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## WAIVERS AND EXEMPTIONS

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In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (WUMP) Ordinance and have applied for a ruling under the Takeovers Codes:

<b>No.</b>	<b>Rules</b>	<b>Subject matter</b>
1.	Rule 2.07A of the Hong Kong Listing Rules	Printed Corporate Communications
2.	Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules	Investments and Acquisitions after the Track Record Period
3.	Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance	Disclosure Requirements Relating to the Accountant's Report
4.	Rule 9.09(b) of the Hong Kong Listing Rules	Dealings in Shares prior to Listing
5.	Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules	Subscription for Shares by Existing Shareholders
6.	Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules	Printed Prospectuses
7.	Rule 13.25B of the Hong Kong Listing Rules	Monthly Return
8.	Rule 19C.07(3) of the Hong Kong Listing Rules	Shareholder Protection Requirements in Relation to Approval, Removal and Remuneration of Auditors
9.	Paragraphs 13 and 26 of Appendix 1A to the Hong Kong Listing Rules and Paragraphs 11, 14 and 25 of the Third Schedule to the Companies (WUMP) Ordinance	Particulars of any Commissions, Discounts and Brokerages, Alterations of Capital and Authorized Debentures
10.	Paragraph 29(1) of Appendix 1A to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (WUMP) Ordinance	Disclosure of Information on Subsidiaries Whose Profits or Assets Make Material Contribution to Us

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No.	Rules	Subject matter
11.	Paragraph 27 of Appendix 1A to the Hong Kong Listing Rules and Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance	Disclosure Requirements of Options
12.	Guidance Letter HKEX-GL37-12	Timing Requirement of Liquidity Disclosure
13.	Paragraphs 33(2), 33(3), 46(2), 46(3) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements of the Remuneration of Directors and Five Individuals Whose Emoluments Were Highest
14.	Section 4.1 of the Introduction to the Takeovers Codes	Determination of Whether a Company is a “Public Company in Hong Kong”
15.	Part XV of the SFO	Disclosure of Interests
16.	Paragraphs 41(4) and 45 of Appendix 1A to and Practice Note 5 of the Hong Kong Listing Rules	Disclosure of Interests Information
17.	Paragraph 3(b) of Practice note 15 to the Hong Kong Listing Rules	Three-Year Restriction on Spin-offs
18.	Paragraph 15(2)(c) of Appendix 1A to the Hong Kong Listing Rules	Disclosure of Offer Price
19.	Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules	Clawback Mechanism
20.	Paragraphs 28(1)(b)(i), (ii) and (v) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements in Respect of Suppliers

### PRINTED CORPORATE COMMUNICATIONS

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer’s own website or the listed issuer’s constitutional documents contain provision to that effect, and certain conditions are satisfied.

Our ADSs have been listed on the Nasdaq since 2000. We have a diverse shareholder base with ADS holders globally.

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We do not currently produce or send out any corporate communications to our shareholders or holders of ADSs in printed form unless requested or in limited circumstances. We publicly file or furnish various corporate communications with the SEC which are posted on the SEC's website. Our annual reports on Form 20-F and current reports on Form 6-K and all amendments to these reports, are also available free of charge on our website as soon as reasonably practicable after they are filed with or furnished to the SEC. Further, we will post our proxy materials and notices to our shareholders and holders of ADSs on a publicly accessible website. In addition, the depository bank which administers our ADS program will send a notice as well as an ADS voting instruction card to our ADS holders.

Apart from the Hong Kong Offer Shares that we will offer for subscription by the public in Hong Kong, the International Offer Shares will be placed to professional, institutional, corporate and other investors in Hong Kong and elsewhere in the world. Given our diverse shareholder base and the potential number of countries in which our shareholders are located, we consider that it would not be practicable for us to send printed copies of all our corporate communications to all of our shareholders. Further, we consider that it would also not be practicable for us to approach our existing shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communications in printed form instead.

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 2.07A of the Hong Kong Listing Rules on the conditions that we will:

- (a) issue all future corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese;
- (b) provide printed copies of proxy materials in English to our shareholders at no costs upon request; and
- (c) ensure that the "Investor Relations" page of our website (ir.netease.com) will direct investors to all of our future filings with the Hong Kong Stock Exchange.

### **INVESTMENTS AND ACQUISITIONS AFTER THE TRACK RECORD PERIOD**

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules, the accountant's report to be included in the listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document.

We may increase our direct or indirect equity interest in entities that are already majority controlled and are consolidated in our financial statements. As these increases in equity interests do not involve the acquisition of a company or a business, and the financial contribution of the relevant entities are already reflected in our financial statements, we do not believe that such transactions represent an acquisition for the purpose of Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules.

Pursuant to the Hong Kong Stock Exchange's Guidance Letter HKEX-GL32-12 ("**GL32-12**"), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Hong Kong Stock Exchange may consider granting a

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waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

### Ordinary course Investments since December 31, 2019

During the Track Record Period, we have made minority investments in a large number of companies both in China and overseas in the ordinary and usual course of business to further our strategic objectives. Since December 31, 2019 and up to the Latest Practicable Date, we have made or propose to make minority investments in a number of companies, and we expect to continue to enter into further minority investments subsequent to the Latest Practicable Date and prior to the date of this document (collectively, the “Investments”). Details of the Investments up to the Latest Practicable Date include:

<u>Investment</u> <sup>(1)(3)</sup>	<u>Consideration</u> <sup>(2)</sup> (approximately RMB million)	<u>Percentage of shareholding/ equity interest</u> <sup>(2)</sup>	<u>Principal business activities</u>
Company A	147.40	12%	Internet Business
Company B	134.42	22%	Game Business
Company C	69.76	20%	Game Business
Company D	62.79	34%	Game Business
Company E	60.00	20%	Game Business
Company F	45.96	16%	Game Business
Company G	32.79	21%	Game Business
Company H	31.82	16%	Game Business
Company I	31.39	25%	Game Business
Company J	14.00	24%	Game Business
Company K	11.67	20%	Music Business
Company L	8.00	6%	Education Business
Company M	5.50	2%	Education Business
Company N	5.00	5%	Education Business
Company O	3.50	11%	Education Business

Notes:

- (1) Given that we have not yet entered into legally binding agreements for certain of the above Investments as at the Latest Practicable Date, the terms and information set out above might be subject to further changes.
- (2) The approximate consideration disclosed in the table represents each of the Investment after December 31, 2019. The percentage of shareholding/equity interest represents our total *pro forma* shareholding in each of the Investments after the completion of the disclosed transaction.
- (3) None of the core connected persons at the level of our Company is a controlling shareholder of any of the Investments. The investment amounts for the Investments are the result of commercial arm’s length negotiations, based on factors including, market dynamics, a mutually agreed valuation, and/or capital need of the relevant company’s operations.

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We confirm that the investment amounts for the Investments are the result of commercial arm's length negotiations, based on factors including market dynamics, a mutually agreed valuation, and/or capital need of the relevant company's operations.

### **Conditions for granting the waiver and its scope in respect of the Investments**

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the Investments on the following grounds:

#### ***Ordinary and usual course of business***

We make equity investments in sectors relating to our business as part of our ordinary and usual course of business. We have a history of making minority investments and have conducted a number of minority investments during the Track Record Period.

#### ***The percentage ratios of each Investment are all less than 5% by reference to the most recent fiscal year of the Track Record Period***

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for each of the Investments are all significantly less than 5% by reference to the most recent fiscal year of the Track Record Period. We do not believe that the Investments are subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules, because (i) each of the Investments involves the acquisition of interests in a different company and (ii) the Investments were entered into, or are expected to be entered into, with different counterparties.

Accordingly, we believe that the Investments have not resulted in or are not expected to result in any significant changes to our financial position since December 31, 2019, and all information that is reasonably necessary for potential investors to make an informed assessment of our activities or financial position has been included in this document. As such, we consider that a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investors.

#### ***We are not able to exercise any control over the underlying company or business***

We only hold and/or will only hold a minority equity interest in each of the Investments and do not control their boards of directors, and expect this to remain the case for any subsequent Investments. We are also not involved in the day to day management of these Investments and only enjoy minority strategic shareholder rights. The minority rights given to us are generally commensurate to our status as a minority shareholder and are for the protection of our interests as a minority stakeholder in the Investments. These rights are neither intended, nor sufficient to compel or require the relevant companies to prepare or to disclose in this document audited financial statements for the purposes of compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules. These disclosures are also not required pursuant to applicable U.S. securities laws. It could be prejudicial and potentially harmful to our portfolio relationships and commercial interests to make such disclosures. In addition, as some portfolio companies are private, disclosing this information could harm their interests and bring them into an unfavorable competitive position. Accordingly, as we do not expect the Investments to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interest of investors.

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### *Alternative disclosure of the Investments in this document*

We have disclosed alternative information about the Investments in this document. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the principal business activities, the investment amounts, and a statement that none of the core connected persons at the level of our Company is a controlling shareholder of any of the Investments. We have however excluded disclosure on the names of certain companies in connection with the Investments in this document because (i) we have entered into confidentiality agreements with these companies and do not have consent for such disclosure and/or (ii) given that we have not yet entered into legally binding agreements with respect to all of the Investments as of the Latest Practicable Date and the competitive nature of the industries in which we operate, disclosure of the names of the relevant companies in this document is commercially sensitive and may jeopardize our ability to consummate the proposed Investments. It is commercially sensitive to disclose the identities of the companies we invested in or propose to invest in as such information may enable our competitors to anticipate our strategy. Since the relevant percentage ratio of each Investment is less than 5% by reference to the most recent fiscal year of our Track Record Period, we believe the current disclosure is adequate for potential investors to form an informed assessment of us. We do not expect to use any proceeds from the Listing to fund the Investments.

### *Acquisitions since December 31, 2019*

Since December 31, 2019, we have made or proposed to make a number of acquisitions of a majority interest in certain companies and up to the Latest Practicable Date, and we expect to continue to enter into further acquisitions subsequent to the Latest Practicable Date and prior to the date of this document (collectively, the “**Acquisitions**”). Details of the Acquisition(s) up to the Latest Practicable Date include (other than those, the considerations of which were less than RMB one million — being less than 0.005% of our total assets as of December 31, 2019 and revenue and profit for the year ended December 31, 2019):

<b>Targets<sup>(1)(2)</sup></b>	<b>Consideration<sup>(3)</sup></b> <b>(approximately</b> <b>RMB million)</b>	<b>Percentage of</b> <b>shareholding/</b> <b>equity interest<sup>(3)</sup></b>	<b>Principal business activities</b>
Company P	168.31	63%	Game Business
Company Q	29.50	85%	Education Business
Company R	7.70	93%	Education Business

Notes:

- (1) Given that we have not yet entered into legally binding agreements for certain of the above Acquisitions as at the Latest Practicable Date, the terms and information set out above might be subject to further changes.
- (2) None of the core connected persons at the level of our Company is a controlling shareholder of the Acquisition(s).
- (3) The approximate consideration disclosed in the table represents the Acquisition(s) after December 31, 2019. The percentage of shareholding/equity interest represents our total pro forma shareholding in the Acquisition(s) after the completion of disclosed transaction.

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The acquisition amounts for the Acquisitions are the result of commercial arm's length negotiations, based on factors including market dynamics, a mutually agreed valuation, and/or capital required for the target company's operations.

### **Conditions for granting the waiver and its scope in respect of the Acquisitions**

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the Acquisitions on the following grounds:

#### ***The percentage ratios of each Acquisition are all less than 5% by reference to the most recent fiscal year of our Track Record Period***

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for the Acquisitions are all significantly less than 5% by reference to the most recent fiscal year of the Track Record Period. We do not believe that the Acquisitions are subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules, because (i) each of the Acquisitions involves the acquisition of interests in a different company and (ii) the Acquisitions were entered into, or are expected to be entered into, with different counterparties.

Accordingly, the Acquisitions have not resulted in or are not expected to result in any significant changes to our financial position since December 31, 2019, and all information that is reasonably necessary for the potential investors to make an informed assessment of our activities or financial position has been included in this document. As such, a waiver from compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investors.

#### ***The historical financial information of the targets is not available and would be unduly burdensome to obtain or prepare***

The targets do not have available historical financial information which is readily available for disclosure in this document in accordance with the Hong Kong Listing Rules. In addition, it would require considerable time and resources for us and our reporting accountant to fully familiarize ourselves with the management accounting policies of the targets and compile the necessary financial information and supporting documents for disclosure in this document. As such, we believe it would be impractical and unduly burdensome for us to disclose the audited financial information of the targets as required under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules.

In addition, having considered the Acquisitions immaterial and that we do not expect the Acquisitions to have any material effect on our business, financial condition or operations, we believe that it would not be meaningful and would be unduly burdensome for us to prepare and include the financial information of the targets during the Track Record Period in this document. As we do not expect the Acquisitions to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interest of investors.

#### ***Alternative disclosure of the Acquisitions in this document***

We have provided alternative information about the Acquisitions in this document. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for

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example, descriptions of the targets' principal business activities, the investment amounts, and a statement that none of the core connected persons at the level of our Company is a controlling shareholder of any of the targets. We have however excluded disclosure on the names of certain targets in connection with the Acquisitions because (i) we have entered into confidentiality agreements with these companies and do not have consent from all of them for such disclosure and/or (ii) given that we have not yet entered into legally binding agreements with respect to all of these Acquisitions as of the Latest Practicable Date and the competitive nature of the industries in which we operate, disclosure of the names of the relevant companies in this document is commercially sensitive and may jeopardize our ability to consummate the proposed Acquisitions. It is commercially sensitive to disclose the identities of the companies we invested in or propose to invest in as such information may enable our competitors to anticipate our investment strategy. Since the relevant percentage ratio of each Acquisition is less than 5% by reference to the most recent fiscal year of our Track Record Period, we believe the current disclosure is adequate for potential investors to form an informed assessment of us. We do not expect to use any proceeds from the Listing to fund the Acquisitions.

### DISCLOSURE REQUIREMENTS RELATING TO THE ACCOUNTANT'S REPORT

Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance set out certain historical financial information to be included in a listing document that is not required to be disclosed under U.S. GAAP, including in particular:

- (a) balance sheet at a company level;
- (b) aging analysis of accounts receivables;
- (c) aging analysis of accounts payables; and
- (d) adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on.

In accordance with U.S. GAAP, we have applied the modified retrospective method or prospective method to account for the impact of the adoption of certain new accounting standards in the Track Record Period. Under the modified retrospective method and prospective method adopted by our Group, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

During the Track Record Period, we adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2014-09 "*Revenue from Contracts with Customers (Topic 606)*" and related amendments and implementation guidance, or ASC 606, Accounting Standards Update 2016-01 "*Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*," including related technical corrections and improvements, or ASU 2016-01, and "*Accounting Standards Update 2016-02 "Leases" (Topic 842)*," including certain transitional guidance and subsequent amendments, or ASC 842. The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the "Accountant's Report" in Appendix IA.

ASC 606 was adopted on January 1, 2018 using the modified retrospective method. Results for fiscal year 2018 are presented under ASC 606, while results for the comparative periods have not been adjusted and were reported in accordance with the previous revenue recognition



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standard under U.S. GAAP. The cumulative-effect adjustment upon adoption of ASC 606 includes a reduction of deferred revenue of RMB81.7 million and a net increase to beginning retained earnings on January 1, 2018 of RMB27.4 million, net of tax.

ASU 2016-01 was adopted on January 1, 2018 using the modified retrospective method to account for the cumulative-effect adjustments to the balance sheet, except for fair value adjustments of equity securities for which we have elected to account for under the measurement alternative. The Financial Accounting Standards Board provides clear guidance within ASU 2016-01 that fair value adjustments of equity securities for which the measurement alternative is elected should be applied prospectively to equity securities that exist as of the date of the adoption and no retrospective method is permitted.

Upon the adoption of ASU 2016-01, fair value changes related to equity securities previously classified as available-for-sale were recorded in the consolidated statements of operations, whereas the fair value changes of these securities were recorded in other comprehensive income in previous fiscal years prior to the adoption. Upon the adoption of ASU 2016-01, net unrealized gains on these equity securities recorded in accumulated other comprehensive income as of December 31, 2017 of RMB38.2 million, net of tax, were reclassified into beginning retained earnings as of January 1, 2018.

In addition, prior to the adoption of ASU 2016-01, equity securities without readily determinable fair values was accounted for using the cost method. Starting January 1, 2018, upon the adoption of ASU 2016-01, our Group elected to measure these equity securities investments at cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (referred to as the measurement alternative). Fair value adjustments, including impairments, from applying the measurement alternative were recorded in the consolidated statements of operations. As required under ASU 2016-01, we prospectively applied the measurement alternative on these equity securities, and our consolidated financial statements for the comparative periods were not retrospectively adjusted. As of December 31, 2018 and 2019, the amount of equity securities for which we elected to record using the measurement alternative amounted to RMB3,896.1 million and RMB4,604.5 million, respectively.

The full retrospective application of ASU 2016-01 is not permitted under U.S. GAAP. Any adjustments to the historical financial information in the comparative periods arising from the full retrospective application of ASU 2016-01 will create confusion to the existing investors in the U.S. market and it may be misleading to disclose such information in the “Accountant’s Report” in Appendix IA.

ASC 842 was adopted on January 1, 2019 using the modified retrospective method by applying the new lease standard to all leases existing as of January 1, 2019, the date of initial application, and no adjustments were made to the comparative periods. Adoption of the new lease standard resulted in the recognition of operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheet as of January 1, 2019. The adoption of the new lease standard does not have any significant impact on the consolidated statements of operations and comprehensive income and cash flows and there was no adjustment to the beginning retained earnings on January 1, 2019.

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The following alternative disclosures with respect to certain items identified above which are relevant to us have been included in this document:

- (a) for certain new accounting standards that came into effect in the latest fiscal year, the accounting policies as well as the impact of adoption, if any, to the beginning retained earnings of initial application (*i.e.*, January 1, 2018 and 2019) has been disclosed in the “Accountant’s Report” in Appendix IA in accordance with the relevant requirements under U.S. GAAP; and
- (b) disclosure of the relevant accounting policies adopted for the Track Record Period in the “Accountant’s Report” in Appendix IA.

As this document has included the above alternative disclosures and the current disclosure contains all information which is necessary for investors to make an informed assessment of the business, asset and liability, financial position, trading position, management and prospect of our Group, we believe that it would be of no material value to the Hong Kong investors and be unduly burdensome for the “Accountant’s Report” in Appendix IA to include certain required information pursuant to Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance and that the non-disclosure of such information will not prejudice the interests of investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before June 2, 2020.

### DEALINGS IN SHARES PRIOR TO LISTING

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the “**Relevant Period**”).

We have approximately 129 subsidiaries and operating entities as of December 31, 2019, and our ADSs are widely held, publicly traded and listed on the Nasdaq. We are therefore not in a position to control the investment decisions of our shareholders or the investing public in the U.S. Solely based on public filings with the SEC as of the Latest Practicable Date, other than William Lei Ding, our founder, director and chief executive officer, there are no shareholders who hold more than 10% of our total issued share capital.

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William Lei Ding (our founder, director and chief executive officer) may from time to time use his Shares as security (including charges and pledges) in connection with financing activities. As of the Latest Practicable Date, William Lei Ding, through Shining Globe International Limited, beneficially owned 1,456,000,000 Shares (see “Major Shareholders” for details) and none of his Shares was used as security.

On the basis of the above, we consider that the following categories of persons (collectively, the “**Permitted Persons**”) should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

- (a) William Lei Ding (our founder, director and chief executive officer), in respect of use of his Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period (“**Category 1**”);
- (b) our directors other than William Lei Ding, and the directors and chief executives of our Significant Subsidiaries, in respect of their respective use of the Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period (“**Category 2**”);
- (c) directors, chief executives and substantial shareholders of our non-Significant Subsidiaries and their close associates (“**Category 3**”); and
- (d) any other person (whether or not an existing Shareholder) who may, as a result of dealings, become our substantial shareholder and who is not our director or chief executive, or a director or chief executive of our subsidiaries, or their close associates (“**Category 4**”).

For the avoidance of doubt,

- (a) as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and
- (b) persons in Category 1 and Category 2 who use their respective Shares other than as described above in “Dealings in the Shares prior to Listing” are subject to the restrictions under Rule 9.09(b) of the Hong Kong Listing Rules.

We believe, subject to the conditions set forth below, the dealings in our securities by our core connected persons will not prejudice the interests of our potential investors and are aligned with the principles in the Hong Kong Stock Exchange’s Guidance Letter GL42-12.

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We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules subject to the following conditions:

- (a) Where Categories 1 and 2 of the Permitted Persons use the Shares as security, there will be no change in the beneficial ownership of the Shares during the Relevant Period;
- (b) Categories 3 and 4 of the Permitted Persons do not have any influence over the Global Offering and do not possess any of our non-public inside information given that such persons are not in a position with access to information that is considered material to us taken as a whole. Given the large number of our subsidiaries and our vast ADS holder base, we and our management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in our ADSs;
- (c) we will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the U.S. and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any non-public inside information of which we are aware;
- (d) we will notify the Hong Kong Stock Exchange of any breaches of the dealing restrictions by any of our core connected persons during the Relevant Period when we become aware of the same other than dealings by the core connected persons who are Permitted Persons within the permitted scopes set out above; and
- (e) prior to the Listing Date, other than within the permitted scopes set out above, our directors and chief executive and the directors and chief executives of our Significant Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period provided that such prohibited dealing in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, and share payments under our Group's share incentive plans.

### **SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS**

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought that are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 are fulfilled.

The Hong Kong Stock Exchange's Guidance Letter HKEX-GL85-16 provides that the Hong Kong Stock Exchange will consider granting a waiver from Rule 10.04 and consent pursuant to Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules allowing an applicant's existing shareholders or their close associates to participate in an initial public offering if any actual or perceived preferential treatment arising from their ability to influence the applicant during the allocation process can be addressed.

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## WAIVERS AND EXEMPTIONS

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As a company listed on the Nasdaq, we are not in a position to prevent any person or entity from acquiring our listed securities prior to the allocation of shares in connection with the Global Offering. It would therefore be unduly burdensome for us to seek the prior consent of the Hong Kong Stock Exchange for each of our existing shareholders or their close associates who subscribe for Shares in the Global Offering. Since we do not require shareholders' approval in order to proceed with the Global Offering, any persons (other than our directors and senior management) who may, as a result of dealings, become our shareholders (together, the "**Permitted Existing Shareholders**") would have no influence over the Global Offering and would not be in possession of any non-public inside information and would therefore effectively be in the same position as any of our public investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 10.04 and Paragraph 5(2) of Appendix 6 of the Hong Kong Listing Rules in respect of the restriction on Permitted Existing Shareholders to subscribe for or purchase Shares in the Global Offering, subject to the following conditions:

- (a) each Permitted Existing Shareholder is interested in less than 10% of our issued share capital immediately before the Listing;
- (b) each Permitted Existing Shareholder is neither our director nor member of our senior management;
- (c) the Permitted Existing Shareholders do not have the power to appoint directors or any other special rights in us;
- (d) the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and places in the Global Offering;
- (e) the Permitted Existing Shareholders and their close associates will be subject to the same book-building and allocation process as other investors in the Global Offering; and
- (f) we, the Joint Global Coordinators and the Joint Sponsors, to the best of our knowledge and belief (and based on discussions between us and the Joint Global Coordinators and confirmations required to be submitted to the Hong Kong Stock Exchange by the Company and the Joint Global Coordinators), will or have confirmed to the Hong Kong Stock Exchange in writing that no preferential treatment will be given to the Permitted Existing Shareholders and their close associates in the allocation process by virtue of their relationship with us.

Allocation to the Permitted Existing Shareholders and/or their close associates will not be disclosed in our allotment results announcement (other than to the extent that such Permitted Existing Shareholders or close associates subscribe for shares as cornerstone investors) unless such Permitted Existing Shareholders are interested in 5% or more of our issued share capital after the Global Offering as disclosed in any public filings with the SEC, as it would be unduly burdensome for us to disclose such information given that there is no requirement to disclose interests in equity securities under the U.S. Exchange Act unless the beneficial ownership of such person (including directors and officers of the company concerned) reaches more than 5% of equity securities registered under Section 12 of the U.S. Exchange Act.

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## WAIVERS AND EXEMPTIONS

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### PRINTED PROSPECTUSES

Pursuant to Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules, we are required to make available copies of the Prospectus in printed form.

We do not intend to provide printed copies of the prospectus or of the white and yellow application forms to the public in relation to the Hong Kong Public Offering. The proposed waiver from the requirements to make available printed copies of the Prospectus is in line with recent amendments to the Hong Kong Listing Rules relating to environmental, social and governance (“ESG”) matters. As the Hong Kong Stock Exchange noted on page 1 of its Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules dated December 2019, such amendments relating to ESG matters “*echo the increasing international focus on climate change and its impact on business.*” Electronic, *in lieu of* printed, prospectuses and application forms will help mitigate the environmental impact of printing, including the exploitation of precious natural resources such as trees and water, the handling and disposal of hazardous materials, air pollution, among others.

We also note that in light of the severity of the ongoing COVID-19 pandemic, the provision of printed prospectuses and printed white and yellow application forms will elevate the risk of contagion of the virus through printed materials. As of the Latest Practicable Date, the government of Hong Kong has put in place social distancing measures to restrict public gatherings. While the government of Hong Kong may relax such restrictions as the local COVID-19 situation improves, it is possible that stricter social distancing measures may be necessary later if the number of cases of infection in the territory dramatically increases. In any event, it is impossible to accurately predict the development of the COVID-19 pandemic as of the Latest Practicable Date. In this uncertain environment, an electronic application process with a paperless prospectus will reduce the need for prospective investors to gather in public, including branches of the receiving bank and other designated points of collection, in connection with the Hong Kong Public Offering.

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. Our Hong Kong Share Registrar has implemented enhanced measures to support **White Form eIPO** Service, including increasing its server capacity and making available a telephone hotline to answer investors’ queries in connection with the fully electronic application process. For details of the telephone hotline and the application process, please see “How to Apply for Hong Kong Offer Shares.”

We will publish a formal notice of the Global Offering on the official websites of the Hong Kong Stock Exchange and our Company and in selected English and Chinese local newspapers describing the fully electronic application process including the available channels for share subscription and the enhanced support provided by our Hong Kong Share Registrar in relation to the Hong Kong Public Offering and reminding investors that no printed prospectuses or application forms will be provided. We will also issue a press release to highlight the available electronic channels for share subscription.

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 12.04(3), Rule 12.07 and Rule 12.11 of the Hong Kong Listing Rules in respect of the availability of copies of the prospectus in printed form based on our specific and prevailing circumstances.

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## WAIVERS AND EXEMPTIONS

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### MONTHLY RETURN

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates.

Under the Joint Policy Statement, this common waiver is subject to the condition that the issuer can meet one of the following three conditions:

- (a) it has received a relevant partial exemption from Part XV of the SFO; or
- (b) it publishes a “next day disclosure return” in strict compliance with Rule 13.25A of the Hong Kong Listing Rules, regardless of the waiver of general effect from this Rule for secondary listed issuers; or
- (c) it is subject to overseas laws or regulations that have a similar effect to Rule 13.25B of the Hong Kong Listing Rules and any differences are not material to shareholder protection.

As we have obtained a partial exemption from strict compliance with Part XV of the SFO from the SFC, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the continuing obligations under Rule 13.25B of the Hong Kong Listing Rules. We will disclose information about share repurchases, if material, in our quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

### SHAREHOLDER PROTECTION REQUIREMENTS

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the overseas issuer’s primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.06 of the Hong Kong Listing Rules provides that Appendix 3 and Appendix 13 of the Hong Kong Listing Rules do not apply to an overseas issuer that is a Non-Greater China Issuer (as defined in the Hong Kong Listing Rules) or a Grandfathered Greater China Issuer seeking a secondary listing under Chapter 19C of the Hong Kong Listing Rules. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Non-Greater China Issuer or a Grandfathered Greater China Issuer seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07 of the Hong Kong Listing Rules. We are a Grandfathered Greater China Issuer under Chapter 19C of the Hong Kong Listing Rules.

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### Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors to be approved by a majority of the Qualifying Issuer's members or other body that is independent of the issuer's board of directors (the "**Auditors Provision**"). However, our Articles of Association do not contain an equivalent Auditors Provision. We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules for the following reasons:

- (a) while our Articles of Associations do not contain an equivalent Auditors Provision, the charter of our audit committee, as determined by the Board, provides that it is responsible for appointing an auditor, determining its compensation and overseeing its work. Our audit committee is akin to an independent body of the Board on the basis of the independence requirements set out in applicable U.S. laws and the Nasdaq rules. Our audit committee comprises of three members, all of whom are independent directors as required by the U.S. Exchange Act and applicable Nasdaq rules;
- (b) since 2002, we have put forth a resolution at each annual general meeting for shareholders to ratify auditors' appointment, and the ratification resolution in each year has been passed with an overwhelming majority of votes in favor (for example, over 99% of the votes approved the ratification resolution from 2016 to 2019);
- (c) the nomination and appointment of our directors are governed by the rules of the Nasdaq and the laws of our place of incorporation, which is the Cayman Islands. Pursuant to Nasdaq Stock Market Rule 5605(e) ("**Nasdaq Rule 5605(e)**"), director nominees, including independent director nominees, must be selected, or recommended for the board's selection, either by: (i) a majority of the independent directors or (ii) a nominations committee comprised solely of independent directors. While Nasdaq Rule 5605(e) is not mandatory for a foreign private issuer incorporated in the Cayman Islands, such as us, we had chosen to follow this rule on a voluntary basis;
- (d) to ensure that auditors are independent of their audit clients, Rule 10A-3 promulgated under the U.S. Exchange Act mandates that the audit committee, whose voting members must consist entirely of independent directors, be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting). We believe that this legislative mandate effectively prohibits the Board from revoking the power delegated to our audit committee relating to the operation of the Auditors Provision; and
- (e) we are seeking a listing on the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules.



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### **PARTICULARS OF ANY COMMISSIONS, DISCOUNTS AND BROKERAGES AND ALTERATIONS OF CAPITAL**

Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraphs 11 and 14 of the Third Schedule of the Companies (WUMP) Ordinance require the listing document to include the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of the listing document in connection with the issue or sale of any capital of any member of our Group and the particulars of any alterations of capital within two years immediately preceding the issue of the listing document.

Paragraph 25 of the Third Schedule of the Companies (WUMP) Ordinance requires particulars of our authorized debentures and that of our subsidiaries to be disclosed in this document.

We have identified 8 entities as our Significant Subsidiaries. For further details, see “History — Corporate Structure — Significant Subsidiaries.” We had approximately 129 subsidiaries and operating entities as of December 31, 2019. We believe that it would be unduly burdensome for us to disclose this information in respect of all of our subsidiaries as we would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to investors.

By way of illustration, based on the book value of the Significant Subsidiaries and taking into account of major adjustments for intra-group transactions, the net revenues of the Significant Subsidiaries accounted for more than 80% of our total net revenues for the year ended December 31, 2019. As such, we have disclosed the particulars of the changes in our share capital and the Significant Subsidiaries in “Statutory and General Information — Further Information about Us” in Appendix IV, and particulars of the commissions, discounts, brokerage fee and authorized debentures in respect of us and our Significant Subsidiaries are set out in “Statutory and General Information — Other Information — Miscellaneous” of Appendix IV.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from the requirements under Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under Paragraphs 11, 14 and 25 of the Third Schedule of the Companies (WUMP) Ordinance. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before June 2, 2020.

### **DISCLOSURE OF INFORMATION ON SUBSIDIARIES WHOSE PROFITS OR ASSETS MAKE MATERIAL CONTRIBUTIONS TO US**

Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (WUMP) Ordinance require the listing document to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held by us, or whose profits or assets make, or will make, a material contribution to the figures in our accountant’s report or our next published accounts.

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We believe that it would be unduly burdensome for us to procure this information for the reasons as set out in “Particulars of any Commissions, Discounts and Brokerages and Alternations of Capital” above. As such, only the particulars in relation to the Significant Subsidiaries are set out in “History — Corporate Structure — Significant Subsidiaries” and “Statutory and General Information — Further Information About Us” in Appendix IV, which should be sufficient for potential investors to make an informed assessment of us in their investment decisions.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under Paragraph 29 of the Third Schedule of the Companies (WUMP) Ordinance. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before June 2, 2020.

### DISCLOSURE REQUIREMENTS OF OPTIONS

Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules requires us to set out in the listing document particulars of any capital of any members of our Group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.

Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance further requires us to set out in the listing document, among other things, details of the number, description and amount of any of our shares or debentures which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration given or to be given (if any) and the names and addresses of the persons to whom it was given.

The only options over the capital of any member of our Group are those issued under the equity incentive plans that some of our subsidiaries adopted, including the share incentive plan adopted in 2015 (the “**2015 Share Incentive Plan**”), and amended in 2018, by Youdao, Inc. (“**Youdao**”), our majority-controlled subsidiary listed on the New York Stock Exchange. None of these equity incentive plans is subject to Chapter 17 of the Hong Kong Listing Rules pursuant to Rule 19C.11 of the Hong Kong Listing Rules. The equity incentive plans adopted by our subsidiaries allow the relevant subsidiaries to grant options or other awards to certain of our Group’s directors, employees and consultants. The waiver and exemption therefore only relate to the options that are granted or may be granted under these equity incentive plans. The options under these equity incentive plans expire in five to ten years from the date of grant and either vest or have a vesting commencement date upon certain conditions being met, and the awards can become 100% vested on the vesting commencement date, or vest in two, three, four or five substantially equal annual installments with the first installment vesting on the vesting commencement date.

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In particular, the 2015 Share Incentive Plan provides for the granting of options, restricted shares, RSUs and any other type of awards that a committee of the board or the board may decide. The outstanding options under the 2015 Share Incentive Plan accounted for approximately 7.78% of Youdao's total outstanding shares as of March 31, 2020. As of March 31, 2020, the options held by Youdao's directors and executive officers and their affiliates under the 2015 Share Incentive Plan represented approximately less than 1% of Youdao's total outstanding shares.

Details of the 2015 Share Incentive Plan are disclosed in “Statutory and General Information — Further Information About Us — Share incentive plan of Youdao” in Appendix IV and a brief summary of the other equity incentive plans adopted by our subsidiaries is set out in “Directors and Senior Management — Compensation — Our share incentive plans.” These disclosures are substantially the same as those in Youdao's and our 20-F filings and comply with applicable U.S. laws and regulations. Accordingly, the current disclosure in this document is not in strict compliance with the requirements under Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraph 10 of the Third Schedule to the Companies (WUMP) Ordinance.

For the reasons stated above, we believe that strict compliance with the above requirements would be unduly burdensome, unnecessary and/or inappropriate for us, and would not be material or meaningful to potential investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under Paragraph 10 of the Third Schedule of the Companies (WUMP) Ordinance. The SFC has granted an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this prospectus; and (ii) this prospectus will be issued on or before June 2, 2020.

### TIMING REQUIREMENT OF LIQUIDITY DISCLOSURE

Paragraph 32 of Part A of Appendix 1 to the Hong Kong Listing Rules requires a listing document to include a statement (or an appropriate negative statement) of a new applicant's indebtedness as at a specified most recent practicable date (the “**Most Recent Practicable Date**”), and a commentary on its liquidity, financial resources and capital structure (together, the “**Liquidity Disclosure**”).

In accordance with the Hong Kong Stock Exchange's Guidance Letter HKEX-GL37-12 (“**GL37-12**”), the Hong Kong Stock Exchange normally expects that the Most Recent Practicable Date for the Liquidity Disclosure, including, among other things, commentary on liquidity and financial resources such as net current assets (liabilities) position and management discussion on this position, in a listing document to be dated no more than two calendar months before the final date of the listing document.

As this document is published in June 2020, we would otherwise be required to make the relevant indebtedness and liquidity disclosures no earlier than April 2020 pursuant to GL37-12. Given that we included in this document a report of our interim financial information for the three months ended March 31, 2020 (*i.e.*, financial information for our first quarter in 2020), which were reviewed in accordance with Hong Kong Standard on Review Engagements 2410

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“Review of Interim Financial Information Performed by the Independent Auditor of the Entity,” it would be unduly burdensome for us to re-arrange information for similar liquidity disclosures on a consolidated basis shortly after the end of the first quarter of our current financial year.

Strict compliance with the Liquidity Disclosure requirements would constitute an additional one-off disclosure by us of our liquidity position on a date that would fall within the second quarter of our financial year, which would otherwise not be required to be disclosed to investors in the U.S. under applicable U.S. regulations and Nasdaq listing rules, because we are required to announce quarterly results at the end and not in the middle of each quarter of our financial year. Such a one-off disclosure would likely confuse our existing investors and deviate from our customary practice and that of other Nasdaq listed companies.

In any event, if there are any material changes to such disclosures, we would be required to make an announcement pursuant to U.S. regulations and Nasdaq rules and disclose relevant material facts in this document pursuant to the Hong Kong Listing Rules.

In the event that there is no material change to such disclosures, any similar disclosures made pursuant to GL37-12 would not give additional meaningful information to investors.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the timing requirement for Liquidity Disclosure in the listing document under GL37-12, such that the reported date of indebtedness and liquidity information in the listing document will not exceed the requirement under GL37-12 by one calendar month (*i.e.*, the time gap between the reported date of the Company’s indebtedness and liquidity information and the date of the listing document would be no more than three calendar months).

### **DISCLOSURE REQUIREMENTS OF THE REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WHOSE EMOLUMENTS WERE HIGHEST**

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors’ emoluments during the three financial years ended December 31, 2017, 2018 and 2019. Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to our directors in respect of the last completed financial year, and Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in our Group for the year if one or more individuals whose emoluments were the highest have not been included under Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

The aggregate fees, salaries and benefits paid and accrued to our directors and executive officers as a group are disclosed in “Directors and Senior Management — Compensation.” We confirm that the current disclosure complies with U.S. annual reporting requirements and is in line with our disclosure in our annual reports on Form 20-F.

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We believe that additional disclosure required by Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules would be unduly burdensome and would not provide additional meaningful disclosure for potential Hong Kong investors.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules.

### **NOT A PUBLIC COMPANY IN HONG KONG**

Section 4.1 of the Introduction to Takeovers Codes provides that the Takeovers Codes apply to takeovers, mergers and share buy-backs affecting, among others, public companies in Hong Kong and companies with a primary listing in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes. We have applied for, and the SFC has granted, a ruling that we are not a “public company in Hong Kong” for the purposes of the Takeovers Codes. Therefore, the Takeovers Codes do not apply to us. In the event that the bulk of trading in our Shares migrates to Hong Kong such that we would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Codes will apply to us.

### **DISCLOSURE OF INTERESTS UNDER PART XV OF SFO**

Part XV of the SFO imposes duties of disclosure of interests in Shares. Under the U.S. Exchange Act, which we are subject to, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject our corporate insiders to a second level of reporting, which would be unduly burdensome to them, would result in additional costs and would not be meaningful, since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to us and our corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our significant shareholders.

We have applied for, and the SFC has granted, a partial exemption under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO), on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules; (ii) all disclosures of interest filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (iii) we will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

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### DISCLOSURE OF INTERESTS INFORMATION

Part XV of the SFO imposes duties of disclosure of interests in shares. Practice Note 5 and Paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests in the listing document.

We have applied for, and the SFC has granted, a partial exemption from strict compliance with Part XV of the SFO as set out above under sub-section headed "Disclosure of Interest under Part XV of SFO."

The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholder's interests can be found in "Major Shareholders."

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Practice Note 5 and Paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules on the following conditions:

- (a) the SFC granting us and our shareholders a partial exemption from strict compliance with Part XV of the SFO;
- (b) our undertaking to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC; and
- (c) our undertaking to disclose in present and future listing documents any shareholding interests as disclosed in an SEC filing and the relationship between our directors, officers, members of committees and their relationship to any controlling shareholders.

### THREE-YEAR RESTRICTION ON SPIN-OFFS

Rule 19C.11 of the Hong Kong Listing Rules provides that, among other things, Paragraphs 1 to 3(b) and 3(d) to 5 of Practice note 15 to ("PN15") the Hong Kong Listing Rules do not apply to a Qualifying Issuer that has, or is seeking, a secondary listing on the Hong Kong Stock Exchange. This exception is limited to circumstances where the spun-off assets or businesses are not to be listed on the Hong Kong Stock Exchange's markets and the approval of shareholders of the Parent is not required. Paragraph 3(b) of PN15 provides that the Listing Committee would not normally consider a spin-off application within three years of the date of listing of the Parent, because the original listing of the Parent will have been approved on the basis of the Parent's portfolio of businesses at the time of listing, and the expectation of investors at that time would have been that the Parent would continue to develop those businesses.

We from time to time consider different opportunities to bring value to our shareholders, including spinning off any of our business subsidiaries when they have reached a desirable level of maturity. The exact timing of any potential spin-off would depend on the development of each of our business subsidiaries and market conditions. In some cases, it is possible that a spin-off within three years of the Listing may be appropriate. As of the Latest Practicable Date, we have not identified any target for a potential spin-off; as a result we do not have any information relating to the identity of any spin-off target or any other details of any spin-off and accordingly, there is no material omission of any information relating to any possible

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spin-off in this document. Any potential spin-offs by us will be subject to our compliance with all applicable requirements under the Hong Kong Listing Rules, including PN15, unless otherwise waived by the Hong Kong Stock Exchange.

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the three-year restriction under Paragraph 3(b) of PN15 on the following grounds:

- (i) no shareholders' approval with respect to a potential spin-off will be required under the Articles under applicable U.S. regulations and Nasdaq listing rules. Further, as our Company is a Grandfathered Greater China Issuer and therefore exempt from the requirements under Chapter 14 of the Hong Kong Listing Rules pursuant to Rule 19C.11, no shareholders' approval will be required under the Hong Kong Listing Rules as well;
- (ii) the effect of a spin-off to our shareholders should be the same regardless of whether or not the businesses to be potentially spun-off are to be listed on the Hong Kong Stock Exchange (save with respect to any preferential rights to subscribe for shares that are commonly provided in spin-offs on the Hong Kong Stock Exchange). Given the fact that certain spin-offs by Grandfathered Greater China Issuers are allowed within three years after their listing in Hong Kong pursuant to Rule 19C.11 of the Hong Kong Listing Rules, we believe that the three-year restriction on spin-offs on the Hong Kong Stock Exchange should also be waived and shall not apply to a potential spin-off by our Company;
- (iii) our Company and any subsidiary in respect of which a potential spin-off is contemplated will be subject to compliance with all other applicable requirements under the Hong Kong Listing Rules, including the remaining requirements of Practice Note 15 and the applicable listing eligibility requirements under the Hong Kong Listing Rules, unless otherwise waived by the Hong Kong Stock Exchange;
- (iv) under U.S. securities laws and Nasdaq rules, we are not subject to any restrictions similar to the three-year restriction under Paragraph 3(b) of PN15 in relation to the spin-offs of our business subsidiaries, nor is there any requirement for us to disclose any details of our potential spin-off entities when such information is not available because of the absence of any concrete spin-off plan; and
- (v) our directors owe fiduciary duties to our Company, including the duty to act in what they consider in good faith to be in the best interests of our Company; as such they will only pursue a potential spin-off if there are clear commercial benefits both to our Company and the entity to be spun off; and our directors will not direct our Company to conduct any spin-off if they believe it will have an adverse impact on the interests of our shareholders.

The waiver was granted by the Hong Kong Stock Exchange subject to the following conditions:

- (a) we will not within three years after the Listing spin off any of our business subsidiaries until we confirm with the Hong Kong Stock Exchange with basis that the potential spin-off would not render us, excluding the subsidiary to be spun off, failing to meet the eligibility requirements under Rule 19C.05 of the Hong Kong Listing Rules based on the financial information of the subsidiary to be spun off at the time of our Listing, and where more than one subsidiary is to be spun off, the assessment will be made on a cumulative basis;

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- (b) we will disclose in this document our intention relating to any potential spin-off within three years after the Listing and the risks relating to the uncertainty and timing of any potential spin-offs (see “Risk Factors — Divestitures of businesses and assets may have a material and adverse effect on our business and financial condition”);
- (c) any potential spin-offs by us will be subject to the requirements of PN15 (other than Paragraph 3(b) thereof), including that each of our Company and our business subsidiary to be spun off will satisfy the applicable listing eligibility requirements on a standalone basis;
- (d) any potential spin-offs within the parameters permitted by this waiver will not involve our online game business; and
- (e) disclosure of this waiver in this document.

### DISCLOSURE OF OFFER PRICE

Paragraph 15(2)(c) of Part A of Appendix 1 to the Listing Rules provides that the issue price or offer price of each security must be disclosed in the prospectus. Pursuant to Paragraph 3.1 of the Guidance Letter HKEx-GL-90-18, the Hong Kong Stock Exchange also allows an indicative offer price range to be included in the prospectus, as an alternative to the disclosure of a fixed offer price. Paragraph 9 of Part 1 of the Third Schedule to the Companies (WUMP) Ordinance further provides that the amount payable on application and allotment on each share must be specified in the prospectus.

Our ADSs have been listed and traded on Nasdaq since June 30, 2000. The Public Offer Price will be determined by reference to, among other factors, the closing price of the ADSs on Nasdaq on the last trading day on or before the Price Determination Date. We have no control over the market price of our ADSs traded on Nasdaq.

As our ADSs will continue to be traded on Nasdaq, setting a fixed price or a price range with a low end of International Offer Price or Public Offer Price may adversely affect the market price of the ADSs and the Hong Kong Offer Shares.

For the information of the potential investors, we will disclose the historical prices of our ADSs and trading volume on Nasdaq for the period from January 1, 2019 up to the Latest Practicable Date in “Structure of the Global Offering — Pricing and allocation — Determining the Offer Price”

It is further submitted that the disclosure of the maximum Public Offer Price in this document shall constitute sufficient disclosure of the “amount payable” on application and allotment on the Offer Shares and hence, shall be in compliance with the disclosure requirement under the Companies (WUMP) Ordinance.

We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Paragraph 15(2)(c) of Part A of Appendix 1 to the Listing Rules so that we will only disclose the maximum Public Offer Price for the Hong Kong Offer Shares in this document.



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We will set the pricing for the Offer Shares by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters). The Public Offer Price will be determined by reference to, among other factors, the closing price of our ADSs on Nasdaq on the last trading day on or before the Price Determination Date.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of our ADSs on Nasdaq on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in our best interests as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

See “Structure of the Global Offering — Pricing and allocation — Determining the Offer Price” in this prospectus for the historical prices of our ADS and trading volume on Nasdaq.

### CLAWBACK MECHANISM

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. Subject to the Hong Kong Stock Exchange granting the waiver described as below, the Hong Kong Public Offering and the International Offering will initially account for 3.0% and 97.0% of the Global Offering, respectively, subject to the clawback mechanism described below. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules such that the allocation of the Offer Shares in the Hong Kong Public Offering will be adjusted as follows:

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 10 times or more but less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 10,290,000 Offer Shares, representing approximately 6.0% of the Offer Shares initially available under the Global Offering;
- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 20 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 15,440,000 Offer Shares, representing approximately 9.0% of the Offer Shares initially available under the Global Offering; and

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- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 20 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 20,580,000 Offer Shares, representing approximately 12.0% 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 Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators would have discretion to allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. On the other hand, if the Hong Kong Public Offering is not fully subscribed, the unsubscribed Offer Shares under the Hong Kong Public Offering may be reallocated to the International Offering.

See “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” for further details.

### **DISCLOSURE REQUIREMENTS IN RESPECT OF SUPPLIERS**

Paragraphs 28(1)(b)(i) and (ii) of Part A of Appendix 1 to the Hong Kong Listing Rules require the listing document to include a statement of the percentage of purchases attributable to the group’s largest supplier and a statement of the percentage of purchases attributable to the group’s five largest suppliers combined, respectively.

Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include a statement of the interest of any of the directors, their close associates; or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the issuer) in the group’s top five suppliers. Sub-paragraph (vi) further provides that in the event that the percentage which would fall to be disclosed under sub-paragraphs (i), (ii) and (v) above is less than 30, a statement of that fact shall be given and the information required in sub-paragraphs (i), (ii) and (v) (in respect of suppliers) may be omitted.

Rule 19.36(1) of the Hong Kong Listing Rules provides that certain disclosure requirements under Parts A and B of Appendix 1 to the Hong Kong Listing Rules may be inappropriate and allows such requirements to be appropriately adapted so that equivalent information is given.

#### ***Percentages of our purchases from our largest supplier and from our top five suppliers***

We believe that the specific percentage figures required to be disclosed by Paragraphs 28(1)(b)(i) and (ii) of Part A of Appendix 1 to the Hong Kong Listing Rules are commercially sensitive and could be exploited by our competitors. We have not publicly disclosed the information strictly required by Paragraphs 28(1)(b)(i) and (ii) of Appendix 1A to the Hong Kong Listing Rules in our SEC filings, nor are we required to do so under U.S. laws and regulations. We have however disclosed that our five largest suppliers accounted for less than 41% of our purchases for each of the years over the Track Record Period and none of them individually accounted for more than 30% of our annual purchases over this same period in

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“Our Business – Customers and Suppliers.” We, taking into account that we are seeking a secondary listing on the Hong Kong Stock Exchange, believe that the current disclosure in this document provides sufficient information to investors to make an informed assessment of our business.

### *Statement of interests in our top five suppliers*

Our five largest suppliers accounted for less than 41% of our purchases for each of the years over the Track Record Period; and none of them individually accounted for more than 30% of our annual purchases over this same period. Several of our top five suppliers are public companies whose shares are traded on various stock exchanges.

As a Nasdaq-listed company, we are not in a position to compel our public shareholders who own more than 5% in our issued shares based on public filings to disclose to us (in this case Orbis Investment Management Limited) their shareholding interests in our top five suppliers during the Track Record Period. It would also be unduly burdensome for these public shareholders of ours to ascertain their shareholding interests in our top five suppliers (especially the companies whose shares are publicly traded), because the disclosure requirements under Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules are not subject to any materiality or de minimis exemptions or “safe harbours” provisions. The same difficulties would apply to our directors who are otherwise required to disclose their, and their close associates’, shareholding interests in our top five suppliers including the companies whose shares are publicly traded. As of the Latest Practicable Date, based on publicly available information, none of our directors or their close associates (as defined in the Hong Kong Listing Rules) or Shining Globe International Limited, our controlling shareholder, held a 5% or more shareholding interest in our top five suppliers.

In addition, we do not believe that the information strictly required by Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules would provide any additional meaningful information to investors given that we will not in any event be subject to the connected transaction requirements under Chapter 14A of the Hong Kong Listing Rules, and details of our related party transactions are disclosed in “Related Party Transactions.”

For the above reasons, taking into account the alternative disclosures outlined above, we have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the disclosure requirements under Paragraphs 28(1)(b)(i), (ii) and (v) of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document.