OF RESULTS

The Company expects to announce 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 the Hong Kong Offer Shares on Thursday, September 17, 2020 on the Company's website at www.fulu.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.fulu.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, September 17, 2020;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, September 17, 2020 to 12:00 midnight on Wednesday, September 23, 2020;
- from the allocation results telephone enquiry line by calling 2862 8555 between 9:00 a.m. and 6:00 p.m. on Thursday, September 17, 2020, Friday, September 18, 2020, Monday, September 21, 2020 and Tuesday, September 22, 2020; and
- in the special allocation results booklets which will be available for inspection during opening hours on Thursday, September 17, 2020, Friday, September 18, 2020 and Saturday, September 19, 2020 at the receiving bank's designated branches referred to above.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, 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 a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believes or believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$8.90 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering as set out in "Structure of the Global Offering – Conditions of the Global Offering" are not satisfied 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 Thursday, September 17, 2020.

HOW TO APPLY FOR HONG KONG OFFER SHARES

G. DESPATCH/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 the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE**, **YELLOW**, 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 allocated to you (for applicants on **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 of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Thursday, September 17, 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, September 18, 2020, provided that the Global Offering has become unconditional in all respects at or before that time 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 entirely at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares on a **WHITE** Application Form and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, September 17, 2020 or such other place or 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 provide a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) (where applicable) personally within the time specified for collection, it/they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares on a **WHITE** Application Form, your refund cheque(s) and/or Share certificate(s) (where applicable) will be sent to the address specified in your Application Form on or before Thursday, September 17, 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW 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, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address specified in the Application Form on or before Thursday, September 17, 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, September 17, 2020, or in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- *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 stock account (other than a **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*

The Company expects to publish the results of **CCASS Investor Participants** applications together with the results of the Hong Kong Public Offering on Thursday, September 17, 2020 in the manner described in the paragraph headed “– D. Publication of Results” in this section. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, September 17, 2020 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. 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.

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 or more Hong Kong Offer Shares through the **White Form eIPO** service, and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, September 17, 2020, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, September 17, 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(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 Thursday, September 17, 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Public Offering in the manner specified in the paragraph headed "– D. Publication of Results" in this section on Thursday, September 17, 2020. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, September 17, 2020 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 allocated 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 allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, September 17, 2020. 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, September 17, 2020.

H. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Ernst & Young
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The Directors
Fulu Holdings Limited
CMB International Capital Limited

Dear Sirs,

We report on the historical financial information of Fulu Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-70, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2017, 2018 and 2019, and the three months ended 31 March 2020 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and 31 March 2020 and the statements of financial position of the Company as at 31 December 2019 and 31 March 2020 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-70 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 7 September 2020 (the “Prospectus”) in connection with the initial listing of the 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 presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2017, 2018 and 2019 and 31 March 2020, and the financial position of the Company as at 31 December 2019 and 31 March 2020, and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the three months ended 31 March 2019 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim 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 Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

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 11 to the Historical Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

7 September 2020

I. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

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

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

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

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	<i>Notes</i>	Year ended 31 December			Three months ended 31 March	
		2017	2018	2019	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(Unaudited)</i>	
REVENUE	5	243,759	208,913	241,919	59,252	79,977
Cost of sales		(57,935)	(50,142)	(48,403)	(15,463)	(10,967)
Gross profit		185,824	158,771	193,516	43,789	69,010
Other income and gains	5	2,812	4,296	7,789	303	2,166
Selling and distribution expenses		(36,704)	(25,252)	(37,249)	(7,523)	(10,598)
Administrative expenses		(26,422)	(34,368)	(47,549)	(6,952)	(15,417)
Research and development costs		(9,942)	(24,370)	(20,508)	(3,813)	(5,729)
Impairment losses on financial and contract assets, net	6	(16,237)	(3,184)	(2,433)	(1,931)	(419)
Other expenses		(664)	(524)	(274)	(59)	(256)
Finance costs	7	(4,783)	(7,049)	(7,948)	(1,631)	(1,512)
PROFIT BEFORE TAX	6	93,884	68,320	85,344	22,183	37,245
Income tax expense	10	(15,889)	(5,623)	(4,729)	(2,253)	(1,083)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>77,995</u>	<u>62,697</u>	<u>80,615</u>	<u>19,930</u>	<u>36,162</u>
Attributable to:						
Owners of the parent		78,132	62,809	80,638	19,950	36,162
Non-controlling interests		(137)	(112)	(23)	(20)	–
		<u>77,995</u>	<u>62,697</u>	<u>80,615</u>	<u>19,930</u>	<u>36,162</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT						
Basic and diluted						
For profit for the year/period (RMB)	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
	Notes	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	3,051	3,236	2,781	2,358
Right-of-use assets	14	6,338	5,121	2,489	2,513
Goodwill	15	674	674	674	674
Other intangible assets	16	22	845	5,810	5,656
Financial assets measured at fair value through other comprehensive income	17	–	2,750	–	–
Deferred tax assets	18	3,958	3,933	4,043	4,064
Total non-current assets		14,043	16,559	15,797	15,265
CURRENT ASSETS					
Trade receivables	19	46,206	31,835	53,419	74,348
Contract assets	20	41,328	34,998	54,727	42,645
Prepayments, other receivables and other assets	21	209,281	307,953	338,627	384,836
Due from related parties	32	1,242	5,043	12,380	12,301
Pledged deposits	22	828	4,050	600	600
Cash and cash equivalents	22	4,677	11,977	8,983	11,316
Total current assets		303,562	395,856	468,736	526,046
CURRENT LIABILITIES					
Trade payables	23	24,373	10,669	23,476	30,635
Other payables and accruals	24	52,886	104,472	117,513	114,644
Lease liabilities	14	1,827	2,186	1,580	2,021
Due to related parties	32	514	1,554	3,441	7,177
Interest-bearing bank and other borrowings	25	107,000	92,960	61,480	79,520
Tax payable		15,170	11,526	7,212	8,316
Dividends payable	26	–	–	15,000	8,352
Total current liabilities		201,770	223,367	229,702	250,665
NET CURRENT ASSETS		101,792	172,489	239,034	275,381
TOTAL ASSETS LESS CURRENT LIABILITIES		115,835	189,048	254,831	290,646
NON-CURRENT LIABILITIES					
Lease liabilities	14	4,656	3,166	1,067	720
Total non-current liabilities		4,656	3,166	1,067	720
NET ASSETS		111,179	185,882	253,764	289,926
EQUITY					
Equity attributable to owners of the parent					
Share capital	27	–	–	70	70
Reserves	29	111,317	186,132	253,694	289,856
		111,317	186,132	253,764	289,926
Non-controlling interests		(138)	(250)	–	–
TOTAL EQUITY		111,179	185,882	253,764	289,926

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended 31 December 2017, 2018 and 2019

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Merger reserve and others*	Share-based payment reserve*	Statutory surplus reserve*	Retained profits*	Total		
	RMB'000	RMB'000 (Note 29)	RMB'000	RMB'000 (Note 29)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	–	10,000	–	1,413	11,491	22,904	(1)	22,903
Profit for the year	–	–	–	–	78,132	78,132	(137)	77,995
Appropriations to statutory surplus reserve (note 29)	–	–	–	8,039	(8,039)	–	–	–
Equity-settled share-based payments (note 28)	–	–	10,281	–	–	10,281	–	10,281
At 31 December 2017 and 1 January 2018	–	10,000	10,281	9,452	81,584	111,317	(138)	111,179
Profit for the year	–	–	–	–	62,809	62,809	(112)	62,697
Contribution from the then shareholders	–	9,689	–	–	–	9,689	–	9,689
Appropriations to statutory surplus reserve (note 29)	–	–	–	4,910	(4,910)	–	–	–
Equity-settled share-based payments (note 28)	–	–	13,517	–	–	13,517	–	13,517
Dividends paid to the then shareholders (note 11)	–	–	–	–	(11,200)	(11,200)	–	(11,200)
At 31 December 2018 and 1 January 2019	–	19,689	23,798	14,362	128,283	186,132	(250)	185,882
Profit for the year	–	–	–	–	80,638	80,638	(23)	80,615
Issue of shares (note 27)	70	–	–	–	–	70	–	70
Appropriations to statutory surplus reserve (note 29)	–	–	–	1,970	(1,970)	–	–	–
Equity-settled share-based payments (note 28)	–	–	19,924	–	–	19,924	–	19,924
Dividends paid to the then shareholders (note 11)	–	–	–	–	(32,727)	(32,727)	–	(32,727)
Acquisition of non-controlling interests	–	(273)	–	–	–	(273)	273	–
At 31 December 2019	70	19,416	43,722	16,332	174,224	253,764	–	253,764

Three months ended 31 March 2019 (Unaudited)

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Merger reserve and others	Share-based payment reserve	Statutory surplus reserve	Retained profits	Total		
	<i>RMB'000</i>	<i>RMB'000</i> (Note 29)	<i>RMB'000</i>	<i>RMB'000</i> (Note 29)	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2019	–	19,689	23,798	14,362	128,283	186,132	(250)	185,882
Profit for the period	–	–	–	–	19,950	19,950	(20)	19,930
Dividends paid to the then shareholders (note 11)	–	–	–	–	(2,727)	(2,727)	–	(2,727)
At 31 March 2019	–	19,689	23,798	14,362	145,506	203,355	(270)	203,085

Three months ended 31 March 2020

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Merger reserve and others*	Share-based payment reserve*	Statutory surplus reserve*	Retained profits*	Total		
	<i>RMB'000</i>	<i>RMB'000</i> (Note 29)	<i>RMB'000</i>	<i>RMB'000</i> (Note 29)	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2020	70	19,416	43,722	16,332	174,224	253,764	–	253,764
Profit for the period	–	–	–	–	36,162	36,162	–	36,162
At 31 March 2020	70	19,416	43,722	16,332	210,386	289,926	–	289,926

* These reserve accounts comprise the consolidated reserves of RMB111,317,000, RMB186,132,000, RMB253,694,000 and RMB289,856,000 in the consolidated statements of financial position as at 31 December 2017, 2018, 2019 and 31 March 2020, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Three months ended 31 March	
	Notes	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		93,884	68,320	85,344	22,183	37,245
Adjustments for:						
Depreciation of property, plant and equipment	6	637	1,262	1,651	384	419
Amortisation of intangible assets	6	2	13	352	21	154
Depreciation of right-of-use assets	6	1,542	2,323	1,979	619	425
Interest income	5	(1,738)	(54)	(56)	(32)	(38)
Finance costs	7	4,783	7,049	7,948	1,631	1,512
Equity-settled share-based payment expenses	6	10,281	13,517	19,924	–	–
Loss on disposal of a subsidiary	6	461	–	–	–	–
Loss on disposal of property, plant and equipment		–	9	16	–	4
Gain on disposal of right-of-use assets		–	–	(93)	–	–
		109,852	92,439	117,065	24,806	39,721
(Increase)/decrease in trade receivables		(45,261)	14,371	(21,584)	(9,505)	(20,929)
(Increase)/decrease in contract assets		(41,328)	6,330	(19,729)	15,350	12,082
(Increase)/decrease in prepayments, other receivables and other assets		(77,562)	(98,672)	(27,924)	22,790	(46,209)
(Increase)/decrease in amounts due from related parties		(1,242)	(3,801)	(7,267)	(10)	79
(Increase)/decrease in pledged deposits		(828)	778	–	–	–
Increase/(decrease) in trade payables		23,083	(13,704)	12,807	2,992	7,159
Increase/(decrease) in other payables and accruals		17,257	51,205	12,472	(17,361)	(2,962)
Cash (used in)/generated from operations		(16,029)	48,946	65,840	39,062	(11,059)
Income tax paid		(7,457)	(9,242)	(9,153)	–	–
Net cash flows (used in)/from operating activities		(23,486)	39,704	56,687	39,062	(11,059)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments measured at fair value through other comprehensive income		–	(2,750)	–	–	–
Acquisition of a subsidiary	30	(766)	–	–	–	–
Purchases of property, plant and equipment		(3,133)	(1,462)	(1,231)	(992)	–
Addition to intangible assets		(24)	(836)	(5,317)	(2,921)	–
Proceeds from disposal of property, plant and equipment		–	6	19	–	–
Disposal of a subsidiary		(308)	–	–	–	–
Interest received		1,738	54	56	32	38
Net cash flows (used in)/from investing activities		(2,493)	(4,988)	(6,473)	(3,881)	38

		Year ended 31 December			Three months ended 31 March	
	Notes	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES						
Capital contribution from the then shareholders		–	9,689	–	–	–
(Increase)/decrease in pledged deposits		–	(4,000)	3,450	4,000	–
New bank and other borrowings		739,214	284,150	287,940	36,920	34,000
Principal portion of lease payments		(1,567)	(2,237)	(1,959)	(617)	(355)
Repayment of bank and other borrowings		(645,764)	(298,190)	(319,420)	(81,420)	(15,960)
Borrowing from related parties		6,514	2,640	25,430	2,000	16,370
Repayment of loans from related parties		(80,824)	(1,600)	(23,543)	–	(12,634)
Dividends paid to the then shareholders		–	(11,200)	(17,727)	(2,727)	(6,648)
Interest paid		(5,698)	(6,668)	(7,379)	(1,382)	(1,419)
Net cash flows from/(used in) financing Activities		11,875	(27,416)	(53,208)	(43,226)	13,354
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of the year/period		(14,104)	7,300	(2,994)	(8,045)	2,333
		18,781	4,677	11,977	11,977	8,983
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	22	<u>4,677</u>	<u>11,977</u>	<u>8,983</u>	<u>3,932</u>	<u>11,316</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	22	5,505	16,027	9,583	3,982	11,916
Less: Pledged bank balances	22	(828)	(4,050)	(600)	(50)	(600)
		<u>4,677</u>	<u>11,977</u>	<u>8,983</u>	<u>3,932</u>	<u>11,316</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December 2019	As at 31 March 2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Investment in a subsidiary		—*	*
Total non-current assets		—*	*
CURRENT ASSETS			
Due from related parties		70	70
Total current assets		70	70
NET CURRENT ASSETS		70	70
TOTAL ASSETS LESS CURRENT LIABILITIES		70	70
NET ASSETS		<u>70</u>	<u>70</u>
EQUITY			
Share capital	27	<u>70</u>	<u>70</u>
TOTAL EQUITY		<u>70</u>	<u>70</u>

* The balance represents an amount of RMB1

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 31 October 2019. The registered office address of the Company is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the subsidiaries now comprising the Group were principally engaged in provision of services to facilitate virtual goods transactions.

The Company and its subsidiaries now comprising the Group underwent the reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in the prospectus (the “Reorganisation”). The Company became the holding company of the subsidiaries now comprising the Group upon the completion of the Reorganisation on 25 December 2019. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

In the opinion of the directors of the Company (the “Directors”), the ultimate controlling shareholder of the Group is Mr. Fu Xi (the “Controlling shareholder”). As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Notes	Date and place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Fulu (HongKong) Limited	(a)	21 November 2019 Hong Kong China	HKD1	100%	–	Investment holding
Fulu (Wuhan) Technology Co., Ltd. (“WFOE”)* 福祿(武漢)科技有限公司	(b), (e)	25 December 2019 People’s Republic of China (“PRC”)/ Mainland China	RMB10,000,000	–	100%	Investment holding
Wuhan Fulu Network Technology Co., Ltd. (“Wuhan Fulu”)* 武漢福祿網絡科技有限公司	(c)	24 March 2009 PRC/Mainland China	RMB19,688,935	–	100%	Provision of services to facilitate virtual goods transactions
Tibet Fulu Network Technology Co., Ltd.* 西藏福祿網絡科技有限公司	(d)	8 December 2016 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Wuhan Souka Technology Co., Ltd.* 武漢搜卡科技有限公司	(d)	8 June 2017 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Hubei Kejin Network Technology Co., Ltd.* 湖北氩金網絡科技有限公司	(d)	22 May 2017 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate virtual goods transactions

Name of company	Notes	Date and place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Wuhan Tianshi Technology Co., Ltd.* 武漢天識科技有限公司	(d)	24 July 2014 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Wuhan Yiqiyu Network Technology Co., Ltd.* 武漢一起遊網絡科技有限公司	(d)	4 June 2012 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Wuhan Lishuo Technology Co., Ltd.* 武漢立碩科技有限公司	(d)	6 January 2017 PRC/Mainland China	RMB5,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Xinjiang Fulu Network Technology Co., Ltd.* 新疆福祿網絡科技有限公司	(d)	27 December 2016 PRC/Mainland China	RMB5,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Wuhan Fulu Zhongteng Consulting Services Co., Ltd.* 武漢福祿眾騰諮詢服務有限公司	(d), (f)	25 October 2018 PRC/Mainland China	RMB1,000,000	–	100%	Investment holding
Kashgar Yiqiwan Network Technology Co., Ltd. ("Kashgar Yiqiwan")* 喀什一起玩網絡科技有限公司	(d)	14 March 2014 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Wuhan Yilu Network Technology Co., Ltd.* 武漢億祿網絡科技有限公司	(d)	19 November 2015 PRC/Mainland China	RMB1,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Xinjiang Huluwa Network Technology Co., Ltd.* 新疆葫蘆娃網絡科技有限公司	(b)	25 February 2019 PRC/Mainland China	RMB5,000,000	–	100%	Provision of services to facilitate virtual goods transactions
Tibet Huluwa Network Technology Co., Ltd.* 西藏葫蘆娃網絡科技有限公司	(b)	15 May 2019 PRC/Mainland China	RMB1,000,000	–	100%	Provision of services to facilitate virtual goods transactions

* The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

(a) No audited financial statements have been prepared for this company since its incorporation.

- (b) No audited financial statements have been prepared for these companies since the date of their registration, as these entities were established in 2019 and were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of establishment.
- (c) No audited financial statements of the entity were prepared for the year ended 31 December 2019 as the entity was not subject to any statutory audit requirements. The financial statements of Wuhan Fulu for the years ended 31 December 2017 and 2018 prepared in accordance with PRC generally accepted accounting principles (the “PRC GAAP”) were audited by Hubei Ruihua Certified Public Accountants Co., Ltd. (湖北瑞華會計師事務所有限公司) for other business purposes.
- (d) As at the date of this report, no audited financial statements have been prepared for these entities since their dates of registration, as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of establishment.
- (e) The WFOE is registered as a wholly-foreign-owned-enterprise under the PRC law.
- (f) The company was voluntarily dissolved on 15 June 2020.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 25 December 2019.

As the Reorganisation mainly involved the entering into Structured Contracts arrangements as detailed below and inserting new holding companies at the top of the existing group of business, the Historical Financial Information for the Relevant Periods has been presented as a continuation of the existing group of business by applying the pooling of interests method as if the Reorganisation had been completed at the beginning of the Relevant Periods.

Equity interests in subsidiaries other than the shareholders of the Company, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the pooling of interests method.

The prevailing PRC laws and regulations restrict foreign ownership of companies that provide Internet cultural business and value-added telecommunication services business, which include activities and businesses operated by the Group. The Group historically engaged in provision of services to facilitate virtual goods transactions in Mainland China through Wuhan Fulu and its subsidiaries.

In order to continue the operation of provision of services to facilitate virtual goods transactions in Mainland China, WFOE entered into a series of structured contracts (the “Structured Contracts”) with Wuhan Fulu, Kashgar Yiqiwan and the shareholders of Wuhan Fulu and Kashgar Yiqiwan on 25 December 2019. The Structured Contracts enable WFOE to exercise effective control over Wuhan Fulu, Kashgar Yiqiwan and their subsidiaries (collectively, the “PRC Operating Entities”) and, accordingly, WFOE has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. Accordingly, the PRC Operating Entities are accounted as subsidiaries of the Company for the purpose of the Historical Financial Information and the historical financial information of the PRC Operating Entities are consolidated in the Historical Financial Information for the Relevant Periods. Details of the Structured Contracts are disclosed in the section headed “Contractual Arrangements” in the Prospectus.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 January 2020, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, amendments to IFRS 15 *Clarifications to IFRS 15 Revenue from Contracts with Customers* and IFRS 16 *Leases*, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, which have been measured at fair value.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the Historical Financial Information:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework³</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁵</i>
Amendments to IFRS 16	<i>COVID-19 Related Rent Concessions¹</i>
IFRS 17	<i>Insurance Contracts⁴</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use³</i>
Amendments to IAS 37	<i>Onerous Contracts-Cost of Fulfilling a Contract³</i>
Annual Improvements to IFRSs 2018-2020 cycle	<i>Amendments to IFRS 1, IFRS 9, IAS 41 and Illustrative Examples accompanying IFRS 16³</i>

- 1 Effective for annual periods beginning on or after 1 June 2020
- 2 Effective for annual periods beginning on or after 1 January 2021
- 3 Effective for annual periods beginning on or after 1 January 2022
- 4 Effective for annual periods beginning on or after 1 January 2023
- 5 No mandatory effective date yet determined but available for adoption

Other than as further explained below regarding the impact of Amendment to IFRS 16, the Group expects that the adoption of the new and revised IFRSs will have no significant financial effect on the Group's results of operations and financial position.

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The Group has not received any rent concessions as a direct consequence of COVID-19 pandemic and therefore, the amendment is not expected to have any impact on the Group's financial information.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group 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 (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations other than common control combinations and goodwill

Business combinations other than acquisitions of subsidiaries under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interest in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at the end of year. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial assets measured at fair value through other comprehensive income at the end of each of the Relevant Periods. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets and contract assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
 or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	33.3%
Furniture and electronic equipment	19% to 31.7%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with definite useful lives are amortised on the straight-line basis over the following useful economic lives.

Software	10 years
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The software mainly includes a self-developed transaction platform. The Group determines its useful life based on historical experience of previous version of such transaction platform.

Research and development costs

All research costs are charged to the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the Group's ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

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 any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful life of 2 to 6 years.

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities at the present value of lease payments to be made over the lease term. 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, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or a rate) or a change in the assessment of an option to purchase the underlying asset.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit and loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at a mortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECLs).

At the end of each of the relevant Periods, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the end of each of the Relevant Periods with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.
- Stage 3 – Financial assets that are credit-impaired at the end of each of the Relevant Periods (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on external credit ratings and historical credit loss experience of the industry, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, lease liabilities, amounts due to related parties, interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Virtual goods-related services

The Group provides services to facilitate upstream virtual goods providers to sell virtual goods to downstream users ("virtual goods-related services"). The Group does not control specific virtual goods prior to the purchase by the downstream users. Therefore, the Group is acting as an agent in the transactions. Revenue from the virtual goods-related services is recognised at a point in time when the virtual goods-related services is rendered.

The Group records the net amount that it retains from such completed transaction (including variable consideration contingent on the volume-based and/or performance-based rebates to be received) as revenue. Variable consideration is contingent on the volume-based and/or performance-based rebates to be received from the upstream virtual goods providers, which are finalised on a periodical basis. The contingencies are in general resolved within three months subsequent to the end of each of the Relevant Periods. Variable consideration is estimated using the expected value method in accordance with the terms as set out in the respective contractual arrangements with the upstream virtual goods providers based on the Group's historical experiences, and the variable portion is included in the transaction price to the extent that it is probable that a significant reversal will not occur.

Online stores operating services

The Group operates online stores on major e-commerce platforms for virtual goods vendors. The Group is primarily responsible for facilitating the virtual goods transactions, designing and updating storefronts, formulating and implementing operating and marketing strategies, providing IT and other services. In return, the Group receives variable consideration which are net service fees calculated based on the total amounts of the completed transactions through the aforementioned online stores. The Group does not control the specified virtual goods before the specified virtual goods are transferred to the ultimate customers therefore, the Group is acting as an agent in the transactions. Revenue from operating online stores for virtual good vendors is recognised on a net basis at a point in time when each transaction through the online stores is completed or when the provision of the relation service is completed.

The contingencies are in general resolved within three months subsequent to the end of each of the Relevant Periods. Variable consideration is estimated using the expected value method in accordance with the terms as set out in the respective contractual arrangements with the upstream virtual goods providers based on the Group's historical experiences, and the variable consideration is estimated based on historical experience and will be included in the transaction price to the extent it is probable that a significant reversal will not occur in a subsequent period.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract(i.e., transfers control of the related goods and services to the customer).

Contract costs

Other than the costs which are capitalised as property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company grants shares with no vesting conditions to employees of the Group for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value of the shares granted is determined by management using discounted cash flow method, further details of which are given in note 28 to the Historical Financial Information.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity.

Other employee benefits***Pension schemes***

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. Under these schemes, the Group has no legal obligation for retirement benefits beyond the contributions made.

Accommodation fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These schemes cover accommodation fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the accommodation fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The Historical Financial Information is presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional rates of exchange ruling at the end of each of the Relevant Periods.

Differences arising on settlement or translation of monetary items are recognised in the profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Contractual arrangements

The PRC Operating Entities are mainly engaged in provision of services to facilitate virtual goods transactions in Mainland China, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and "Special Administrative Measures for Assess of Foreign Investment" that foreign investors are restricted to invest.

As disclosed in note 2.1 to the Historical Financial Information, the Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through the Contractual Arrangements.

The Group considers that it controls the PRC Operating Entities, notwithstanding the fact that it does not hold direct equity interest in the PRC Operating Entities, as it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all the economic benefits from the business activities of the PRC Operating Entities through the Contractual Arrangements. Accordingly, the PRC Operating Entities have been accounted as subsidiaries during the Relevant Periods.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on financial and contract assets

The Group uses external credit ratings and historical credit loss experience of the industry to calculate ECLs for trade receivables and contract assets under simplified approach and for refundable prepayments, deposits and other receivables under general approach.

The observed default rates of the industry is adjusted with forward looking information. For instance, if forecast economic conditions (i.e., urban registered unemployment rate) are expected to deteriorate over the next year which can lead to an increased number of default in the industry, the historical default rates are adjusted. At the end of each of the Relevant Periods, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The industry's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 19 and note 20 to the Historical Financial Information, respectively. The information about the ECLs on the Group's refundable prepayments, deposits and other receivables is disclosed in note 21 to the Historical Financial Information.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 18 to Historical Financial Information.

4 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

- (a) Leisure and entertainment, which primarily includes commissions earned from facilitating the sale of virtual goods offered by leisure and entertainment content providers, operating services for online stores and other services provided to leisure and entertainment content providers;
- (b) Game, which primarily includes commissions earned from facilitating the sale of virtual goods offered by game producers, operating services for online stores and other services provided to game producers;
- (c) Telecommunications, which primarily includes commissions earned from providing virtual goods related agency services and other services to telecom providers;
- (d) Lifestyle, which primarily includes commissions earned from facilitating the sale of virtual goods offered by lifestyle services providers and other services provided to lifestyle services providers.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment operating profit which is calculated based on gross profit. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision-maker for review.

Year ended 31 December 2017	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue					
External customers (note 5)	148,932	53,269	37,372	4,186	243,759
Segment cost	(9,459)	(31,289)	(15,615)	(1,572)	(57,935)
Gross profit	139,473	21,980	21,757	2,614	185,824

APPENDIX I

ACCOUNTANTS' REPORT

Year ended 31 December 2017	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Reconciliation:</i>					
Unallocated income and gains					2,812
Corporate and unallocated expense					(89,969)
Finance costs					(4,783)
Profit before tax					<u>93,884</u>
Year ended 31 December 2018	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue					
External customers (note 5)	<u>115,440</u>	<u>65,989</u>	<u>18,602</u>	<u>8,882</u>	<u>208,913</u>
Segment cost	<u>(12,116)</u>	<u>(30,462)</u>	<u>(5,961)</u>	<u>(1,603)</u>	<u>(50,142)</u>
Gross profit	<u>103,324</u>	<u>35,527</u>	<u>12,641</u>	<u>7,279</u>	<u>158,771</u>
<i>Reconciliation:</i>					
Unallocated income and gains					4,296
Corporate and unallocated expense					(87,698)
Finance costs					(7,049)
Profit before tax					<u>68,320</u>
Year ended 31 December 2019	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue					
External customers (note 5)	<u>130,524</u>	<u>93,404</u>	<u>15,642</u>	<u>2,349</u>	<u>241,919</u>
Segment cost	<u>(12,568)</u>	<u>(27,923)</u>	<u>(7,059)</u>	<u>(853)</u>	<u>(48,403)</u>
Gross profit	<u>117,956</u>	<u>65,481</u>	<u>8,583</u>	<u>1,496</u>	<u>193,516</u>

APPENDIX I

ACCOUNTANTS' REPORT

Year ended 31 December 2019	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Reconciliation:

Unallocated income and gains					7,789
Corporate and unallocated expense					(108,013)
Finance costs					(7,948)
Profit before tax					<u>85,344</u>

Three months ended 31 March 2019	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>

Segment revenue

External customers (note 5)	32,188	22,839	3,141	1,084	59,252
Segment cost	(2,186)	(11,341)	(1,765)	(171)	(15,463)
Gross profit	30,002	11,498	1,376	913	43,789

Reconciliation:

Unallocated income and gains					303
Corporate and unallocated expense					(20,278)
Finance costs					(1,631)
Profit before tax					<u>22,183</u>

Three months ended 31 March 2020	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Segment revenue

External customers (note 5)	35,950	35,123	7,509	1,395	79,977
Segment cost	(3,285)	(4,370)	(2,979)	(333)	(10,967)
Gross profit	32,665	30,753	4,530	1,062	69,010

Three months ended 31 March 2020	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Reconciliation:</i>					
Unallocated income and gains					2,166
Corporate and unallocated expense					(32,419)
Finance costs					(1,512)
Profit before tax					37,245

(a) Revenue from external customers

All significant external customers of the Group are located in Mainland China. Accordingly, no geographical information of external customers is presented.

(b) Non-current assets

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of segment assets is presented.

Information about a major customer

Revenue derived from services to customers, which accounted for 10% or more of the Group's revenue is set out below:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Customer A from the leisure and entertainment segment	60,553	45,671	66,323	17,721	17,869
Customer B from the leisure and entertainment segment and the game segment	10,858	16,970	35,411	5,302	8,702
Customer H from the game segment	—	—	36,371	3,044	7,374
Customer I from the game segment	—	—	—	—	15,034

5 REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<i>Revenue from contracts with customers</i>					
Virtual goods-related services					
– acted as an agent	243,516	206,204	220,230	58,305	56,831
Online stores operating services					
– acted as an agent	–	763	20,225	739	21,509
Others					
– acted as a principal	243	1,946	1,464	208	1,637
	<u>243,759</u>	<u>208,913</u>	<u>241,919</u>	<u>59,252</u>	<u>79,977</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2017

Segments	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Type of services					
Provision of virtual goods-related services	148,932	53,026	37,372	4,186	243,516
Others	–	243	–	–	243
Total revenue from contracts with customers	<u>148,932</u>	<u>53,269</u>	<u>37,372</u>	<u>4,186</u>	<u>243,759</u>
Timing of revenue recognition:					
Services transferred at a point in time	<u>148,932</u>	<u>53,269</u>	<u>37,372</u>	<u>4,186</u>	<u>243,759</u>

Year ended 31 December 2018

Segments	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Type of services					
Provision of virtual goods-related services	114,490	64,230	18,602	8,882	206,204
Provision of online stores operating services	763	–	–	–	763
Others	187	1,759	–	–	1,946
Total revenue from contracts with customers	115,440	65,989	18,602	8,882	208,913
Timing of revenue recognition:					
Services transferred at a point in time	115,440	65,989	18,602	8,882	208,913

Year ended 31 December 2019

Segments	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Type of services					
Provision of virtual goods-related services	115,005	87,234	15,642	2,349	220,230
Provision of online stores operating services	15,519	4,706	–	–	20,225
Others	–	1,464	–	–	1,464
Total revenue from contracts with customers	130,524	93,404	15,642	2,349	241,919
Timing of revenue recognition:					
Services transferred at a point in time	130,524	93,404	15,642	2,349	241,919

Three months ended 31 March 2019

Segments	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Type of services					
Provision of virtual goods-related services	31,449	22,631	3,141	1,084	58,305
Provision of online stores operating services	739	–	–	–	739
Others	–	208	–	–	208
Total revenue from contracts with customers	<u>32,188</u>	<u>22,839</u>	<u>3,141</u>	<u>1,084</u>	<u>59,252</u>
Timing of revenue recognition:					
Services transferred at a point in time	<u>32,188</u>	<u>22,839</u>	<u>3,141</u>	<u>1,084</u>	<u>59,252</u>

Three months ended 31 March 2020

Segments	Leisure and entertainment	Game	Telecommunications	Lifestyle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Type of services					
Provision of virtual goods-related services	31,991	15,936	7,509	1,395	56,831
Provision of online stores operating services	3,959	17,550	–	–	21,509
Others	–	1,637	–	–	1,637
Total revenue from contracts with customers	<u>35,950</u>	<u>35,123</u>	<u>7,509</u>	<u>1,395</u>	<u>79,977</u>
Timing of revenue recognition:					
Services transferred at a point in time	<u>35,950</u>	<u>35,123</u>	<u>7,509</u>	<u>1,395</u>	<u>79,977</u>

The Group's revenue was derived solely from its operation in Mainland China.

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Provision of virtual goods-related services

The performance obligation is satisfied upon delivery of specific virtual goods from upstream virtual goods providers to downstream virtual goods users. Payment is generally due within 3 months from delivery. In addition, payment in advance is sometimes required based on credit evaluation.

Provision of online stores operating services

The performance obligation is satisfied upon the completion of each virtual goods transaction through the online stores of the virtual goods vendors or upon delivery of the related services. Payment is generally due within 3 months from the rendering of the services.

The directors are of the opinion that there was no remaining performance obligation at the end of each of the Relevant Periods.

Other income and gains

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Interest income	1,738	54	56	32	38
Government grants*	963	3,716	7,525	–	2,128
Others	111	526	208	271	–
	<u>2,812</u>	<u>4,296</u>	<u>7,789</u>	<u>303</u>	<u>2,166</u>

- * For the year ended 31 December 2018 and 2017, government grants had been received from the PRC local government authorities as reimbursement of the Group's research and development activities. For the year ended 31 December 2019 and the three months ended 31 March 2020, the Group enjoyed the tax incentives on input value-added tax according to the related regulations in the PRC. There are no unfulfilled conditions related to these government grants

6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Employee benefit expense* (including directors' and chief executive's remuneration (note 8)):					
Wages and salaries	38,807	49,151	47,589	12,452	15,266
Equity-settled share-based payment expenses	10,281	13,517	19,924	–	–
Pension scheme contributions	3,716	4,232	3,121	700	371
Social security contributions and accommodation benefits	3,056	3,668	2,745	658	454
	55,860	70,568	73,379	13,810	16,091
Promotion and marketing expenses	30,825	16,730	29,914	5,544	8,927
Commission to third party platforms	29,482	25,219	25,447	9,187	5,779
Impairment losses on financial and contract assets, net	16,237	3,184	2,433	1,931	419
Platform usage fees and others	5,363	7,617	5,453	1,480	771
Depreciation of right-of-use assets	1,542	2,323	1,979	619	425
Depreciation of property, plant and equipment	637	1,262	1,651	384	419
Loss on disposal of a subsidiary	461	–	–	–	–
Auditor's remuneration	5	68	–	–	–
Amortisation of intangible assets	2	13	352	21	154
Listing expenses	–	–	5,521	–	8,741

* Employee benefit expenses of RMB9,543,000, RMB23,435,000, RMB18,649,000, RMB3,389,000 and RMB5,411,000 were included in the research and development costs for the year ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020 respectively.

7 FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank and other borrowings	4,117	6,525	6,589	1,544	1,241
Interest on lease liabilities	381	413	256	87	42
Interest on loan from related parties	285	111	1,103	–	229
	<u>4,783</u>	<u>7,049</u>	<u>7,948</u>	<u>1,631</u>	<u>1,512</u>

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executives, executive directors, non-executive directors and independent non-executive directors at any time during the years ended 31 December 2017 and 2018 since the Company was incorporated on 31 October 2019.

Mr. Fu Xi, Mr. Shui Yingyu, Mr. Zhang Yuguo and Mr. Zhao Bihao were appointed as executive directors of the Company on 31 October 2019. Mr. Mao Feng was appointed as an executive director of the Company on 11 January 2020. Mr. Fu Xi was appointed as the chief executive of the Company on 11 January 2020. Mr. Li Weizhong, Mr. Wang Yuyun and Mr. Huang Chengsi were appointed as independent non-executive directors of the Company on 11 January 2020.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors or senior management of these subsidiaries. The remuneration of the directors recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other emoluments:					
Salaries, allowances and benefits in kind	678	1,102	1,849	462	436
Pension scheme contributions	112	155	150	38	6
Equity-settled share-based payments	–	2,861	2,789	–	–
	<u>790</u>	<u>4,118</u>	<u>4,788</u>	<u>500</u>	<u>442</u>

(a) Independent non-executive directors

There was no fees and other emoluments payable to any independent non-executive director during the Relevant Periods.

(b) Executive directors and the chief executive

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Share-based payments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2017					
Executive directors:					
– Mr. Fu Xi	–	112	18	–	130
– Mr. Shui Yingyu	–	124	20	–	144
– Mr. Zhang Yuguo	–	93	15	–	108
– Mr. Zhao Bihao	–	349	59	–	408
	–	678	112	–	790
Year ended 31 December 2018					
Executive directors:					
– Mr. Fu Xi	–	111	18	–	129
– Mr. Shui Yingyu	–	193	31	–	224
– Mr. Zhang Yuguo	–	150	24	–	174
– Mr. Zhao Bihao	–	343	41	2,861	3,245
– Mr. Mao Feng	–	305	41	–	346
	–	1,102	155	2,861	4,118
Year ended 31 December 2019					
Executive directors:					
– Mr. Fu Xi	–	123	18	–	141
– Mr. Shui Yingyu	–	59	9	313	381
– Mr. Zhang Yuguo	–	348	41	–	389
– Mr. Zhao Bihao	–	645	41	2,476	3,162
– Mr. Mao Feng	–	674	41	–	715
	–	1,849	150	2,789	4,788
Three months ended 31 March 2019 (Unaudited)					
Executive directors:					
– Mr. Fu Xi	–	30	4	–	34
– Mr. Shui Yingyu	–	14	2	–	16
– Mr. Zhang Yuguo	–	87	10	–	97
– Mr. Zhao Bihao	–	161	11	–	172
– Mr. Mao Feng	–	170	11	–	181
	–	462	38	–	500

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Share-based payments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Three months ended 31 March 2020					
Executive directors:					
– Mr. Fu Xi	–	28	1	–	29
– Mr. Shui Yingyu	–	15	1	–	16
– Mr. Zhang Yuguo	–	89	1	–	90
– Mr. Zhao Bihao	–	179	2	–	181
– Mr. Mao Feng	–	125	1	–	126
	–	436	6	–	442

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included no director for the year ended 31 December 2017, one director for the year ended 31 December 2018, 2019, and two directors for the three months ended 31 March 2019 and 2020, respectively.

Details of the remuneration of the remaining highest paid employees who are neither a director nor chief executive of the Group for each of the Relevant Periods are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Salaries, allowances and benefits in kind	1,446	1,514	2,159	420	468
Pension scheme contributions	181	159	163	33	4
Equity-settled share-based payments	8,813	9,226	14,440	–	–
	10,440	10,899	16,762	453	472

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019 (Unaudited)	2020
Nil to HKD1,000,000	–	–	–	3	3
HKD1,000,001 to HKD1,500,000	–	1	–	–	–
HKD1,500,001 to HKD2,000,000	3	–	1	–	–
HKD2,000,001 to HKD2,500,000	1	–	–	–	–
HKD2,500,001 to HKD3,000,000	1	–	1	–	–
HKD3,000,001 to HKD3,500,000	–	2	1	–	–
HKD3,500,001 to HKD4,000,000	–	1	–	–	–
HKD4,000,001 to HKD9,000,000	–	–	1	–	–
	<u>5</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>3</u>

10 INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The majority of the Company's subsidiaries are domiciled in the PRC. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the Relevant Periods was 25% of their taxable profits.

Wuhan Fulu was accredited as high and new technology enterprise ("HNTE") in the year ended 31 December 2015. For each of the years ended 31 December 2017, 2019 and the three months ended 31 March 2020, Wuhan Fulu was entitled to a Corporate Income Tax ("CIT") rate of 15% due to HNTE. The HNTE certificate needs to be renewed every three years so as to enable Wuhan Fulu to enjoy the preferential CIT rate of 15%. The HNTE certificate was renewed in the year ended 31 December 2018. For the year ended 31 December 2018, Wuhan Fulu was accredited as Key Software Enterprise ("KSE") under relevant PRC laws and regulations. Accordingly, Wuhan Fulu was entitled to a preferential CIT rate of 10% for the year ended 31 December 2018 due to KSE. The KSE certificate needs to be renewed every year so as to enable Wuhan Fulu to enjoy the preferential tax rate of 10%. The KSE certificate was not renewed in the year ended 31 December 2019 and the three months ended 31 March 2020.

Wuhan Yiqiyong Network Technology Co., Ltd. ("Wuhan Yiqiyong") was accredited as HNTE since 2017 and the certificate was valid for three years. For each of the years ended 31 December 2017, 2018 and 2019, Wuhan Yiqiyong was entitled to a CIT rate of 15%. The HNTE certificate needs to be renewed every three years so as to enable Wuhan Yiqiyong to enjoy the preferential CIT rate of 15%. For the three months ended 31 March 2020, Wuhan Yiqiyong met the requirements of HNTE and was in the process of renewing the certificate. The management of the Group expected Wuhan Yiqiyong would enjoy the preferential CIT rate of 15%.

Xinjiang Fulu Network Technology Co., Ltd. ("Xinjiang Fulu") was established in Horgos Development Zone of Xinjiang on 27 December 2016, which was exempted from income tax from the first year of operation for a five-year period according to the regulations set out by the local authority. Since Xinjiang Fulu started operation in 2017, the tax exemption period commenced from the year of 2017.

Kashgar Yiqiwan was established in Xinjiang and Kashgar Yiqiwan was entitled to a preferential tax rate of 15% for each of the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020 due to the strategy of large-scale western development in the PRC (Caishui [2011] No. 58).

Tibet Fulu Network Technology Co., Ltd. ("Tibet Fulu") was established in Tibet and Tibet Fulu was entitled to a preferential tax rate of 15% for each of the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020 due to the strategy of large-scale western development in the PRC (Caishui [2011] No. 58). For each of the years ended 31 December 2017, 2019 and the three months ended 31 March 2020, due to the additional regional tax preference in Tibet, Tibet Fulu was entitled to a preferential CIT rate of 9% instead of 15%.

The major components of the income tax expense are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current – PRC					
Charge for the year/period	18,845	5,598	4,839	2,446	1,104
Deferred tax (<i>note 18</i>)	(2,956)	25	(110)	(193)	(21)
Total tax charge for the year/period	<u>15,889</u>	<u>5,623</u>	<u>4,729</u>	<u>2,253</u>	<u>1,083</u>

A reconciliation of the tax expenses applicable to profit before tax at the statutory rate for PRC to the tax expenses at the Group's effective tax rate is as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before tax	<u>93,884</u>	<u>68,320</u>	<u>85,344</u>	<u>22,183</u>	<u>37,245</u>
Tax at the PRC statutory income tax rate	23,471	17,080	21,336	5,546	9,311
Lower tax rates for specific entities	(9,841)	(12,561)	(19,399)	(3,443)	(8,113)
Tax effect of:					
Expenses not deductible for tax	2,219	1,389	4,039	116	131
Tax losses not recognised	737	1,060	381	254	245
Tax losses utilised from previous periods	–	–	(18)	–	(30)
Tax incentives on eligible expenditures	(697)	(1,337)	(1,651)	(261)	(461)
Adjustments in respect of changes in tax rates on opening deferred tax	–	(8)	41	41	–
Tax charge at the Group's effective tax rate	<u>15,889</u>	<u>5,623</u>	<u>4,729</u>	<u>2,253</u>	<u>1,083</u>

11 DIVIDENDS

No dividends were declared by the Company since its incorporation.

The dividends declared by the Company's subsidiaries to their then shareholders during the Relevant Periods are as follows:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Dividends	–	11,200	32,727	2,727	–

12 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the presentation of the results of the Group for the Relevant Periods on a consolidated basis as disclosed in note 2.1 above.

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and electronic equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2017:				
Cost	–	761	–	761
Accumulated depreciation	–	(225)	–	(225)
Net carrying amount	–	536	–	536
At 1 January 2017, net of accumulated depreciation	–	536	–	536
Additions	2,176	957	–	3,133
Acquisition of a subsidiary (<i>note 30</i>)	–	36	–	36
Disposals of a subsidiary	–	(17)	–	(17)
Depreciation provided during the year	(311)	(326)	–	(637)
At 31 December 2017, net of accumulated depreciation	1,865	1,186	–	3,051
At 31 December 2017 and at 1 January 2018:				
Cost	2,176	1,735	–	3,911
Accumulated depreciation	(311)	(549)	–	(860)
Net carrying amount	1,865	1,186	–	3,051

	Leasehold improvements	Furniture and electronic equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2018, net of accumulated depreciation	1,865	1,186	–	3,051
Additions	–	210	1,252	1,462
Disposals	–	(15)	–	(15)
Depreciation provided during the year	(746)	(466)	(50)	(1,262)
At 31 December 2018, net of accumulated depreciation	<u>1,119</u>	<u>915</u>	<u>1,202</u>	<u>3,236</u>
At 31 December 2018:				
Cost	2,176	1,922	1,252	5,350
Accumulated depreciation	(1,057)	(1,007)	(50)	(2,114)
Net carrying amount	<u>1,119</u>	<u>915</u>	<u>1,202</u>	<u>3,236</u>
At 31 December 2018 and at 1 January 2019:				
Cost	2,176	1,922	1,252	5,350
Accumulated depreciation	(1,057)	(1,007)	(50)	(2,114)
Net carrying amount	<u>1,119</u>	<u>915</u>	<u>1,202</u>	<u>3,236</u>
At 1 January 2019, net of accumulated depreciation	1,119	915	1,202	3,236
Additions	–	271	960	1,231
Disposals	–	(35)	–	(35)
Depreciation provided during the year	(746)	(437)	(468)	(1,651)
At 31 December 2019, net of accumulated depreciation	<u>373</u>	<u>714</u>	<u>1,694</u>	<u>2,781</u>
At 31 December 2019 and at 1 January 2020:				
Cost	2,176	2,065	2,212	6,453
Accumulated depreciation	(1,803)	(1,351)	(518)	(3,672)
Net carrying amount	<u>373</u>	<u>714</u>	<u>1,694</u>	<u>2,781</u>

	Leasehold improvements	Furniture and electronic equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2020, net of accumulated depreciation	373	714	1,694	2,781
Disposals	–	(4)	–	(4)
Depreciation provided during the period	(187)	(101)	(131)	(419)
At 31 March 2020, net of accumulated depreciation	<u>186</u>	<u>609</u>	<u>1,563</u>	<u>2,358</u>
At 31 March 2020:				
Cost	2,176	2,034	2,212	6,422
Accumulated depreciation	<u>(1,990)</u>	<u>(1,425)</u>	<u>(649)</u>	<u>(4,064)</u>
Net carrying amount	<u>186</u>	<u>609</u>	<u>1,563</u>	<u>2,358</u>

14 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group's right-of-use assets are held under leases of buildings for its operating activities. The lease terms are mainly 2 to 6 years.

The movements of right-of-use assets and lease liabilities during the Relevant Periods are as follows:

	Year ended 31 December	
	Right-of-use assets	Lease liabilities
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2017	4,685	4,855
Additions due to new leases	3,195	3,195
Depreciation charge	(1,542)	N/A
Accretion of interest	N/A	381
Payments	<u>N/A</u>	<u>(1,948)</u>
As at 31 December 2017	<u>6,338</u>	<u>6,483</u>
Less: Current portion		<u>1,827</u>
Non-current portion		<u>4,656</u>

	Year ended 31 December	
	Right-of-use	Lease liabilities
	assets	
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2018	6,338	6,483
Additions due to new leases	1,106	1,106
Depreciation charge	(2,323)	N/A
Accretion of interest	N/A	413
Payments	N/A	(2,650)
As at 31 December 2018	5,121	5,352
Less: Current portion		2,186
Non-current portion		3,166
As at 1 January 2019	5,121	5,352
Additions due to new leases	1,420	1,420
Depreciation charge	(1,979)	N/A
Termination of lease for lease modification	(2,073)	(2,166)
Accretion of interest	N/A	256
Payments	N/A	(2,215)
As at 31 December 2019	2,489	2,647
Less: Current portion		1,580
Non-current portion		1,067
	Three months ended 31 March	
	Right-of-use	Lease liabilities
	assets	
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2020	2,489	2,647
Additions due to new leases	449	449
Depreciation charge	(425)	N/A
Accretion of interest	N/A	42
Payments	N/A	(397)
As at 31 March 2020	2,513	2,741
Less: current portion		2,021
Non-Current portion		720

15 GOODWILL

RMB'000

Cost and net carrying amount at 1 January 2017	–
Acquisition of subsidiaries	674
	<hr/>
Cost and net carrying amount at 31 December 2017, 2018 and 2019 and 31 March 2020	674
	<hr/> <hr/>

On 31 July 2017, goodwill arising from the acquisition of Wuhan Tianshi Technology Co., Ltd. amounted to RMB674,000 (note 30), is allocated to the telecommunications cash-generating unit for impairment test.

In the opinion of the Group's management, no impairment provision for goodwill was made at the end of each of the Relevant Periods.

16 OTHER INTANGIBLE ASSETS

Software

RMB'000

At 1 January 2017, net of accumulated amortisation	–
Additions	24
Amortisation provided during the year	(2)
	<hr/>
At 31 December 2017, net of accumulated amortisation	22
	<hr/> <hr/>
At 31 December 2017 and at 1 January 2018:	
Cost	24
Accumulated amortisation	(2)
	<hr/>
Net carrying amount	22
	<hr/> <hr/>
At 1 January 2018, net of accumulated amortisation	22
Additions	836
Amortisation provided during the year	(13)
	<hr/>
At 31 December 2018, net of accumulated amortisation	845
	<hr/> <hr/>
At 31 December 2018:	
Cost	860
Accumulated amortisation	(15)
	<hr/>
Net carrying amount	845
	<hr/> <hr/>

	Software
	<i>RMB'000</i>
At 1 January 2019, net of accumulated amortisation	845
Additions	5,317
Amortisation provided during the year	(352)
	<u>5,810</u>
At 31 December 2019, net of accumulated amortisation	<u>5,810</u>
At 31 December 2019:	
Cost	6,177
Accumulated amortisation	(367)
	<u>5,810</u>
Net carrying amount	<u>5,810</u>
At 1 January 2020, net of accumulated amortisation	5,810
Amortisation provided during the period	(154)
	<u>5,656</u>
At 31 March 2020, net of accumulated amortisation	<u>5,656</u>
At 31 March 2020:	
Cost	6,177
Accumulated amortisation	(521)
	<u>5,656</u>
Net carrying amount	<u>5,656</u>
17 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investments, at fair value	—	2,750	—	—

The Group designated the unlisted equity investments as an investment at fair value through other comprehensive income on the basis that the Group considers these investments to be strategic in nature.

Included in the unlisted equity investments measured at fair value through other comprehensive income as at 31 December 2018 was 5% equity interest amounting to RMB1,250,000 in Weifen (Shanghai) Sports and Culture Co., Ltd. and 1% equity interest amounting to RMB1,500,000 in Hangzhou Jiwei Logic Technology Co., Ltd.

For the purpose of reorganization, the Group disposed of the unlisted equity investments to a third party at their initial cost without any gain or loss recorded during the year ended 31 December 2019.

18 DEFERRED TAX

Deferred tax assets

The movements in deferred tax assets during the Relevant Periods are as follows:

	Accruals and provision	Loss available for offsetting against future profit	Total
	RMB'000	RMB'000	RMB'000
1 January 2017	1,002	–	1,002
Deferred tax credited to profit or loss during the year	2,709	247	2,956
At 31 December 2017 and 1 January 2018	3,711	247	3,958
Deferred tax credited/(charged) to profit or loss during the year	222	(247)	(25)
At 31 December 2018 and 1 January 2019	3,933	–	3,933
Deferred tax credited to profit or loss during the year	110	–	110
At 31 December 2019 and 1 January 2020	4,043	–	4,043
Deferred tax credited to profit or loss during the period	21	–	21
At 31 March 2020	4,064	–	4,064

Deferred tax assets have not been recognised in respect of tax losses amounting to RMB2,635,000, RMB6,874,000, RMB9,184,000 and RMB10,486,000 as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively, as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised. The above tax losses will expire in one to ten years.

Deferred tax liabilities

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

As at the end of each of the Relevant Periods, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the subsidiaries of the Group established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in these subsidiaries in the PRC for which deferred tax liabilities have not been recognised was RMB73,254,000, RMB130,976,000, RMB182,385,000 and RMB219,280,000 as at 31 December 2017, 2018 and 2019 and 31 March 2020 respectively.

19 TRADE RECEIVABLES

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	46,438	33,190	55,382	76,552
Impairment	(232)	(1,355)	(1,963)	(2,204)
	<u>46,206</u>	<u>31,835</u>	<u>53,419</u>	<u>74,348</u>

The Group's credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the transaction date and net of loss allowance, is as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	45,058	29,942	46,181	68,626
4 to 6 months	1,055	1,119	4,159	3,672
7 to 12 months	93	250	2,496	1,504
Over 1 year	–	524	583	546
	<u>46,206</u>	<u>31,835</u>	<u>53,419</u>	<u>74,348</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year	167	232	1,355	1,963
Impairment losses, net	65	1,123	608	241
At the end of year/period	<u>232</u>	<u>1,355</u>	<u>1,963</u>	<u>2,204</u>

An impairment test is performed at the end of each of the Relevant Periods using simplified approach. To measure the ECLs, the balances are grouped based on similar loss patterns (i.e., by product or service type, customer type and rating). The provision rates are calculated on external credit ratings and historical credit loss experience. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables:

<u>Class of credit rating</u>	<u>Notes</u>	<u>Expected credit loss rate</u>	<u>Gross carrying amount</u>	<u>Expected credit losses</u>
		<i>%</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2017				
Class 1	(i)	0.001	1,109	–
Class 2	(ii)	0.51	45,329	232
Class 3	(iii)	100	–	–
Total			<u>46,438</u>	<u>232</u>
31 December 2018				
Class 1	(i)	0.001	11,880	–
Class 2	(ii)	0.55	20,065	110
Class 3	(iii)	100	1,245	1,245
Total			<u>33,190</u>	<u>1,355</u>
31 December 2019				
Class 1	(i)	0.001	28,841	–
Class 2	(ii)	0.98	24,821	243
Class 3	(iii)	100	1,720	1,720
Total			<u>55,382</u>	<u>1,963</u>
31 March 2020				
Class 1	(i)	0.001	30,040	–
Class 2	(ii)	0.97	44,742	434
Class 3	(iii)	100	1,770	1,770
Total			<u>76,552</u>	<u>2,204</u>

- (i) Class 1 customers receive external credit ratings equal to or above A- from Standard & Poor's.
- (ii) Class 2 customers receive no external credit ratings. They maintain active business with the Group and have good payment history.
- (iii) Class 3 customers have past due receivables and the Group has substantial evidence of irrecoverable for the receivables.

20 CONTRACT ASSETS

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Contract assets arising from:</i>				
Provision of virtual goods-related services	41,334	35,048	54,881	42,825
Impairment	(6)	(50)	(154)	(180)
	<u>41,328</u>	<u>34,998</u>	<u>54,727</u>	<u>42,645</u>

Contract assets are initially recognised for revenue earned from the provision of virtual goods-related services as the receipt of consideration is conditional on meeting the contracts' conditions (i.e., total transaction amounts or other performance indicators). Upon meeting the contracts' conditions, the amounts recognised as contract assets are reclassified to trade receivables.

The expected timing of recovery or settlement for contract assets as at the end of each of the Relevant Periods is as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	<u>41,328</u>	<u>34,998</u>	<u>54,727</u>	<u>42,645</u>

The movements in the loss allowance for impairment of contract assets are as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year	–	6	50	154
Impairment losses, net	<u>6</u>	<u>44</u>	<u>104</u>	<u>26</u>
At the end of year/period	<u>6</u>	<u>50</u>	<u>154</u>	<u>180</u>

An impairment test is performed at the end of each of the Relevant Periods using simplified approach. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets:

Class of credit rating	Notes	Expected credit loss rate %	Gross carrying amount RMB'000	Expected credit losses RMB'000
31 December 2017				
Class 1	(i)	0.001	40,233	–
Class 2	(ii)	0.51	1,101	6
Total			41,334	6
31 December 2018				
Class 1	(i)	0.001	25,921	–
Class 2	(ii)	0.55	9,127	50
Total			35,048	50
31 December 2019				
Class 1	(i)	0.001	39,100	–
Class 2	(ii)	0.98	15,781	154
Total			54,881	154
31 March 2020				
Class 1	(i)	0.001	24,291	–
Class 2	(ii)	0.97	18,534	180
Total			42,825	180

(i) Class 1 customers receive external credit ratings equal to or above A- from Standard & Poor's.

(ii) Class 2 customers receive no external credit ratings. They maintain active business with the Group and have good payment history.

21 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to virtual goods providers:				
Non-refundable	122,001	226,917	215,882	269,584
Refundable	12,910	15,629	21,555	7,376
Other receivables	54,452	37,081	46,594	51,338
Deposits to virtual goods providers	29,275	37,952	53,112	53,868
Prepaid value-added tax	6,562	7,397	18,747	21,067
Prepayments for various services	394	1,286	2,766	1,784
	225,594	326,262	358,656	405,017
Impairment allowance	(16,313)	(18,309)	(20,029)	(20,181)
	209,281	307,953	338,627	384,836

The movements in the loss allowance for impairment of refundable prepayments and deposits to virtual goods providers and other receivables are as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year	147	16,313	18,309	20,029
Write off	–	(21)	–	–
Impairment losses, net	16,166	2,017	1,720	152
At the end of year/period	16,313	18,309	20,029	20,181

Refundable prepayments, deposits and other receivables mainly represent refundable prepayments and deposits to virtual goods providers, receivables from online platform operators (such as Tmall and JD) and other receivables from third parties. Where applicable, an impairment analysis is performed at the end of each of the Relevant Periods by considering the probability of default of the industry. Except for specific balances, for which a 100% ECL rate is determined, as at 31 December 2017, 2018 and 2019 and 31 March 2020, the probability of default applied ranged from 0.001% to 1.11%, 0.001% to 1.19%, 0.001% to 1.49% and 0.001% to 1.48% respectively. And the loss given default was estimated to be 46.10%, 46.10%, 65.65% and 65.65% respectively. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

22 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	5,505	16,027	9,583	11,916
Less: Pledged bank balances				
Pledged for interest-bearing bank loans	–	4,000	550	550
Others	828	50	50	50
Cash and cash equivalents	4,677	11,977	8,983	11,316
Denominated in RMB	4,677	11,977	8,983	11,316

The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23 TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the transaction date, is as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	24,373	10,669	22,648	30,194
4 to 6 months	–	–	355	144
7 to 12 months	–	–	473	297
	<u>24,373</u>	<u>10,669</u>	<u>23,476</u>	<u>30,635</u>

Trade payables are non-interest-bearing and are normally settled on credit terms within 3 months.

24 OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Receipts in advance	23,929	69,455	70,522	61,986
Payroll and welfare payables	18,611	19,862	17,100	14,418
Other tax and surcharges payables	8,562	11,730	22,653	22,411
Other payables and accruals*	1,784	3,044	6,288	14,786
Interest payables	–	381	950	1,043
	<u>52,886</u>	<u>104,472</u>	<u>117,513</u>	<u>114,644</u>

* Other payables are non-interest-bearing and repayable on demand.

25 INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	20,000	49,960	61,480	65,520
Other borrowings	87,000	43,000	–	14,000
Total	<u>107,000</u>	<u>92,960</u>	<u>61,480</u>	<u>79,520</u>
<u>Bank loans</u>				
Secured	20,000	49,000	60,520	65,520
Unsecured	–	960	960	–
	<u>20,000</u>	<u>49,960</u>	<u>61,480</u>	<u>65,520</u>
<u>Other borrowings</u>				
Unsecured	87,000	43,000	–	14,000

The Group's bank loans and other borrowings were interest-bearing at rates ranging from 5.40% to 18.25% per annum in 2017, ranging from 5.22% to 18.25% per annum in 2018, ranging from 4.00% to 18.25% per annum in 2019 and ranging from 4.00% to 18.25% per annum in the three months ended 31 March 2020.

As at 31 December 2017, the Group's interest-bearing bank loans of RMB20,000,000 were secured by the pledge of a property owned by a related company, Wuhan Xunyu Technology Co., Ltd. In addition, the above loans were guaranteed by Mr. Fu Xi and Mr. Shui Yingyu.

As at 31 December 2018, the Group's interest-bearing bank loans of RMB37,000,000 were secured by the pledge of a property owned by a related company, Wuhan Xunyu Technology Co., Ltd. In addition, the above loans were guaranteed by Mr. Fu Xi and Mr. Shui Yingyu.

As at 31 December 2018, the Group's interest-bearing bank loans of RMB5,000,000 were guaranteed by Mr. Fu Xi and Mr. Shui Yingyu.

As at 31 December 2018, the Group's interest-bearing bank loans of RMB3,000,000 were guaranteed by Mr. Fu Xi.

As at 31 December 2018, the Group's interest-bearing bank loans of RMB4,000,000 were secured by pledged bank balance.

As at 31 December 2019, the Group's interest-bearing bank loans of RMB5,000,000 were guaranteed by Mr. Fu Xi and Mr. Shui Yingyu.

As at 31 December 2019, the Group's interest-bearing bank loans of RMB5,000,000 were guaranteed by Mr. Fu Xi.

As at 31 December 2019, the Group's interest-bearing bank loans of RMB50,000,000 were secured by the pledge of a property owned by a related company, Wuhan Xunyu Technology Co., Ltd. In addition, the above loans were guaranteed by Mr. Fu Xi. and secured by the pledge of accounts receivable of RMB30,000,000.

As at 31 December 2019, the Group's interest-bearing bank loans of RMB520,000 were secured by pledged deposits of RMB550,000.

As at 31 March 2020, the Group's interest-bearing bank loans of RMB5,000,000 were guaranteed by Mr. Fu Xi and Mr. Shui Yingyu.

As at 31 March 2020, the Group's interest-bearing bank loans of RMB10,000,000 were guaranteed by Mr. Fu Xi.

As at 31 March 2020, the Group's interest-bearing bank loans of RMB50,000,000 were secured by the pledge of a property owned by a related company, Wuhan Xunyu Technology Co., Ltd. In addition, the above loans were guaranteed by Mr. Fu Xi and secured by the pledge of accounts receivable of RMB30,000,000.

As at 31 March 2020, the Group's interest-bearing bank loans of RMB520,000 were secured by pledged deposits of RMB550,000.

26 DIVIDENDS PAYABLE

A subsidiary, Kashgar Yiqiwan declared a dividend of RMB15,000,000 to its then shareholders on 16 December 2019. As at 31 December 2019 and 31 March 2020, RMB15,000,000 and RMB8,352,000 were not paid yet.

27 SHARE CAPITAL

The Company was incorporated in the Cayman Islands on 31 October 2019 with an authorised share capital of USD50,000 divided into 500,000,000 shares at a par value of USD0.0001 each. On the same date, 100,000,000 shares were allotted and issued to then shareholders at par value. The consideration was not received and recorded in the amount due from related parties in the statement of financial position as at 31 March 2020.

28 SHARE-BASED PAYMENTS**Share ownership plan**

The Group operates a share ownership plan (the “plan”) for the purpose of providing the eligible participants the opportunity to acquire equity interests from controlling shareholder and other co-founders at a preferential price to award the past performance and contribution of the eligible participants. The eligible participants include senior management personnel and key employees of the Company’s subsidiaries considered to be able to enhance the operations or the value of the Group.

The percentage of the equity interests and purchase price are solely at the discretion of the controlling shareholder and other co-founders.

In 2017, 4.36% of the equity interest in Wuhan Fulu was allotted to nine eligible participants at a total consideration of RMB859,000 with no vesting conditions. The fair value of the granted equity interest was determined by the management using a discounted cash flow method. The difference between the consideration and the fair value of RMB10,281,000 was charged to profit or loss for the year ended 31 December 2017.

In 2018, 2.84% of the equity interest in Wuhan Fulu originally held by the controlling shareholders was transferred to eight eligible participants, including a director, at nil consideration with no vesting conditions. The fair value of the granted equity interest was determined by the management using a discounted cash flow method. The fair value of shares amounting to RMB13,517,000 was charged to profit or loss for the year ended 31 December 2018.

In 2019, 6.78% of the equity interest in Wuhan Fulu originally held by the controlling shareholders was transferred to twelve eligible participants at a total consideration of RMB16,407,000 with no vesting conditions. The fair value of the granted equity interest amounting to RMB36,331,000 was determined by the management using a discounted cash flow method. The difference between the consideration and the fair value of RMB19,924,000 was charged to profit or loss for the year ended 31 December 2019.

29 RESERVES**Merger reserve**

The merger reserve represents nominal value of paid-up capital of subsidiaries comprising the Group pursuant to the Reorganisation as set out in note 2.1 to the Historical Financial Information.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

30 ACQUISITION OF A SUBSIDIARY**Acquisition of Wuhan Tianshi**

Wuhan Tianshi Technology Co., Ltd. (“Wuhan Tianshi”) was established on 24 July 2014. It is engaged in provision of agency services for virtual goods in telecommunication business. The Group acquired a 100% equity interest in Wuhan Tianshi on 15 July 2017 at a cash consideration of RMB1,500,000.

The fair values of the identifiable assets and liabilities of Wuhan Tianshi upon acquisition were as follows:

	<i>Note</i>	Fair value recognised on acquisition
		<i>RMB'000</i>
Property, plant and equipment	13	36
Prepayments, other receivables and other assets		1,519
Cash and cash equivalents		60
Trade payables		(306)
Other payables and accruals		(483)
		<hr/>
Total identifiable net assets at fair value		826
		<hr/>
Goodwill on acquisition		674
		<hr/>
Satisfied by cash:		
Paid		826
Not yet paid		674
		<hr/>
		1,500
		<hr/>

An analysis of the cash flows in respect of the acquisition is as follows:

	As at 31 December 2017
	<i>RMB'000</i>
Cash consideration paid	826
Cash and cash equivalents acquired	(60)
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	766
	<hr/>

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that not individually identified and separately recognised.

Since the acquisition, Wuhan Tianshi contributed RMB318,000 to the Group's revenue and RMB551,000 to the Group's loss for the year ended 31 December 2017.

Had the acquisition taken place at the beginning of 2017, revenue and profit of the Group for the year ended 31 December 2017 would have been RMB231,038,000 and RMB59,775,000, respectively.

31 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

The Group had non-cash additions to right-of-use assets and lease liabilities of the leases of RMB3,195,000, RMB1,106,000, RMB1,420,000 and RMB449,000 for each of the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, respectively, in respect of lease arrangements of office buildings.

(b) Changes in liabilities arising from financing activities

	Lease liabilities	Due to related parties	Interest- bearing bank and other borrowings	Interest payables	Dividends payable
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	4,855	74,824	13,036	915	—
Changes from financing cash flows	(1,948)	(74,310)	93,964	(5,317)	—
New leases	3,195	—	—	—	—
Accretion of interest	381	—	—	4,402	—
At 31 December 2017 and 1 January 2018	6,483	514	107,000	—	—
Changes from financing cash flows	(2,650)	1,040	(14,040)	(6,255)	(11,200)
New leases	1,106	—	—	—	—
Accretion of interest	413	—	—	6,636	—
Accretion of dividends	—	—	—	—	11,200
At 31 December 2018 and 1 January 2019	5,352	1,554	92,960	381	—
Changes from financing cash flows	(2,215)	1,887	(31,480)	(7,123)	(17,727)
New leases	1,420	—	—	—	—
Termination of lease for lease modification	(2,166)	—	—	—	—
Accretion of interest	256	—	—	7,692	—
Dividends declared	—	—	—	—	32,727
At 31 December 2019 and 1 January 2020	2,647	3,441	61,480	950	15,000
Changes from financing cash flows	(397)	3,736	18,040	(1,377)	(6,648)
New leases	449	—	—	—	—
Accretion of interest	42	—	—	1,470	—
At 31 March 2020	2,741	7,177	79,520	1,043	8,352

32 RELATED PARTY TRANSACTIONS

The Group's principal related parties are as follows:

Name	Relationship with the Company
Mr. Fu Xi	Controlling shareholder, director of the Company and key management personnel of the Group
Wuhan Xunyue Technology Co., Ltd.	Controlled by the Controlling shareholder
Tibet Fuxu Venture Capital Management Partnership	Controlled by the Controlling shareholder
Tibet Fulong Venture Capital Management Partnership	Controlled by the Controlling shareholder
Mr. Shui Yingyu	Director of the Company and key management personnel of the Group
Mr. Zhao Bihao	Director of the Company and key management personnel of the Group
Mr. Xu Jian	Key management personnel of the Group
Mr. Ren Wei	Key management personnel of the Group
Mr. Chen Tianjun	Key management personnel of the Group

- (a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<i>Purchase of right-of-use assets</i>					
Wuhan Xunyue Technology Co., Ltd.	2,700	1,107	—	—	—
<i>Borrowing from related parties</i>					
Mr. Zhao Bihao	6,000	—	2,000	2,000	—
Mr. Xu Jian	—	1,600	—	—	—
Mr. Shui Yingyu	—	—	23,430	—	16,370
Wuhan Xunyue Technology Co., Ltd.	514	1,040	—	—	—
	6,514	2,640	25,430	2,000	16,370

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<i>Repayment of loans to related parties</i>					
Mr. Fu Xi	74,824	–	–	–	–
Mr. Zhao Bihao	6,000	–	2,000	–	–
Mr. Xu Jian	–	1,600	–	–	–
Mr. Shui Yingyu	–	–	20,000	–	12,623
Wuhan Xunyue Technology Co., Ltd.	–	–	1,543	–	11
	<u>80,824</u>	<u>1,600</u>	<u>23,543</u>	<u>–</u>	<u>12,634</u>
<i>Interest paid to related parties</i>					
Mr. Shui Yingyu	–	–	1,103	–	229
Mr. Xu Jian	–	111	–	–	–
Mr. Zhao Bihao	285	–	–	–	–
	<u>285</u>	<u>111</u>	<u>1,103</u>	<u>–</u>	<u>229</u>

Guarantees provided by related parties

During the Relevant Periods, certain of the Group's interest-bearing bank and other borrowings were guaranteed by related parties. For detailed information, please refer to note 25.

(b) Outstanding balances with related parties:

Notes	As at 31 December			As at 31 March	
	2017	2018	2019	2020	
	RMB'000	RMB'000	RMB'000	RMB'000	
<i>Due from related parties</i>					
Mr. Xu Jian (i)	653	2,314	6,196	6,196	
Mr. Zhao Bihao (i)	–	1,271	2,371	2,371	
Mr. Ren Wei (i)	49	892	1,911	1,911	
Mr. Chen Tianjun (i)	515	515	1,677	1,677	
Mr. Shui Yingyu (i)	–	–	76	76	
Shareholders of the Company (ii)	–	–	70	70	
Tibet Fulong Venture Capital Management Partnership	6	20	50	–	
Tibet Fuxu Venture Capital Management Partnership	7	31	29	–	
Wuhan Xunyue Technology Co., Ltd.	12	–	–	–	
	<u>1,242</u>	<u>5,043</u>	<u>12,380</u>	<u>12,301</u>	

Notes	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Due to related parties</i>				
Mr. Shui Yingyu	–	–	3,430	7,177
Wuhan Xunyue Technology Co., Ltd.	514	1,554	11	–
	<u>514</u>	<u>1,554</u>	<u>3,441</u>	<u>7,177</u>
<i>Lease liabilities</i>				
Wuhan Xunyue Technology Co., Ltd.	1,660	2,457	792	676
	<u>1,660</u>	<u>2,457</u>	<u>792</u>	<u>676</u>

- (i) The aggregate amounts due from Mr. Xu Jian, Mr. Zhao Bihao, Mr. Ren Wei, Mr. Chen Tianjun and Mr. Shui Yingyu amounting to RMB1,217,000, RMB4,992,000, RMB12,231,000 and RMB12,231,000 as at 31 December 2017, 2018 and 2019 and 31 March 2020, respectively, were withholding individual income tax for equity-settled shared-based payments.
- (ii) As at 31 December 2019 and 31 March 2020, the balance represented unpaid subscription price for the shares of the Company issued to shareholders of the Company.

Except for the amounts relating to withholding individual income tax as explained in note (i) above and lease liabilities, other balances with related parties were non-trade in nature.

Except for lease liabilities and amounts due to Mr. Shui Yingyu, other balances with related parties were all interest-free and with no fixed repayment terms.

The amounts due to Mr. Shui Yingyu were repayable on demand with an interest of 18.25% per annum.

As at the date of this report, except for the amounts relating to withholding individual income tax as explained in note (i) above and lease liabilities, other outstanding balances with related parties were settled.

- (c) Compensation of key management personnel of the Group

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefit in kind	1,645	2,665	3,368	786	957
Pension scheme contributions	235	273	271	62	11
Equity-settled share-based payments	2,917	8,492	16,362	–	–
Total compensation paid to key management personnel	<u>4,797</u>	<u>11,430</u>	<u>20,001</u>	<u>848</u>	<u>968</u>

Further details of directors' and the chief executive's emoluments are included in note 8 to the Historical Financial Information.

33 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2017, 2018 and 2019 and 31 March 2020 are as follows:

At 31 December 2017*Financial assets*

	Financial assets at amortised cost
	<i>RMB'000</i>
Trade receivables	46,206
Financial assets included in prepayments, other receivables and other assets	80,324
Due from related parties	1,242
Pledged deposits	828
Cash and cash equivalents	4,677
	<u>133,277</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Trade payables	24,373
Financial liabilities included in other payables and accruals	25,713
Lease liabilities	6,483
Due to related parties	514
Interest-bearing bank and other borrowings	107,000
	<u>164,083</u>

At 31 December 2018*Financial assets*

	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity investments at fair value through other comprehensive income	2,750	–	2,750
Trade receivables	–	31,835	31,835
Financial assets included in prepayments, other receivables and other assets	–	72,353	72,353
Due from related parties	–	5,043	5,043
Pledged deposits	–	4,050	4,050
Cash and cash equivalents	–	11,977	11,977
	<u>2,750</u>	<u>125,258</u>	<u>128,008</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Trade payables	10,669
Financial liabilities included in other payables and accruals	72,880
Lease liabilities	5,352
Due to related parties	1,554
Interest-bearing bank and other borrowings	92,960
	<u>183,415</u>

At 31 December 2019*Financial assets*

	Financial assets at amortised cost
	<i>RMB'000</i>
Trade receivables	53,419
Financial assets included in prepayments, other receivables and other assets	101,232
Due from related parties	12,380
Pledged deposits	600
Cash and cash equivalents	8,983
	<u>176,614</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Trade payables	23,476
Financial liabilities included in other payables and accruals	77,760
Lease liabilities	2,647
Due to related parties	3,441
Interest-bearing bank and other borrowings	61,480
Dividends payable	15,000
	<u>183,804</u>

At 31 March 2020

Financial assets

	Financial assets at amortised cost
	<i>RMB'000</i>
Trade receivables	74,348
Financial assets included in prepayments, other receivables and other assets	92,401
Due from related parties	12,301
Pledged deposits	600
Cash and cash equivalents	11,316
	<u>190,966</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Trade payables	30,635
Financial liabilities included in other payables and accruals	77,815
Lease liabilities	2,741
Due to related parties	7,177
Interest-bearing bank and other borrowings	79,520
Dividends payable	8,352
	<u>206,240</u>

34 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Carrying amounts

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
Financial assets measured at fair value through other comprehensive income	–	2,750	–	–

Fair values

	As at 31 December			As at
	2017	2018	2019	31 March
	RMB'000	RMB'000	RMB'000	2020
Financial assets				
Financial assets measured at fair value through other comprehensive income	–	2,750	–	–

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to related parties and short-term interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At the end of each of the Relevant Periods, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of unlisted equity investments designated at fair value through other comprehensive income are determined using a market approach.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018				
Unlisted equity investments, at fair value	–	–	2,750	2,750

The Group did not have any financial assets measured as at fair value at 31 December 2017, 2019 and 31 March 2020.

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2017, 2018 and 2019 and 31 March 2020.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of directors reviews and agrees policies for managing each of the risks which are summarised below:

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2017, 2018 and 2019 and 31 March 2020

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
At 31 December 2017	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	46,438	46,438
Contract assets*	–	–	–	41,334	41,334
Financial assets included in prepayments, other receivables and other assets					
– Normal**	80,635	–	–	–	80,635
– Doubtful**	–	50	15,952	–	16,002
Pledged deposits	828	–	–	–	828
Cash and cash equivalents	4,677	–	–	–	4,677
Due from related parties	1,242	–	–	–	1,242
	<u>87,382</u>	<u>50</u>	<u>15,952</u>	<u>87,772</u>	<u>191,156</u>

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	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
At 31 March 2020	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	76,552	76,552
Contract assets*	–	–	–	42,825	42,825
Financial assets included in prepayments, other receivables and other assets					
– Normal**	90,896	–	–	–	90,896
– Doubtful**	–	2,029	19,657	–	21,686
Pledged deposits	1,081	–	–	–	1,081
Cash and cash equivalents	11,316	–	–	–	11,316
Due from related parties	12,301	–	–	–	12,301
	<u>115,594</u>	<u>2,029</u>	<u>19,657</u>	<u>119,377</u>	<u>256,657</u>

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on external credit ratings and historical credit loss experience is disclosed in note 19 and note 20 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and amounts due to other related parties. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	Within 2 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017					
Lease liabilities	–	2,387	6,378	–	8,765
Interest-bearing bank and other borrowings	–	109,380	–	–	109,380
Trade payables	–	24,373	–	–	24,373
Other payables	1,784	–	–	–	1,784
Due to related parties	514	–	–	–	514
	<u>2,298</u>	<u>136,140</u>	<u>6,378</u>	<u>–</u>	<u>144,816</u>

	<u>On demand</u>	<u>Within 1 year</u>	<u>Within 2 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2018					
Lease liabilities	–	2,686	3,331	–	6,017
Interest-bearing bank and other borrowings	–	95,241	–	–	95,241
Trade payables	–	10,669	–	–	10,669
Other payables	3,425	–	–	–	3,425
Due to related parties	1,554	–	–	–	1,554
	<u>4,979</u>	<u>108,596</u>	<u>3,331</u>	<u>–</u>	<u>116,906</u>
	<u><u>4,979</u></u>	<u><u>108,596</u></u>	<u><u>3,331</u></u>	<u><u>–</u></u>	<u><u>116,906</u></u>
	<u>On demand</u>	<u>Within 1 year</u>	<u>Within 2 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2019					
Lease liabilities	–	1,910	1,088	–	2,998
Interest-bearing bank and other borrowings	–	65,013	–	–	65,013
Trade payables	828	22,648	–	–	23,476
Other payables	7,238	–	–	–	7,238
Due to related parties	3,441	–	–	–	3,441
Dividends payable	15,000	–	–	–	15,000
	<u>26,507</u>	<u>89,571</u>	<u>1,088</u>	<u>–</u>	<u>117,166</u>
	<u><u>26,507</u></u>	<u><u>89,571</u></u>	<u><u>1,088</u></u>	<u><u>–</u></u>	<u><u>117,166</u></u>
	<u>On demand</u>	<u>Within 1 year</u>	<u>Within 2 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 March 2020					
Lease liabilities	–	2,145	846	–	2,991
Interest-bearing bank and other borrowings	–	82,423	–	–	82,423
Trade payables	267	30,368	–	–	30,635
Other payables	15,829	–	–	–	15,829
Due to related parties	7,177	–	–	–	7,177
Dividends payable	8,352	–	–	–	8,352
	<u>31,625</u>	<u>114,936</u>	<u>846</u>	<u>–</u>	<u>147,407</u>
	<u><u>31,625</u></u>	<u><u>114,936</u></u>	<u><u>846</u></u>	<u><u>–</u></u>	<u><u>147,407</u></u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's net debt consists of interest-bearing bank and other borrowings less cash and cash equivalents. Total equity includes equity attributable to owners of the parent.

At the end of each of the Relevant Periods, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	107,000	92,960	61,480	79,520
Less: Cash and cash equivalents	4,677	11,977	8,983	11,316
Net debt	102,323	80,983	52,497	68,204
Equity attributable to owners of the parent	111,317	186,132	253,764	289,926
Total equity and net debt	213,640	267,115	306,261	358,130
Gearing ratio	48%	30%	17%	19%

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of its subsidiaries in respect of any period subsequent to 31 March 2020.

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants and on the basis of the notes set out below, is set forth to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as if the it had taken place on 31 March 2020.

The unaudited pro forma statement of 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 had the Global Offering been completed as at 31 March 2020 or any future dates had the Global Offering been completed on those dates.

	Consolidated net tangible assets attributable to owners of the Company as at 31 March 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 3)</i>	<i>HK\$</i> <i>equivalent</i>
Based on an Offer Price of HK\$6.90 per Share	283,596	567,642	851,238	2.13	2.39
Based on an Offer Price of HK\$8.90 per Share	283,596	737,046	1,020,642	2.55	2.86

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as of 31 March 2020 is arrived at after deducting RMB5,656,000 intangible assets other than goodwill and RMB674,000 goodwill from the consolidated equity attributable to owners of the Company of RMB289,926,000 as of 31 March 2020, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on estimated offer prices of HK\$6.90 or HK\$8.90 per Share after deduction of the underwriting fees and other related expenses payable by our Company and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds are converted into RMB at the rate of RMB1=HK\$1.1215, which is set forth on page 103 of this prospectus. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at the rate or at any other rates at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 Shares are in issue assuming that the Global Offering has been completed on 31 March 2020 and an Offer Price of HK\$6.90 per Share, being the low end of the Offer Price range, and 400,000,000 Shares are in issue assuming that the Global Offering has been completed on 31 March 2020 and an Offer Price of HK\$8.90 per Share, being the high end of the Offer Price range, excluding Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of our Group entered into subsequent to 31 March 2020.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****To the Directors of Fulu Holdings Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Fulu 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 pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 March 2020, and related notes as set out on pages II-1 to II-2 of the prospectus dated 7 September 2020 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 31 March 2020 as if the transaction had taken place at 31 March 2020. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the year ended 31 March 2020, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the 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 (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* 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*, 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 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 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 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 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 Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 transaction would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the 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 transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Certified Public Accountants
Hong Kong

7 September 2020

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 31 October 2019 under the Cayman Companies Law. The Company's constitutional documents consist of its Memorandum and Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- 1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on August 29, 2020. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) Classes of shares

The share capital of the Company consists of ordinary shares.

(b) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation,

by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

(d) Transfer of shares

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the SFC.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(g) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

2.2 Directors

(a) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(g) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(h) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.4 Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under the Cayman Islands laws and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.5 Meetings of members

(a) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the

Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

(d) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(e) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights, the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(f) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(g) Members' requisition for meetings

Extraordinary general meetings shall be convened on the requisition of one or more members holding, as 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 of the Company 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 two 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 (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.

2.6 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the Company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarized financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.7 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the 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 monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.8 Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

2.9 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarized in paragraph 3.6 of this Appendix.

2.10 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:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.11 Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN COMPANIES LAW

The Company was incorporated in the Cayman Islands as an exempted company on 31 October 2019 subject to the Cayman Companies Law. Certain provisions of the Cayman Companies Law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

3.2 Share capital

Under the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (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) any manner provided in section 37 of the Cayman 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.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and

- (b) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company;
or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 20 February 2020.

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.

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members,

including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands.

3.15 Register of directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, a declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated, the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.19 Indemnification

The Cayman Islands laws do not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

3.20 Economic Substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Law, 2018, which became effective on 1 January 2019, together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from July 1, 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

4. GENERAL

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of the Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on October 31, 2019. Our registered office is at 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands. We have established a principal place of business in Hong Kong at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, and registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on February 24, 2020 under the same address. Ms. Lam Yuk Ling, a joint company secretary, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. The address for service of process is the same as our principal place of business in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum of Association and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum of Association and Articles of Association is set out in “Appendix III – Summary of the Constitution of our Company and Cayman Islands Company Law”.

As of the date of this prospectus, our Company’s head office was located at 2nd Floor, Building B2, Phase II, Financial Backstage Service Center, No. 77, Guanggu Avenue Wuhan East Lake New Technology Development Zone, Wuhan, PRC.

2. Changes in the share capital of our Company

On October 31, 2019, our Company was incorporated with an authorized share capital of US\$50,000.00 divided into 500,000,000 shares of a par value of US\$0.0001 each.

The following changes in the share capital of our Company took place during the two years immediately preceding the date of this prospectus:

On October 31, 2019, our Company was incorporated in the Cayman Islands as an exempted company. Upon the incorporation, our Company issued one ordinary share with a par value of US\$0.0001 to Harneys Fiduciary (Cayman) Limited in exchange for US\$0.0001, and Harneys Fiduciary (Cayman) Limited subsequently transferred such share to FuXi Limited on the same date at the same price. On the same date, our Company issued 46,428,099 Shares to FuXi Limited, 15,076,100 Shares to Zhangyuguo Holdings, 15,071,400 Shares to Luzhi Holdings, 7,034,400 Shares to Shuiyingyu Holdings, 6,700,000 Shares to Fuxu Holdings, 6,000,000 Shares to Fuzhi Holdings, 3,690,000 Shares to Zhaobihao Holdings, all with a par value of US\$0.0001.

Immediately following the completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the issued share capital of our Company will be US\$40,000.00, divided into 400,000,000 Shares of US\$0.0001 each, all fully paid or credited as fully paid and 100,000,000 Shares of US\$0.0001 each will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “– A. Further Information about Our Group – 4. Resolutions of our Shareholders’ Meeting convened on August 29, 2020” in this Appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meetings, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed above, there has been no alteration in the authorized or issued share capital of our Company since its incorporation.

3. Changes in the share capital of our subsidiaries and the Consolidated Affiliated Entities

A summary of the corporate information and the particulars of our subsidiaries are set out in note 1 to the Accountants’ Report as set out in Appendix I to this prospectus.

On July 2, 2020, the registered capital of Fulu Technology was increased from RMB10,000,000 to RMB200,000,000. As of the Latest Practicable Date, Fulu Technology is an indirect wholly-owned subsidiary of the Company.

Save as disclosed above, there has been no alteration in the authorized or issued share capital of any of our subsidiaries and the Consolidated Affiliated Entities within the two years immediately preceding the date of this prospectus.

4. Resolutions of our Shareholders’ Meeting convened on August 29, 2020

Pursuant to the resolutions of our Shareholders’ Meeting convened on August 29, 2020, resolutions were passed under which, among other things:

- (i) the revised and restated Memorandum and the Articles of Association were approved and adopted with effect from the Listing Date;
- (ii) conditional on: (a) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (b) the Offer Price being duly determined among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters); and (c) the obligations of

the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the dates as may be specified in the Underwriting Agreements:

- (a) the Global Offering (including the Over-allotment Option) was approved, and the proposed allotment and issue of the Offer Shares under the Global Offering were approved, and the Directors were authorized to determine the Offer Price for, and to allot and issue the Offer Shares and Shares as may be required to be sold and/or issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms;
- (b) conditional upon our share premium account being credited as a result of the Global Offering, our Directors were authorized to capitalize US\$20,000.00 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 200,000,000 Shares for allotment and issue to holders of the Shares whose names appear on the register of members of our Company in proportion (as near as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorized to give effect to such capitalization;
- (c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted and issued or dealt with, such number of Shares as will represent up to 20% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering;
- (d) a general unconditional mandate was granted to our Directors to exercise all of the powers of our Company to repurchase the Shares on the Stock Exchange, or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange, such number of Shares that will represent up to 10% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and the said approval shall be limited accordingly;

- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering, excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option);

Each of the general mandates referred to in sub-paragraphs (c), (d) and (e) above will remain in effect until the earliest of:

- (a) the conclusion of our next annual general meeting;
- (b) the expiration of the period within which our next annual general meeting is required to be held by any applicable law or the Articles of Association; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

5. Buying-back of Our Own Securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the purchase of our own securities.

(a) Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to buy-back their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' Approval

All proposed purchase of securities (which must be fully paid up in the case of Shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on August 29, 2020, our buy-back mandate (the “**Buy-back Mandate**”) was given to our Directors authorizing them to exercise all powers of our Company to buy-back Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may be issued under the Over-allotment Option), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of Funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Islands Companies Law. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Islands Companies Law.

(iii) Trading Restrictions

The total number of shares which a listed company may buy-back on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a buy-back (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 buy-back) 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 more than the average closing market price for the five preceding trading days on which its shares were traded on

the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a buy-back of securities discloses to the Stock Exchange such information with respect to the buy-back as the Stock Exchange may require.

(iv) Status of Brought-back Shares

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the Directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman law.

(v) Suspension of Buy-back

A listed company may not make any purchase of securities after inside information has come to its knowledge until the information has been 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, quarterly 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 or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not buy-back its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a purchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to purchases 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 purchases of securities made during the year, including a monthly analysis of the number of securities brought-back, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Core Connected Persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for Buying-back

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to buy-back Shares in the market. Such purchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such purchases will benefit our Company and Shareholders.

(c) Funding of Buying-back

Purchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. Our Directors may not buy-back the Shares 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. Subject to the foregoing, our Directors may buy-back with profits of the Company or out of a new issuance of shares made for the purpose of the purchase or, if authorized by the Articles of Association and subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of 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 Companies Law, out of capital.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing position which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) General

The exercise in full of the Buy-back Mandate, on the basis of 400,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering, but assuming the Over-allotment Option is not exercised, could accordingly result in up to approximately 40,000,000 Shares being brought-back by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

- the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any purchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any purchases pursuant to the Buy-back Mandate.

Any purchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Buy-back Mandate is exercised.

6. Corporate Reorganization

For further details of the Reorganization which was effected in preparation for the Listing, see "History, Reorganization and Corporate Structure".

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company, our subsidiaries or Consolidated Affiliated Entities within the two years preceding the date of this prospectus and are or may be material:

- (1) the transfer agreement dated December 1, 2019 and entered into among Wuhan Fulu, Wu Xuliang (吳旭亮), Fu Xi (符熙), Zhang Yuguo (張雨果), Shui Yingyu (水英聿), Yang Yuquan (楊玉泉), Tian Xuan (田選), Liu Lufeng (劉魯風), Zhao Bihao (趙筆浩), Ding Chao (丁超), Xu Jian (徐健), Ren Wei (任歲), Mei Qiaojun (梅喬軍), Shen Yaling (沈亞玲), Chen Tianjun (陳天君), Li Jun (李俊), Wang Qiang (王強), Guo Chenxi (郭晨曦) (collectively, the “**Transferees**”), pursuant to which Mr. Wu Xuliang agreed to transfer his entire interests in the Group to the Transferees at the consideration of RMB24,216,224.56 in aggregate;
- (2) the exclusive business cooperation agreement (獨家業務合作協議) dated December 25, 2019 and entered into between WFOE and Wuhan Fulu, pursuant to which Wuhan Fulu agreed to engage WFOE as its exclusive service provider to provide Wuhan Fulu technical support, consultation and other services in return for service fees;
- (3) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Fu Xi (符熙), Wuhan Fulu and WFOE, pursuant to which Fu Xi and Wuhan Fulu agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Wuhan Fulu held by Fu Xi and the assets of Wuhan Fulu for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (4) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Zhang Yuguo (張雨果), Wuhan Fulu and WFOE, pursuant to which Zhang Yuguo and Wuhan Fulu agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Wuhan Fulu held by Zhang Yuguo and the assets of Wuhan Fulu for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (5) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Shui Yingyu (水英聿), Wuhan Fulu and WFOE, pursuant to which Shui Yingyu and Wuhan Fulu agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Wuhan Fulu held by Shui Yingyu and the assets of Wuhan Fulu for a consideration of RMB1 or the lowest price as permitted by the PRC laws;

- (6) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Zhao Bihao (趙筆浩), Wuhan Fulu and WFOE, pursuant to which Zhao Bihao and Wuhan Fulu agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Wuhan Fulu held by Zhao Bihao and the assets of Wuhan Fulu for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (7) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Tibet Fuxu Venture Capital Management Partnership (Limited Partnership) (西藏福旭創業投資管理合夥企業(有限合夥)) (“**Tibet Fuxu**”), Wuhan Fulu and WFOE, pursuant to which Tibet Fuxu and Wuhan Fulu agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Wuhan Fulu held by Tibet Fuxu and the assets of Wuhan Fulu for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (8) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Tibet Fulong Venture Capital Management Partnership (Limited Partnership) (西藏福隆創業投資管理合夥企業(有限合夥)) (“**Tibet Fulong**”), Wuhan Fulu and WFOE, pursuant to which Tibet Fulong and Wuhan Fulu agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Wuhan Fulu held by Tibet Fulong for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (9) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Fu Xi (符熙), Wuhan Fulu and WFOE, pursuant to which Fu Xi agreed to pledge all of his equity interests in Wuhan Fulu to WFOE as collateral security for securing the performance of his obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (10) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Zhang Yuguo (張雨果), Wuhan Fulu and WFOE, pursuant to which Zhang Yuguo agreed to pledge all of his equity interests in Wuhan Fulu to WFOE as collateral security for securing the performance of his obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (11) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Shui Yingyu (水英聿), Wuhan Fulu and WFOE, pursuant to which Shui Yingyu agreed to pledge all of his equity interests in Wuhan Fulu to WFOE as collateral security for securing the performance of his obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;

- (12) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Zhao Bihao (趙筆浩), Wuhan Fulu and WFOE, pursuant to which Zhao Bihao agreed to pledge all of his equity interests in Wuhan Fulu to WFOE as collateral security for securing the performance of his obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (13) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Tibet Fuxu Venture Capital Management Partnership (Limited Partnership) (西藏福旭創業投資管理合夥企業(有限合夥)) (“**Tibet Fuxu**”), Wuhan Fulu and WFOE, pursuant to which Tibet Fuxu agreed to pledge all of its equity interests in Wuhan Fulu to WFOE as collateral security for securing the performance of its obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (14) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Tibet Fulong Venture Capital Management Partnership (Limited Partnership) (西藏福隆創業投資管理合夥企業(有限合夥)) (“**Tibet Fulong**”), Wuhan Fulu and WFOE, pursuant to which Tibet Fulong agreed to pledge all of its equity interests in Wuhan Fulu to WFOE as collateral security for securing the performance of its obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (15) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Fu Xi (符熙), Wuhan Fulu and WFOE, pursuant to which Fu Xi agreed to, among other things, irrevocably authorize WFOE or WFOE’s designated person(s) to exercise all of his powers and rights as the shareholder of Wuhan Fulu;
- (16) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Zhang Yuguo (張雨果), Wuhan Fulu and WFOE, pursuant to which Zhang Yuguo agreed to, among other things, irrevocably authorize WFOE or WFOE’s designated person(s) to exercise all of his powers and rights as the shareholder of Wuhan Fulu;
- (17) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Shui Yingyu (水英聿), Wuhan Fulu and WFOE, pursuant to which Shui Yingyu agreed to, among other things, irrevocably authorize WFOE or WFOE’s designated person(s) to exercise all of his powers and rights as the shareholder of Wuhan Fulu;
- (18) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Zhao Bihao (趙筆浩), Wuhan Fulu and WFOE, pursuant to which Zhao Bihao agreed to, among other things, irrevocably authorize WFOE or WFOE’s designated person(s) to exercise all of his powers and rights as the shareholder of Wuhan Fulu;

- (19) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Tibet Fuxu Venture Capital Management Partnership (Limited Partnership) (西藏福旭創業投資管理合夥企業(有限合夥)) (“**Tibet Fuxu**”), Wuhan Fulu and WFOE, pursuant to which Tibet Fuxu agreed to, among other things, irrevocably authorize WFOE or WFOE’s designated person(s) to exercise all of its powers and rights as the shareholder of Wuhan Fulu;
- (20) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Tibet Fulong Venture Capital Management Partnership (Limited Partnership) (西藏福隆創業投資管理合夥企業(有限合夥)) (“**Tibet Fulong**”), Wuhan Fulu and WFOE, pursuant to which Tibet Fulong agreed to, among other things, irrevocably authorize WFOE or WFOE’s designated person(s) to exercise all of its powers and rights as the shareholder of Wuhan Fulu;
- (21) the exclusive business cooperation agreement (獨家業務合作協議) dated December 25, 2019 and entered into between WFOE and Kashgar Yiqiwan, pursuant to which Kashgar Yiqiwan agreed to engage WFOE as its exclusive service provider to provide technical support, consultation and other services in return for service fees;
- (22) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Zhang Yuguo (張雨果), Kashgar Yiqiwan and WFOE, pursuant to which Zhang Yuguo and Kashgar Yiqiwan agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Kashgar Yiqiwan held by Zhang Yuguo and the assets of Kashgar Yiqiwan for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (23) the exclusive option agreement (獨家購買權協議) dated December 25, 2019 and entered into among Wu Xuliang (吳旭亮), Kashgar Yiqiwan and WFOE, pursuant to which Wu Xuliang and Kashgar Yiqiwan agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Kashgar Yiqiwan held by Wu Xuliang and the assets of Kashgar Yiqiwan for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (24) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Zhang Yuguo (張雨果), Kashgar Yiqiwan and WFOE, pursuant to which Zhang Yuguo agreed to pledge all of his equity interests in Kashgar Yiqiwan to WFOE as collateral security for securing the performance of his obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;

- (25) the equity pledge agreement (股權質押協議) dated December 25, 2019 and entered into among Wu Xuliang (吳旭亮), Kashgar Yiqiwan and WFOE, pursuant to which Wu Xuliang agreed to pledge all of his equity interests in Kashgar Yiqiwan to WFOE as collateral security for securing the performance of his obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (26) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Zhang Yuguo (張雨果), Kashgar Yiqiwan and WFOE, pursuant to which Zhang Yuguo agreed to, among other things, irrevocably authorize WFOE or WFOE's designated person(s) to exercise all of his powers and rights as the shareholder of Kashgar Yiqiwan;
- (27) the power of attorney (授權委託書) dated December 25, 2019 and entered into among Wu Xuliang (吳旭亮), Kashgar Yiqiwan and WFOE, pursuant to which Wu Xuliang agreed to, among other things, irrevocably authorize WFOE or WFOE's designated person(s) to exercise all of his powers and rights as the shareholder of Kashgar Yiqiwan;
- (28) the amended and restated exclusive business cooperation agreement (修訂和重述的獨家業務合作協議) dated January 7, 2020 and entered into between WFOE and Kashgar Yiqiwan, pursuant to which Kashgar Yiqiwan agreed to engage WFOE as its exclusive service provider to provide technical support, consultation and other services in return for service fees;
- (29) the amended and restated exclusive option agreement (修訂和重述的獨家購買權協議) dated January 7, 2020 and entered into among Zhang Yuguo (張雨果), Kashgar Yiqiwan and WFOE, pursuant to which Zhang Yuguo and Kashgar Yiqiwan agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Kashgar Yiqiwan held by Zhang Yuguo and the assets of Kashgar Yiqiwan for a consideration of RMB1 or the lowest price as permitted by the PRC laws;
- (30) the amended and restated exclusive option agreement (修訂和重述的獨家購買權協議) dated January 7, 2020 and entered into among Shen Yaling (沈亞玲), Kashgar Yiqiwan and WFOE, pursuant to which Shen Yaling and Kashgar Yiqiwan agreed to grant WFOE an irrevocable and exclusive right to purchase or designate any person/entity to purchase all or any part of the equity interests in Kashgar Yiqiwan held by Shen Yaling and the assets of Kashgar Yiqiwan for a consideration of RMB1 or the lowest price as permitted by the PRC laws;

- (31) the amended and restated equity pledge agreement (修訂和重述的股權質押協議) dated January 7, 2020 and entered into among Zhang Yuguo (張雨果), Kashgar Yiqiwan and WFOE, pursuant to which Zhang Yuguo agreed to pledge all of his equity interests in Kashgar Yiqiwan to WFOE as collateral security for securing the performance of his obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (32) the amended and restated equity pledge agreement (修訂和重述的股權質押協議) dated January 7, 2020 and entered into among Shen Yaling (沈亞玲), Kashgar Yiqiwan and WFOE, pursuant to which Shen Yaling agreed to pledge all of her equity interests in Kashgar Yiqiwan to WFOE as collateral security for securing the performance of her obligations under the Contractual Arrangements or for any of the secured indebtedness under the Contractual Arrangements;
- (33) the power of attorney (授權委託書) dated January 7, 2020 and entered into among Zhang Yuguo (張雨果), Kashgar Yiqiwan and WFOE, pursuant to which Zhang Yuguo agreed to, among other things, irrevocably authorize WFOE or WFOE's designated person(s) to exercise all of his powers and rights as the shareholder of Kashgar Yiqiwan;
- (34) the power of attorney (授權委託書) dated January 7, 2020 and entered into among Shen Yaling (沈亞玲), Kashgar Yiqiwan and WFOE, pursuant to which Shen Yaling agreed to, among other things, irrevocably authorize WFOE or WFOE's designated person(s) to exercise all of her powers and rights as the shareholder of Kashgar Yiqiwan;
- (35) the Deed of Non-competition;
- (36) the Deed of Indemnity;
- (37) the cornerstone investment agreement dated September 2, 2020, entered into among the Company, CICFH Entertainment Opportunity SPC – Dragonstone Dynamic Trend Fund SP and CMB International Capital Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus;
- (38) the cornerstone investment agreement dated September 2, 2020, entered into among the Company, Successful Lotus Limited and CMB International Capital Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus;
- (39) the cornerstone investment agreement dated September 1, 2020, entered into among the Company, Wuhan Optics Valley Industrial Investment Co., Ltd. (武漢光谷產業投資有限公司) and CMB International Capital Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus;

- (40) the cornerstone investment agreement dated September 2, 2020, entered into among the Company, Wuhan Baijie Group Baidu Promotion Service Co., Ltd. (武漢百捷集團百度推廣服務有限公司) and CMB International Capital Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus;
- (41) the cornerstone investment agreement dated September 2, 2020, entered into among the Company, Perfect World Interactive Entertainment Co., Ltd. and CMB International Capital Limited, details of which are included in the section headed “Our Cornerstone Investors” in this prospectus; and
- (42) the Hong Kong Underwriting Agreement.





2. Intellectual property rights of our Group

As of the Latest Practicable Date, we had registered or have applied for the registration of the following intellectual property rights which we consider to be or may be material in relation to our business.

(i) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Registered owner	Class(es)	Registration number	Expiry date	Place of registration
1.	福祿充值	Wuhan Fulu Network Technology Co., Ltd.	9	14151697	2025-07-20	PRC
2.	福祿游戏网	Wuhan Fulu Network Technology Co., Ltd.	9	19721032	2027-06-06	PRC
3.		Wuhan Fulu Network Technology Co., Ltd.	9	19720953	2027-06-06	PRC
4.		Wuhan Fulu Network Technology Co., Ltd.	9	9732359	2022-10-13	PRC
5.		Wuhan Fulu Network Technology Co., Ltd.	35	19718624	2027-06-06	PRC
6.		Wuhan Fulu Network Technology Co., Ltd.	41	19719021	2027-06-06	PRC
7.		Wuhan Fulu Network Technology Co., Ltd.	41	19720470	2027-06-06	PRC
8.		Wuhan Fulu Network Technology Co., Ltd.	42	19721277	2027-06-06	PRC

No.	Trademark	Registered owner	Class(es)	Registration number	Expiry date	Place of registration
9.		Wuhan Fulu Network Technology Co., Ltd.	42	9732405	2022-09-06	PRC
10.		Wuhan Fulu Network Technology Co., Ltd.	35	19718490	2029-12-13	PRC
11.		Wuhan Fulu Network Technology Co., Ltd.	9, 35, 41, 42	304922839	2029-05-14	Hong Kong
12.		Wuhan Fulu Network Technology Co., Ltd.	9, 35, 41, 42	304922820	2029-05-14	Hong Kong

As of the Latest Practicable Date, we have applied for registration of the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Applicant	Class(es)	Application number	Application Date	Place of registration
1.	氩金	Wuhan Fulu Network Technology Co., Ltd.	9	21528165	2016-10-11	PRC
2.	氩金达人	Wuhan Fulu Network Technology Co., Ltd.	35	21528141	2016-10-11	PRC
3.	福禄网络	Wuhan Fulu Network Technology Co., Ltd.	41	19720457	2016-04-21	PRC
4.	福禄游戏	Wuhan Fulu Network Technology Co., Ltd.	41	19720505	2016-04-21	PRC
5.	福禄网络	Wuhan Fulu Network Technology Co., Ltd.	42	19721309	2016-04-21	PRC

(ii) *Patents*

As of the Latest Practicable Date, we have applied for the registration of the following patents which we consider to be or may be material in relation to our business:

No.	Patent	Applicant	Application number	Application date	Place of application
1.	API interface permission access method, equipment, storage medium and device (API接口權限訪問方法、設備、存儲介質及裝置)	Xinjiang Fulu Network Technology Co., Ltd.	201811379665.2	2018-11-20	PRC

No.	Patent	Applicant	Application number	Application date	Place of application
2.	Data collection system and method based on Nginx (基於Nginx的數據收集系統及方法)	Xinjiang Fulu Network Technology Co., Ltd.	201811379664.8	2018-11-20	PRC

(iii) Copyright

As of the Latest Practicable Date, we have registered the following copyright which we consider to be or may be material in relation to our business:

No.	Copyright name	Owner	Copyright number	Registration date	Place of registration
1.	Fulu T supply system V1.0 (福祿T供貨系統 V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2015SR129739	2015-07-10	PRC
2.	Fulu WAP top-up system V1.0 (福祿WAP充值系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2015SR129487	2015-07-10	PRC
3.	Consignment card transaction management system (寄售卡交易管理系統 V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2015SR129484	2015-07-10	PRC
4.	Jindouyun order direct top-up management system V1.0 (筋斗雲訂單直充管理系統 V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2015SR129478	2015-07-10	PRC
5.	Kamenwang B2B virtual goods e-commerce platform V1.0 (卡門網 B2B虛擬商品電商平台 V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2015SR129473	2015-07-10	PRC
6.	Game automatic top-up system V1.0 (遊戲自動充值系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2015SR129466	2015-07-10	PRC
7.	Jindouyun order direct top-up management system V2.0 (筋斗雲訂單直充管理系統 V2.0)	Wuhan Fulu Network Technology Co., Ltd.	2017SR052044	2017-02-22	PRC

No.	Copyright name	Owner	Copyright number	Registration date	Place of registration
8.	Qianliyan automatic replenishment system V1.0 (千里眼自動補貨系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2017SR052093	2017-02-22	PRC
9.	Fulu T supply system V2.0 (福祿T供貨系統V2.0)	Wuhan Fulu Network Technology Co., Ltd.	2017SR052070	2017-02-22	PRC
10.	Fulu self-service top-up platform system V1.0 (福祿自助充值平台系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2017SR127452	2017-04-20	PRC
11.	Fulu mobile terminal call charge embedded top-up system V1.0 (福祿手機端話費嵌入充值系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2017SR120215	2017-04-17	PRC
12.	Fulu Huishenghuo APP game embedded top-up system V1.0 (福祿惠生活APP遊戲嵌入充值系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2017SR124311	2017-04-19	PRC
13.	Fulu Feifan APP call charge embedded top-up system V1.0 (福祿飛凡APP話費嵌入充值系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2017SR127460	2017-04-20	PRC
14.	Fulu monitoring system v1.0 (福祿監控系統v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR310680	2018-05-07	PRC
15.	E-commerce platform system v1.0 (電商平台系統v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR307710	2018-05-07	PRC
16.	K2 Qianliyan software v1.0 (K2千里眼軟件v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR305228	2018-05-04	PRC
17.	Fulu workbench software V1.0 (福祿工作台軟件V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR305633	2018-05-04	PRC
18.	Fulu member benefits exchange platform V1.0 (福祿會員福利兌換平台V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR307698	2018-05-07	PRC

No.	Copyright name	Owner	Copyright number	Registration date	Place of registration
19.	Fulu internet cafe game top-up mall software v1.0 (福祿網吧遊戲充值商城軟件v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR307716	2018-05-07	PRC
20.	Fulu network entertainment isv top-up system V1.0 (福祿網娛isv充值系統V1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR304994	2018-05-04	PRC
21.	Fulu communications management system v1.0 (福祿通信管理系統v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2019SR0512666	2019-05-23	PRC
22.	Shuyu batch top-up and batch purchase system v1.0 (樹魚批充批採充值採購系統v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2018SR305628	2018-05-04	PRC
23.	Shuyu OPENAPI purchase system v1.0 (樹魚OPENAPI進貨系統v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2019SR0506995	2019-05-23	PRC
24.	Coupon gifting system (點券轉贈系統v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2019SR0512227	2019-05-23	PRC
25.	Fulu virtual order risk system v1.0 (福祿虛擬訂單風險系統v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2019SR0634212	2019-06-19	PRC
26.	Template information platform v1.0 (模板信息平台v1.0)	Wuhan Fulu Network Technology Co., Ltd.	2019SR0508405	2019-05-23	PRC
27.	Shuyu batch top-up and batch purchase system v2.0 (樹魚批充批採充值採購系統v2.0)	Wuhan Fulu Network Technology Co., Ltd.	2019SR0758803	2019-07-22	PRC
28.	Yiqiyou top-up management system V1.0 (一起遊充值管理系統V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR377725	2017-07-18	PRC
29.	Yiqiyou top-up iOS version software V1.0 (一起遊充值iOS版軟件V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR380407	2017-07-18	PRC

No.	Copyright name	Owner	Copyright number	Registration date	Place of registration
30.	Yiqiyou top-up Android version software V1.0 (一起遊充值安卓版軟件V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR380415	2017-07-18	PRC
31.	Yiqiyou top-up H5 version software V1.0 (一起遊充值H5版軟件V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR378038	2017-07-18	PRC
32.	Yiqiyou order automatic top-up system V1.0 (一起遊訂單自動充值系統V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR380347	2017-07-18	PRC
33.	Yiqiyou Qianshou platform system V1.0 (一起遊千手平台系統V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR380411	2017-07-18	PRC
34.	Yiqiyou game automatic top-up system V1.0 (一起遊遊戲自動充值系統V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR380420	2017-07-18	PRC
35.	Yiqiyou inventory hosting system V1.0 (一起遊庫存託管系統V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR380421	2017-07-18	PRC
36.	Yiqiyou card top-up system V1.0 (一起遊卡類充值系統V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR379270	2017-07-18	PRC
37.	Yiqiyou consignment card WAP merchant access system V1.0 (一起遊寄售卡WAP商戶接入系統V1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2017SR380545	2017-07-18	PRC
38.	Yiqiyou game leveling system v1.0 (一起遊代練系統v1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2019SR0508013	2019-05-23	PRC
39.	Yiqiyou WeChat Apple Card sales client system v1.0 (一起遊微信蘋果卡銷售客戶端系統v1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2019SR0507113	2019-05-23	PRC

No.	Copyright name	Owner	Copyright number	Registration date	Place of registration
40.	Yiqiyou WeChat Apple Card distribution system v1.0 (一起遊蘋果卡微信分銷系統v1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2019SR0508324	2019-05-23	PRC
41.	Yiqiyou inventory management system V1.0 (一起遊庫存管理系統v1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2019SR0512235	2019-05-23	PRC
42.	Yiqiyou iOS service platform v1.0 (一起遊iOS服務平台v1.0)	Wuhan Yiqiyou Network Technology Co., Ltd.	2019SR0513049	2019-05-23	PRC
43.	Souka top-up management platform v1.0 (搜卡充值管理平台v1.0)	Wuhan Souka Technology Co., Ltd.	2018SR307371	2018-05-07	PRC
44.	Souka consignment card H5 merchant access system V1.0 (搜卡寄售卡H5商戶接入系統V1.0)	Wuhan Souka Technology Co., Ltd.	2018SR305222	2018-05-04	PRC
45.	Souka consignment card top-up AFK system V1.0 (搜卡寄售卡充值掛機系統V1.0)	Wuhan Souka Technology Co., Ltd.	2018SR305099	2018-05-04	PRC
46.	Souka consignment card fast and slow top-up and AFK system V1.0 (搜卡寄售卡快慢充掛機系統V1.0)	Wuhan Souka Technology Co., Ltd.	2018SR304979	2018-05-04	PRC
47.	Souka consignment card transaction management system v1.0 (搜卡寄售卡交易管理系統v1.0)	Wuhan Souka Technology Co., Ltd.	2018SR305094	2018-05-04	PRC
48.	Souka voice top-up software v1.0 (搜卡語音充值軟件v1.0)	Wuhan Souka Technology Co., Ltd.	2018SR305433	2018-05-04	PRC
49.	Steam game gifting system v1.0 (Steam遊戲贈送系統v1.0)	Wuhan Souka Technology Co., Ltd.	2018SR307377	2018-05-07	PRC

No.	Copyright name	Owner	Copyright number	Registration date	Place of registration
50.	Souka Technology Steam game platform mobile terminal v1.0 (搜卡科技Steam遊戲平台移動端v1.0)	Wuhan Souka Technology Co., Ltd.	2019SR0391194	2019-04-25	PRC
51.	Souka Technology Steam ornament mobile platform v1.0 (搜卡科技Steam飾品移動平台v1.0)	Wuhan Souka Technology Co., Ltd.	2019SR0391205	2019-04-25	PRC
52.	Souka Technology Steam ornament trading platform v1.0 (搜卡科技Steam飾品交易平台v1.0)	Wuhan Souka Technology Co., Ltd.	2019SR0391185	2019-04-25	PRC
53.	Souka Technology consignment card transaction management system (搜卡科技寄售卡交易管理系統)	Wuhan Souka Technology Co., Ltd.	2019SR0393211	2019-04-25	PRC
54.	Xinjiang Fulu top-up platform v1.0 (新疆福祿充值平台v1.0)	Xinjiang Fulu Network Technology Co., Ltd.	2018SR875279	2018-11-01	PRC
55.	Risk control system v1.0 (風控系統v1.0)	Xinjiang Fulu Network Technology Co., Ltd.	2018SR976124	2018-12-04	PRC
56.	Fenghuolun software v1.0 (風火輪軟件v1.0)	Xinjiang Fulu Network Technology Co., Ltd.	2018SR975543	2018-12-04	PRC
57.	Souka Technology consignment card H5 merchant access system v2.0 (搜卡科技寄售卡H5商戶接入系統v2.0)	Wuhan Souka Technology Co., Ltd.	2019SR0851331	2019-08-15	PRC
58.	Souka Technology Steam game promotion platform v1.0 (搜卡科技Steam遊戲推廣平台v1.0)	Wuhan Souka Technology Co., Ltd.	2019SR0815645	2019-08-06	PRC

(iv) Domain name

As of the Latest Practicable Date, we have registered the following domain names which we consider to be or may be material to our business:

No.	Domain name	Registered owner	Date of registration	Expiry date
1.	fulu.com	Wuhan Fulu Network Technology Co., Ltd.	2001-11-17	2023-11-17
2.	kacangwang.com	Wuhan Fulu Network Technology Co., Ltd.	2010-04-28	2021-04-28
3.	shuyuu.com	Wuhan Fulu Network Technology Co., Ltd.	2017-02-17	2021-02-17
4.	yiqiyoud.cc	Wuhan Yiqiyoud Network Technology Co., Ltd.	2014-07-21	2021-07-21
5.	fulugou.com	Wuhan Yiqiyoud Network Technology Co., Ltd.	2013-06-20	2021-06-20
6.	fulugou.net	Wuhan Yiqiyoud Network Technology Co., Ltd.	2013-06-20	2021-06-20
7.	fulugame.com	Wuhan Yiqiyoud Network Technology Co., Ltd.	2016-01-04	2021-01-04
8.	qsios.cn	Wuhan Yiqiyoud Network Technology Co., Ltd.	2018-04-25	2021-04-25
9.	ksyiqiwan.com	Kashgar Yiqiwan Network Technology Co., Ltd.	2017-07-24	2021-07-24
10.	lishuokeyi.com	Wuhan Lishuo Technology Co., Ltd.	2017-07-13	2021-07-13
11.	xjfulu.com	Xinjiang Fulu Network Technology Co., Ltd.	2018-04-25	2021-04-25
12.	xzfulu.com	Tibet Fulu Network Technology Co., Ltd.	2018-04-26	2021-04-26
13.	whtianshi.com	Wuhan Tianshi Technology Co., Ltd.	2017-06-09	2021-06-09
14.	jishouka.com	Wuhan Souka Technology Co., Ltd.	2015-01-05	2021-01-05
15.	vgcool.com	Wuhan Souka Technology Co., Ltd.	2018-02-03	2021-02-03
16.	hbkeyin.com	Hubei Keyin Network Technology Co., Ltd.	2017-07-13	2021-07-13
17.	wzpeilian.com	Hubei Keyin Network Technology Co., Ltd.	2018-01-03	2021-01-03
18.	wuhanyilu.com	Wuhan Yilu Network Technology Co., Ltd.	2017-05-17	2021-05-17

No.	Domain name	Registered owner	Date of registration	Expiry date
19.	xjhulu.com	Xinjiang Huluwa Network Technology Co., Ltd.	2019-04-24	2021-04-24
20.	xjhuluwa.com	Xinjiang Huluwa Network Technology Co., Ltd.	2019-04-24	2021-04-24
21.	fulunet.cn	Wuhan Fulu Network Technology Co., Ltd.	2010-05-06	2021-05-06
22.	kacang.cn	Wuhan Fulu Network Technology Co., Ltd.	2010-05-06	2021-05-06
23.	kacangwang.cn	Wuhan Fulu Network Technology Co., Ltd.	2010-05-06	2021-05-06
24.	kacangwang.net	Wuhan Fulu Network Technology Co., Ltd.	2010-04-28	2021-04-28
25.	kamennet.com	Wuhan Fulu Network Technology Co., Ltd.	2010-05-15	2021-05-15
26.	kamenwang.cn	Wuhan Fulu Network Technology Co., Ltd.	2010-05-06	2021-05-06
27.	kamenwang.com	Wuhan Fulu Network Technology Co., Ltd.	2010-04-28	2021-04-28
28.	kashangwang.cn	Wuhan Fulu Network Technology Co., Ltd.	2010-05-06	2021-05-06
29.	soouu.cn	Wuhan Fulu Network Technology Co., Ltd.	2017-02-17	2021-02-17
30.	sooyur.com	Wuhan Fulu Network Technology Co., Ltd.	2017-02-17	2021-02-17
31.	suuyuu.cn	Wuhan Fulu Network Technology Co., Ltd.	2017-02-17	2021-02-17
32.	suyur.com	Wuhan Fulu Network Technology Co., Ltd.	2017-02-17	2021-02-17
33.	soukakeji.com	Wuhan Souka Technology Co., Ltd.	2017-07-13	2021-07-13
34.	hubeikejin.com	Hubei Kejin Network Technology Co., Ltd.	2020-06-12	2021-06-12

Save as disclosed above, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

Save as disclosed below, immediately following completion of the Capitalization Issue and the Global Offering, so far as our Directors are aware, none of our Directors, or chief executive has any interests or short positions in our Shares, underlying Shares and debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which have been taken or deemed to have been 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 or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(i) Interest in Shares and underlying Shares

Name of Director	Nature of interest	Number of underlying Shares	Approximate% shareholding interest immediate following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	Approximate% shareholding interest immediate following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is exercised in full)
Mr. Fu Xi	Interest in controlled corporations ⁽²⁾	176,634,600	44.16%	42.56%
Mr. Zhang Yuguo	Interest in a controlled corporation ⁽³⁾	45,999,600	11.50%	11.08%
Mr. Shui Yingyu	Interest in a controlled corporation ⁽⁴⁾	21,103,200	5.28%	5.09%
Mr. Zhao Bihao	Interest in a controlled corporation ⁽⁵⁾	16,828,800	4.21%	4.06%

Notes:

(1) All interests stated are long position.

- (2) Mr. Fu Xi holds the entire share capital of FuXi Limited, Fuzhi Holdings and Fuxu Holdings, which in turn directly holds 176,634,600 Shares. Under the SFO, Mr. Fu Xi is deemed to be interested in the Shares held by FuXi Limited, Fuzhi Holdings and Fuxu Holdings.
- (3) Mr. Zhang Yuguo holds the entire share capital of Zhangyuguo Holdings, which in turn directly holds 45,999,600 Shares. Under the SFO, Mr. Zhang Yuguo is deemed to be interested in the Shares held by Zhangyuguo Holdings.
- (4) Mr. Shui Yingyu holds the entire share capital of Shuiyingyu Holdings, which in turn directly holds 21,103,200 Shares. Under the SFO, Mr. Shui Yingyu is deemed to be interested in the Shares held by Shuiyingyu Holdings.
- (5) Mr. Zhao Bihao holds the entire share capital of Zhaobihao Holdings, which in turn directly holds 16,828,800 Shares. Under the SFO, Mr. Zhao Bihao is deemed to be interested in the Shares held by Zhaobihao Holdings.

(ii) Interest in associated corporations

Name of director or chief executive	Nature of interest	Associated corporations	Amount of registered capital (RMB)	Percentage of shareholding in the associated corporation
Mr. Fu Xi	Beneficial interest	Wuhan Fulu	9,850,000	50.03%
	Interest of controlled corporation ⁽²⁾	Wuhan Fulu	4,759,091	24.17%
	Total interest of Mr. Fu Xi in Wuhan Fulu		14,609,091	74.20%
Mr. Zhang Yuguo	Beneficial interest	Wuhan Fulu	2,968,324	15.08%
	Beneficial interest ⁽³⁾	Kashgar Yiqiwan	9,900,000	99%
Mr. Shui Yingyu	Beneficial interest	Wuhan Fulu	1,384,998	7.03%
Mr. Zhao Bihao	Beneficial interest	Wuhan Fulu	726,522	3.69%

Notes:

- (1) All interests stated are long position.
- (2) Mr. Fu Xi is the general partner of Tibet Fuxu and Tibet Fulong, which in turn directly hold 12.72% and 11.45% of the equity interests in Wuhan Fulu respectively. Under the SFO, Mr. Fu Xi is deemed to be interested in the 24.17% together held by Tibet Fuxu and Tibet Fulong in Wuhan Fulu.
- (3) Mr. Zhang Yuguo is holding 99% equity interest in Kashgar Yiqiwan as registered shareholder of Kashgar Yiqiwan, as designated by WFOE.

2. Substantial Shareholders

For information on the persons who will, immediately following the completion of the Capitalization Issue and the Global Offering, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, see “Substantial Shareholders”.

Save as set out above, as of the Latest Practicable Date, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering, be interested, directly or indirectly, 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 member of our Group or have an option in respect of such capital.

3. Particulars of Directors’ Service Contracts and Appointment Letter

(a) Executive Directors

Each of our executive Directors has entered into a service contract with our Company on August 29, 2020. Pursuant to this agreement, they agreed to act as executive Directors for an initial term of three years with effect from the date the appointment is approved by the Board until the third annual general meeting of our Company since the Listing Date (whichever is sooner). Either party has the right to give not less than three months’ written notice to terminate the agreement. Details of the Company’s remuneration policy is described in “Directors and Senior Management – Directors’ and Senior Management’s Remuneration”.

(b) Independent non-executive Directors

Our Board does not have non-executive Directors.

Each of the independent non-executive Directors has entered into an appointment letter with our Company on August 29, 2020. The initial term for their appointment letters shall be three years from the date of this prospectus or until the third annual general meeting of the Company since the Listing Date, whichever is sooner (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months’ prior notice in writing.

4. Directors’ Remuneration

The remuneration of our Directors are paid in the form of salaries, allowances, benefits in kind, pension scheme contributions and share-based payments. The aggregate amount of salaries, allowances and benefits in kind, pension scheme contributions and share-based

payments we paid to our Directors for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 were approximately RMB790,000, RMB4,118,000, RMB4,788,000 and RMB442,000, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in the Accountants' Report in Appendix I to this prospectus.

Under the arrangements currently in force, it is estimated that the aggregate amounts of remuneration costs (including salaries, allowances, benefits in kind, pension scheme contributions and share-based payments) payable by our Group to our Directors for the year ended December 31, 2020 is expected to be approximately RMB4,700,000.

The five highest paid individuals of our Group for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020 include nil, one, one and two Directors, respectively whose remuneration is included in the aggregate amount of salaries, allowances, benefits in kind, pension scheme contributions and share-based payments we paid to the relevant Directors as set above. For the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, the aggregate amount of salaries, allowances, benefits in kind, pension scheme contributions and equity-settled share-based payments paid who are not a Director is RMB10,440,000, RMB10,899,000, RMB16,762,000 and RMB472,000, respectively. Further details on the remuneration of the five highest paid individuals during the Track Record Period is set out in the Accountants' Report in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to any Director or any of the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by any Director or any of the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments 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 our Directors by our Group.

5. Disclaimers

Save as disclosed in "Directors and Senior Management", "Relationship with Our Controlling Shareholders", and "– C. Further Information about Our Directors and Substantial Shareholders – 3. Particulars of Directors' Service Contracts and Appointment Letter":

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of our Group;

- (b) 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 our Group taken as a whole; and
- (c) none of the Directors is interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

D. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favor of our Company (for itself and on behalf of its subsidiaries and the Consolidated Affiliated Entities) (being the contract referred to in paragraph (36) of the paragraph headed “– B. Further Information about Our Business – 1. Summary of Material Contracts” above) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional and all losses, liabilities or damages suffered by it in connection with certain historical non-compliances referred to in “Business – Licenses, Permits and Approvals” and the legal proceedings referred to in “Business – Legal Proceedings and Regulatory Compliance”.

2. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our business, finance condition or results of operations.

3. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor will receive an aggregate fee of US\$500,000 for acting as the sponsor for the Listing.

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue and the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option). All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

4. Preliminary expenses

The Company did not incur any material preliminary expenses.

5. No material adverse change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since March 31, 2020 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

6. Promoters

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

7. Taxation of holders of Shares***(i) Hong Kong***

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(ii) Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of Shares.

(iii) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. Qualifications and consents of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualifications
CMB International Capital Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
CM Law Firm	Legal advisers as to PRC law to our Company
Harney Westwood & Riegels	Cayman Islands attorney-at-law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

Each of the experts named above has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report, letter, opinions or summaries of opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

As of the Latest Practicable Date, none of the experts named above has any shareholding interest in our Company or any of our subsidiaries or Consolidated Affiliated Entities or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

9. Binding Effect

This prospectus shall have the effect, if an application is made pursuant to this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. 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 (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and Chinese language version of this prospectus, the English language version shall prevail.

11. Miscellaneous

- (i) Save as disclosed in “History, Reorganization and Corporate Structure”, “Financial Information” and “Underwriting”, within the two years immediately preceding the date of this prospectus:
 - (a) none of the Company, its subsidiaries or its Consolidated Affiliated Entities has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash; and
 - (b) no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any shares in or debentures of our Company or any of our subsidiaries;
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (iv) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus;
- (v) save as disclosed in the paragraph headed “– B. Further Information about Our Business – 1. Summary of Material Contracts” in this section, none of our Directors or proposed Directors or experts (as named in this prospectus), have any interest, direct or indirect, 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 our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (vi) no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;
- (vii) our Company has no outstanding convertible debt securities or debentures;
- (viii) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (ix) there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the written consents referred to in “Appendix IV – Statutory and General Information – D. Other Information – 8. Qualifications and Consents of Experts”; and
- (c) a copy of each of the material contracts referred to in “Appendix IV – Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts”.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Latham & Watkins LLP at 18th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours up to and including the day which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information from Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Company for the three years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020;
- (e) the report issued by Frost & Sullivan, the summary of which is set forth in “Industry Overview”;
- (f) the legal opinion issued by CM Law Firm, our legal advisor as to PRC law, in respect of certain aspects of our Group in the PRC;
- (g) the legal opinion issued by Harney Westwood & Riegels, our legal advisor on Cayman Islands laws, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this prospectus;

- (h) the material contracts referred to in “Appendix IV – Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts”;
- (i) the written consents referred to in “Appendix IV – Statutory and General Information – D. Other Information – 8. Qualifications and Consents of Experts”;
- (j) the service contracts and letters of appointment referred to in “Appendix IV – Statutory and General Information – C. Further Information about our Directors and Substantial Shareholders – 3. Particulars of Directors’ Service Contracts and Appointment Letter”; and
- (k) the Cayman Companies Law.

