

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

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

**If you have sold or transferred** all your shares in Daohe Global Group Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



**(1) MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF  
THE ENTIRE ISSUED SHARE CAPITAL OF  
LOOVEE HOLDINGS INC. INVOLVING ISSUE OF  
CONSIDERATION SHARES UNDER SPECIFIC MANDATE  
(2) RE-ELECTION OF DIRECTORS  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

A notice convening the Special General Meeting (“SGM”) to be held at Showroom 1A, 1123, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 23 May 2017 at 3:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is enclosed with this circular.

Whether or not you intend to attend and vote at the SGM in person, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

28 April 2017

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions shall have the meanings set out below:*

|                                |  |
|--------------------------------|--|
| “Acquisition”                  | The proposed acquisition of the Sale Shares by the Company from the Vendors pursuant to the terms and conditions of the Share Purchase Agreement   |
| “Analysys Report”              | a report prepared by Analysys International, an independent market research firm which has experience in researching the industry of internet and information technology, in September 2016 (source: <a href="http://www.analysys.cn">http://www.analysys.cn</a> ) |
| “associate(s)”                 | has the meaning as ascribed thereto in the Listing Rules   |
| “Board”                        | the board of Directors   |
| “Business Day(s)”              | a day (other than a Saturday or Sunday or public holiday in Hong Kong) on which commercial banks are generally open for business in Hong Kong  |
| “Business Operation Agreement” | the business operation agreement entered into between the WFOE, the OPCO and the VIE Equity Owners, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular   |
| “BVI”                          | the British Virgin Islands   |
| “CAGR”                         | compound annual growth rate  |
| “Commitment Letter(s)”         | the commitment letter(s) entered into by each of the VIE Equity Owners, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular   |
| “Company”                      | Daohe Global Group Limited, a company incorporated in Bermuda with limited liability, and the shares of which are listed on the Stock Exchange (stock code: 915)   |
| “Completion”                   | completion of the transactions contemplated under the Share Purchase Agreement   |
| “Completion Date”              | a date falling within 10 Business Days after the date on which all the Conditions are fulfilled or waived in writing (as the case may be) or such other date the Vendors and the Purchaser may agree   |
| “Conditions”                   | the conditions precedent to the Share Purchase Agreement, details of which are set out in the section headed “The Share Purchase Agreement — Conditions” in this circular  |

## DEFINITIONS

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| “connected person(s)”                                    | has the meaning as ascribed thereto in the Listing Rules  |
| “Consideration”  | the aggregate consideration for the Sale Shares payable by the Purchaser pursuant to the Share Purchase Agreement in an aggregate sum of HK\$800,500,000  |
| “Consideration Shares”                                   | an aggregate of 150,000,000 Shares to be issued and allotted by the Company to the Vendors for the settlement of part of the Consideration  |
| “Contractual Arrangements”                               | the contractual arrangements under the VIE Contracts  |
| “Deposit”  | the sum of HK\$20,000,000 paid by the Company on 20 January 2017 pursuant to the MOU  |
| “Director(s)”  | the director(s) of the Company  |
| “Enlarged Group”   | the Group as enlarged by the Acquisition  |
| “Equity Interest Pledge Agreement”                       | the equity interest pledge agreement entered into between the WFOE and the VIE Equity Owners, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular          |
| “Exclusive Call Option Agreement”                        | the exclusive call option agreement entered into between the WFOE, the OPCO and the VIE Equity Owners, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular |
| “Exclusive Technology Consulting and Services Agreement” | the exclusive technology consulting and services agreement entered into between the WFOE and the OPCO, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular |
| “Existing VIE Contracts”                                 | a set of structured contracts entered into by and among the WFOE, the OPCO, Mr. Zhou, Mr. Cai and spouses thereof (if applicable) in July 2015 and October 2016 and terminated on 24 April 2017                               |

## DEFINITIONS

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| “GAAP’s Notice 13”             | 《關於貫徹落實國務院〈「三定」規定〉和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》(新出聯[2009]13號) (Notice Regarding the Consistent Implementation of the “Stipulations on “Three Provisions”” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games (Xin Chu Lian [2009] No. 13)*) published jointly by 中華人民共和國新聞出版總署 (PRC General Administration of Press and Publication*), 國家版權局 (National Copyright Administration*), and 全國「掃黃打非」工作小組辦公室 (National Office of Combating Pornography and Illegal Publications*) on 28 September 2009 (as amended from time to time) |
| “Group”                        | the Company and its subsidiaries  |
| “Guarantors”                   | Mr. Zhou, Mr. Cai, Mr. Tsang, Mr. Sung, Ms. Lai, Mr. Zhang, Ms. Zhang, Mr. Feng and Mr. Liu, being the beneficial owners of the Target Company as at the Latest Practicable Date  |
| “HK\$”                         | Hong Kong dollar, the lawful currency of Hong Kong  |
| “Hong Kong”                    | the Hong Kong Special Administrative Region of the PRC  |
| “Independent Third Party(ies)” | an individual or a company and the ultimate beneficial owner who are third parties independent of the Company and its connected persons   |
| “Issue Price”                  | the issue price of HK\$4.67 per Consideration Share   |
| “Latest Practicable Date”      | 25 April 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular   |
| “Leguang”                      | Leguang Investment Limited, a company incorporated in BVI with limited liability and is wholly-owned by Ms. Zhang, being one of the Vendors   |
| “Lehao”                        | Lehao Investment Limited, a company incorporated in BVI with limited liability and is wholly-owned by Mr. Feng, being one of the Vendors  |

## DEFINITIONS

|                    |  |
|--------------------|--|
| “Lemei”            | Lemei Investment Limited, a company incorporated in BVI with limited liability and is wholly-owned by Ms. Lai, being one of the Vendors                        |
| “Leming”           | Leming Investment Limited, a company incorporated in BVI with limited liability and is wholly-owned by Mr. Liu, being one of the Vendors                       |
| “Leqian”           | Leqian Investment Limited, a company incorporated in BVI with limited liability and is wholly-owned by Mr. Zhou, being one of the Vendors                      |
| “Letu”             | Letu Investment Limited, a company incorporated in BVI with limited liability and is wholly-owned by Mr. Zhang, being one of the Vendors                       |
| “Listing Rules”    | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “Mike Cai”         | Mike Cai Investment Limited, a company incorporated in BVI with limited liability and is wholly-owned by Mr. Cai, being one of the Vendors                     |
| “MOU”              | the memorandum of understanding as defined in the MOU Announcement   |
| “MOU Announcement” | the announcement of the Company dated 19 January 2017  |
| “Mr. Cai”          | Mr. Shengqi Cai (蔡勝祺), an individual who owns the entire issued share capital of Mike Cai and an Independent Third Party                                       |
| “Mr. Feng”         | Mr. Qi Feng (馮祺), an individual who owns the entire issued share capital of Lehao as at the Latest Practicable Date and an Independent Third Party             |
| “Mr. Liu”          | Mr. Jinfeng Liu (劉金鋒), an individual who owns the entire issued share capital of Leming as at the Latest Practicable Date and an Independent Third Party       |
| “Mr. Sung”         | Mr. Sung Lee Ming Alfred (宋理明), an individual who owns the entire issued share capital of SA1 as at the Latest Practicable Date and an Independent Third Party |

## DEFINITIONS

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|------------------------|---|
| “Mr. Tsang”            | Mr. Tsang Chun Ho Anthony (曾俊豪), an individual who beneficially owns 17.25% equity interest in the Target Company as at the Latest Practicable Date and an Independent Third Party. Such equity interest in the Target Company was nominally held by Mike Cai on trust in favour of Mr. Tsang as at the Latest Practicable Date |
| “Mr. Zhang”            | Mr. Youming Zhang (張友明), an individual who owns the entire issued share capital of Letu as at the Latest Practicable Date and an Independent Third Party  |
| “Mr. Zhou”             | Mr. Congwei Zhou (周聰偉), an individual who owns the entire issued share capital of Leqian and an Independent Third Party   |
| “Ms. Lai”              | Ms. Jinchun Lai (賴金春), an individual who owns the entire issued share capital of Lemei as at the Latest Practicable Date and an Independent Third Party   |
| “Ms. Zhang”            | Ms. Xin Zhang (張欣), an individual who owns the entire issued share capital of Leguang as at the Latest Practicable Date and an Independent Third Party  |
| “OPCO”                 | 深圳市樂唯科技開發有限公司 (Loovee Science and Technology Development Co. Ltd.*), a limited liability company established under the laws of the PRC and is owned as to 80% by Mr. Li Feng (李鋒) and 20% by Mr. Liao Guoxin (廖國新) as at the Latest Practicable Date  |
| “OPCO Group”           | the OPCO and its wholly-owned subsidiary, 深圳市樂宜科技有限公司 (Leyi Science and Technology Co. Ltd.*), a limited liability company established under the laws of the PRC  |
| “Power(s) of Attorney” | the power(s) of attorney entered into by each of the VIE Equity Owners, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular  |
| “PRC”                  | the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan   |
| “PRC Legal Adviser”    | King & Wood Mallesons, the legal adviser to the Company as to PRC laws  |

## DEFINITIONS

|                            |  |
|----------------------------|--|
| “Purchaser”                | Glory Sino Limited, a company incorporated in BVI with limited liability and a wholly-owned subsidiary of the Company  |
| “RMB”                      | Renminbi, the lawful currency of the PRC   |
| “SA1”                      | SA1 Investments Inc., a company incorporated in BVI with limited liability and is wholly-owned by Mr. Sung, being one of the Vendors   |
| “Sale Shares”              | 16,000 shares in the Target Company held by the Vendors, representing the entire issued share capital of the Target Company  |
| “SFO”                      | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)  |
| “SGM”                      | the special general meeting of the Company to be convened to approve the Share Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate), and the re-election of Directors                                 |
| “Share(s)”                 | the ordinary share(s) with par value of US\$0.04 each in the share capital of the Company  |
| “Share Options”            | the outstanding share options granted under the share option scheme of the Company adopted on 29 August 2011 by the Company  |
| “Share Purchase Agreement” | the conditional share purchase agreement dated 21 February 2017 entered into among the Purchaser, the Vendors and the Guarantors in respect of the Acquisition, as varied and supplemented by an amendment letter dated 19 April 2017 made by the same parties |
| “Shareholder(s)”           | the holder(s) of Shares  |
| “Shareholder Loans”        | the outstanding loans owed by the Target Group to the shareholders of the Target Company or their related companies  |
| “Specific Mandate”         | the specific mandate proposed to be granted by the Shareholders to the Directors at the SGM to allot and issue the Consideration Shares at the Issue Price   |



## DEFINITIONS

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|-----------------------------|---|
| “Spousal Consent Letter(s)” | the spousal consent letter(s) entered into by the spouse of each of the VIE Equity Owners, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular   |
| “Stock Exchange”            | The Stock Exchange of Hong Kong Limited   |
| “Target Company”            | Loovee Holdings Inc., a company incorporated in the Cayman Islands with limited liability, which is beneficially owned as to 39.75% by Leqian, 17.25% by Mike Cai, 17.25% by Mr. Tsang, 15.50% by SA1, 2.94% by Lemei, 2.45% by Letu, 2.39% by Leguang, 1.50% by Lehao and 0.97% by Leming as at the Latest Practicable Date  |
| “Target Group”              | the Target Company, together with its subsidiaries and the OPCO Group   |
| “US\$”                      | United States dollar(s), the lawful currency of the U.S.  |
| “U.S.”                      | the United States of America  |
| “Vendors”                   | Leqian, Mike Cai, Mr. Tsang, SA1, Lemei, Letu, Leguang, Lehao and Leming, which beneficially own 39.75%, 17.25%, 17.25%, 15.50%, 2.94%, 2.45%, 2.39%, 1.50% and 0.97% of the issued share capital of the Target Company, respectively, as at the Latest Practicable Date  |
| “VIE”                       | Variable Interest Entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights  |
| “VIE Contracts”             | the Exclusive Technology Consulting and Services Agreement, the Business Operation Agreement, the Exclusive Call Option Agreement, the Equity Interest Pledge Agreements, the Powers of Attorney, the Commitment Letters and the Spousal Consent Letters (or any other agreement reasonably requested by the Purchaser) entered into by the relevant parties on 24 April 2017, details of which are set out in the section headed “The VIE Contracts — Details of the VIE Contracts” in this circular |
| “VIE Equity Owner(s)”       | Mr. Li Feng (李鋒) and Mr. Liao Guoxin (廖國新), the equity owners of the OPCO nominated by the Company, who are Independent Third Parties and PRC citizens  |

## DEFINITIONS

“WFOE” 樂唯科技（深圳）有限公司 (Loovee Science and Technology (Shenzhen) Co., Ltd.\*), a company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Target Company

“%” per cent

*For the purpose of this circular, unless otherwise specified or the context requires otherwise, “\*” denotes an English translation of a Chinese name and is for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

*For the purpose of this circular, the exchange rates of RMB1.000 = HK\$1.115 and US\$1.00 = HK\$7.78 have been used for currency translation, where applicable. Such an exchange rate is for illustrative purposes and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.*



**Daohe Global Group Limited**

**道和環球集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 915)**

*Non-executive Director:*

Mr. ZHOU Xijian (*Chairman*)

*Executive Directors:*

Mr. ZHANG Qi (*Chief Executive Officer*)

Mr. WONG Hing Lin, Dennis (*President*)

Mr. ZHANG Jifeng

*Independent non-executive Directors:*

Mr. WANG Arthur Minshiang

Mr. LAU Shu Yan

Mr. ZHANG Huijun

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of  
business in Hong Kong:*

1123, Kowloonbay International

Trade & Exhibition Centre

1 Trademart Drive, Kowloon Bay

Kowloon, Hong Kong

28 April 2017

*To the Shareholders,*

Dear Sir/Madam,

**(1) MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF  
THE ENTIRE ISSUED SHARE CAPITAL OF  
LOOVEE HOLDINGS INC. INVOLVING ISSUE OF  
CONSIDERATION SHARES UNDER SPECIFIC MANDATE  
(2) RE-ELECTION OF DIRECTORS  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcements of the Company dated 21 February 2017 and 19 April 2017 in respect of the Acquisition.

The Purchaser, the Vendors and the Guarantors entered into the Share Purchase Agreement, pursuant to which the Purchaser conditionally agreed to buy and the Vendors conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company, at the aggregate Consideration of HK\$800,500,000.

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Share Purchase Agreement and the transactions contemplated thereunder; (ii) details for the Directors to be re-elected at the SGM; (iii) financial information of the Group and the Target Group; (iv) unaudited pro forma financial information of the Enlarged Group; and (v) other information as required under the Listing Rules, together with a notice of the SGM and a form of proxy.

### THE SHARE PURCHASE AGREEMENT

The principal terms and conditions of the Share Purchase Agreement are as follows:

**Date:**

21 February 2017 (after trading hours), as varied and supplemented by an amendment letter dated 19 April 2017 (after trading hours)

**Parties:**

Purchaser : Glory Sino Limited

Vendors : (i) Leqian  
(ii) Mike Cai  
(iii) Mr. Tsang  
(iv) SA1  
(v) Lemei  
(vi) Letu  
(vii) Leguang  
(viii) Lehao  
(ix) Leming

Guarantors : (i) Mr. Zhou  
(ii) Mr. Cai  
(iii) Mr. Tsang  
(iv) Mr. Sung  
(v) Ms. Lai  
(vi) Mr. Zhang  
(vii) Ms. Zhang  
(viii) Mr. Feng  
(ix) Mr. Liu

Each of the Guarantors unconditionally and irrevocably guarantees to the Purchaser, jointly and severally, the due and punctual performance by the Vendors their respective obligations under the Share Purchase Agreement.

For details of the Vendors and the Guarantors, please refer to the section headed “Information on the Vendors and the Guarantors” below.

## LETTER FROM THE BOARD

### Assets to be acquired

Pursuant to the Share Purchase Agreement, the Purchaser conditionally agreed to buy and the Vendors conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company, and together with all rights now and thereafter attaching or accruing thereto (including the right to receive all dividends and distributions declared, made or paid in respect of the Sale Shares on or after 31 December 2016).

Pursuant to the Share Purchase Agreement, the Purchaser is not obliged to complete the Acquisition unless the Purchaser or its designated party can acquire the entire issued share capital of the Target Company upon Completion.

The Target Company, through its subsidiary, owns the entire registered capital of the WFOE, which has entered into a series of the VIE Contracts with the OPCO and the VIE Equity Owners. Through the VIE Contracts, the WFOE has effective control over the finance and operation of the OPCO and enjoys the entire economic interest and benefits generated by the OPCO. The OPCO Group is principally engaged in the development and operation of a mobile social networking platform named “Duimian” (“對面”), one of the largest gamified (i.e. the application of online game design concepts to social networks) mobile social networking platform and stranger-to-stranger mobile social networking platform in the PRC.

### Consideration and Deposit

Pursuant to the Share Purchase Agreement, the aggregate consideration for the Sale Shares shall be HK\$800,500,000. The breakdown of the Consideration is set out below:

| Vendors      | Beneficial interest in<br>the Target Company<br><i>(approximate)</i> | Consideration<br>(in million HK\$)<br><i>(approximate)</i> |
|--------------|--|--|
| Leqian       | 39.75%   | 318.2  |
| Mike Cai     | 17.25%   | 138.1  |
| Mr. Tsang    | 17.25%*  | 138.1  |
| SA1          | 15.50%   | 124.1  |
| Lemei        | 2.94%  | 23.5   |
| Letu         | 2.45%  | 19.6   |
| Leguang      | 2.39%  | 19.1   |
| Lehao        | 1.50%  | 12.0   |
| Leming       | 0.97%  | 7.8  |
| <b>Total</b> | <b>100.00%</b>   | <b>800.5</b>   |

\* Such 17.25% equity interest in the Target Company is nominally held by Mike Cai on trust in favour of Mr. Tsang who is an Independent Third Party.

## LETTER FROM THE BOARD

The Consideration was determined after arm’s length negotiations between the Purchaser and the Vendors after taking into account, among other things, (i) the historical financial results of the Target Group; (ii) the historical operating performance of the OPCO including but not limited to the number of registered users and active users; and (iii) the business prospect of the Target Group.

Given that (i) the Target Group has only launched its Duimian platform since 2013 and has been loss making; (ii) the Target Group is currently in a net liability position; and (iii) the Target Group is experiencing a high growth in revenue, the Directors consider that it is appropriate to use price-to-sales multiple(s) (“**P/S ratio(s)**”) to value the Target Group, instead of price-to-earnings and price-to-book multiples. Based on the Consideration and the audited consolidated revenue of the Target Group for the year ended 31 December 2016, the implied P/S ratio for the Acquisition is approximately 8.8 times. In assessing the reasonableness of the implied P/S ratio for the Acquisition, the Directors has considered companies listed in Hong Kong and the U.S. which are principally engaged in operation of a social networking platform in the PRC (the “**Comparable Companies**”). Set out below are the details of the Comparable Companies:

| Company name                         | Stock code | Description of the social networking platform   | Number of active users  | P/S ratios<br><i>(Note 1)</i> |
|--------------------------------------|------------|---|---|-------------------------------|
| Momo Inc.                            | MOMO.US    | Operates a mobile-based social networking platform that enables users to establish and expand social relationship based on locations and interests.   | Approximately 81.1 million in December 2016   | 10.2                          |
| YY Inc.                              | YY.US      | Operates a live streaming platform that enables users to interact in live online group activities through voice, text and video.                      | Approximately 152.1 million for the three months ended 31 December 2016                   | 2.0                           |
| Weibo Corporation                    | WB.US      | Operates a social media platform for users’ public self-expression in real time, social interaction, as well as content aggregation and distribution. | Approximately 313 million in December 2016  | 14.6                          |
| Tian Ge Interactive Holdings Limited | 1980.HK    | Operates a social-video platform that allows multiple users to connect via video stream in order to communicate.                                      | Approximately 21.9 million for the three months ended 31 December 2016<br><i>(Note 3)</i> | 7.6                           |
| <b>Maximum</b>                       |            |   |   | 14.6                          |
| <b>Minimum</b>                       |            |   |   | 2.0                           |
| <b>Average</b>                       |            |   |   | 8.6                           |
| <b>Median</b>                        |            |   |   | 8.9                           |
| The Target Company                   | N/A        | Operates a gamified mobile social networking platform that enables users to develop their relationships online through gamification features.         | Approximately 19.8 million in December 2016   | 8.8                           |

*Source: Bloomberg and published financial results of the Comparable Companies*

## LETTER FROM THE BOARD

*Notes:*

1. P/S ratios of the Comparable Companies are calculated by dividing the market capitalisations of the Comparable Companies as at 30 December 2016 (being the last trading day of the shares of the Comparable Companies in 2016) by the sales of the Comparable Companies for the latest twelve-month period as extracted from the relevant quarterly results announcements available before 21 February 2017, being the date on which the Share Purchase Agreement was first entered into.
2. As disclosed in the annual results announcement of Tian Ge Interactive Holdings Limited for the year ended 31 December 2016, the number of active users included users of online interactive entertainment service only.

In the view of the Directors, each social networking platform has its unique features and specifications and there is no public record of a company engaged in exactly the same business as the Target Group. The Directors consider that the Comparable Companies and the Target Group operate in the internet-based and telecommunication industry in the PRC and mainly target users of social networking platforms in the PRC. Notwithstanding the difference in the scale of their operations, given that the nature of business (i.e. operation of a social networking platform) and the geographical market environment of the Comparable Companies are similar to the Target Group, the Directors believe that the Comparable Companies identified are fair and representative for comparison, and analysis of the Comparable Companies provides a general reference as to the market valuation of companies with similar business to the Target Group. As disclosed above, the implied P/S ratio for the Acquisition of approximately 8.8 times is lower than the median of the P/S ratios of the Comparable Companies of approximately 8.9 times.

In consideration of the above and together with the reasons of the Acquisition as set out in the section headed “Reasons for and benefits of the Acquisition” below, the Directors considered the Consideration to be fair and reasonable.

## LETTER FROM THE BOARD

The Consideration shall be satisfied by the Purchaser to the Vendors by (i) the Deposit; (ii) cash consideration of HK\$100 million less the Deposit; and (iii) the allotment and issue of the Consideration Shares by the Company at an issue price of HK\$4.67 per Consideration Share in the following manner:

|                | <b>Cash<br/>consideration<br/>HK\$</b> | <b>Deposit<br/>HK\$</b> | <b>Cash<br/>consideration<br/>less Deposit<br/>HK\$</b> | <b>Number of<br/>Consideration<br/>Shares to be<br/>allotted and<br/>issued<br/>Number of<br/>Shares</b> |
|----------------|--|-------------------------|---|--|
| <b>Vendors</b> |  |                         |   |  |
| Leqian         | 39,750,000                             | 7,950,000               | 31,800,000  | 59,625,000   |
| Mike Cai       | 17,250,000                             | 3,450,000               | 13,800,000  | 25,875,000   |
| Mr. Tsang      | 17,250,000                             | 3,450,000               | 13,800,000  | 25,875,000   |
| SA1            | 15,500,000                             | 3,100,000               | 12,400,000  | 23,250,000   |
| Lemei          | 2,940,000                              | 588,000                 | 2,352,000   | 4,410,000  |
| Letu           | 2,450,000                              | 490,000                 | 1,960,000   | 3,675,000  |
| Leguang        | 2,390,000                              | 478,000                 | 1,912,000   | 3,585,000  |
| Lehao          | 1,500,000                              | 300,000                 | 1,200,000   | 2,250,000  |
| Leming         | 970,000                                | 194,000                 | 776,000   | 1,455,000  |
| <b>Total</b>   | <u>100,000,000</u>                     | <u>20,000,000</u>       | <u>80,000,000</u>                                       | <u>150,000,000</u>   |

The Deposit, which was paid on 20 January 2017 pursuant to the MOU, shall be applied to settle part of the cash consideration of HK\$100 million. The remaining cash consideration of HK\$80 million shall be financed by the internal resources and/or borrowings of the Group.

On the Completion Date, in accordance with the respective beneficial shareholdings of the Vendors in the Target Company, the Purchaser shall (i) transfer an aggregate cash of HK\$40 million; and (ii) deliver the Consideration Shares, to the respective Vendors. The remaining balance of cash consideration, i.e. HK\$40 million, shall be paid by the Purchaser to the Vendors within 90 days after the Completion Date (or such other date as the Purchaser and the Vendors may agree).

The Consideration Shares comprising 150,000,000 Shares represent approximately 42.5% of the issued share capital of the Company as at the Latest Practicable Date and approximately 29.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming no exercise of the Share Options). The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate to be approved by the Shareholders at the SGM to be convened by the Company in relation to the Acquisition. The allotment and issue of the Consideration Shares will not result in a change of control of the Company.



## LETTER FROM THE BOARD

The aggregate Consideration Shares when issued and allotted shall rank *pari passu* in all respects with all other existing issued Shares on the Completion Date. Application will be made by the Company to the Stock Exchange for the approval of the listing of, and permission to deal in, the Consideration Shares.

### Shareholder Loans

Pursuant to the Share Purchase Agreement, (i) any outstanding Shareholder Loans as at 31 December 2016 shall be capitalised as additional paid-in capital of the Target Company (or other procedure as agreed between the Purchaser and the Vendors) on or before Completion; and (ii) the Purchaser shall, within 90 days after the Completion Date (or such other date as the Purchaser and the Vendors may agree), repay to the Vendors any Shareholder Loans (which shall be unsecured and interest-free) made by the Vendors or their related companies to the Target Group subsequent to 31 December 2016 and immediately before Completion, and the Vendors shall ensure that the total amount of such Shareholder Loans shall not exceed HK\$10 million. The Vendors shall, upon Completion, provide the Purchaser with a report including the details of the aforesaid Shareholder Loans which shall be reviewed by the auditors designated by the Purchaser.

### Issue Price

The Issue Price of HK\$4.67 represents:

- (i) a discount of approximately 34.0% to the closing price of the Shares of HK\$7.08 per Share as quoted on the Stock Exchange on 21 February 2017, being the date on which the Share Purchase Agreement was first entered into;
- (ii) a discount of approximately 30.4% to the closing price of the Shares of HK\$6.71 per Share as quoted on the Stock Exchange on 19 January 2017, being the date of the MOU Announcement;
- (iii) a discount of approximately 19.3% to the average closing price of the Shares of approximately HK\$5.79 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the MOU Announcement;
- (iv) a discount of approximately 8.8% to the average closing price of the Shares of approximately HK\$5.12 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the date of the MOU Announcement;
- (v) a premium of approximately 4.0% over the average closing price of the Shares of approximately HK\$4.49 per Share as quoted on the Stock Exchange for the last 40 trading days up to and including the date of the MOU Announcement;

## LETTER FROM THE BOARD

- (vi) a premium of approximately 12.8% over the average closing price of the Shares of approximately HK\$4.14 per Share as quoted on the Stock Exchange for the last 50 trading days up to and including the date of the MOU Announcement;
- (vii) a premium of approximately 17.9% over the average closing price of the Shares of approximately HK\$3.96 per Share as quoted on the Stock Exchange for the last 60 trading days up to and including the date of the MOU Announcement; and
- (viii) a discount of approximately 22.2% to the closing price of HK\$6.00 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Directors consider that the Issue Price should be determined based on a longer period of Share prices, say the average closing prices of the Shares for the last 30 to 60 trading days up to and including the date of the MOU Announcement, given the recent upward movement of the Share price. The Share price has been on an upward trend since December 2016, from HK\$2.53 on 1 December 2016 to HK\$6.71 on 19 January 2017, the date of the MOU Announcement, representing a significant increase of approximately 165.2%. The Directors consider that the recent surge in the Share price might be attributable to the contemplation of a rights issue as announced by the Company on 8 December 2016. In consideration of the above, the Directors consider the Issue Price to be fair and reasonable.

### Conditions

Completion is conditional upon, among other things, the fulfilment or waiver (as the case may be) of the following Conditions:

- (i) the Purchaser being satisfied with the results of the due diligence review on the financial, technological, business and legal aspects of the Target Group;
- (ii) the Shareholders having approved at the SGM the transactions contemplated under the Share Purchase Agreement, including the acquisition of the Sale Shares by the Purchaser and the allotment and issue of the Consideration Shares to the Vendors;
- (iii) the listing committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares;
- (iv) the representations, warranties and undertakings given by the Vendors under the Share Purchase Agreement being true, correct and accurate in all respects at all times;
- (v) there having not occurred since 31 December 2016 any unusual operations or any significant incidents in relation to work safety or any material adverse changes or any material risks which were not previously disclosed in relation to the business, assets and operations of any member of the Target Group;

## LETTER FROM THE BOARD

- (vi) the Existing VIE Contracts being legally valid and binding as at the date on which the Share Purchase Agreement was first entered into, and prior to Completion, the Existing VIE Contracts having been terminated and replaced by the VIE Contracts being duly executed in form and content satisfactory to the Purchaser;
- (vii) the Vendors having fulfilled their obligations under the Share Purchase Agreement;
- (viii) all third-party, governmental and/or regulatory approvals, consents, permissions and filings necessary for the Acquisition (if any) having been obtained;
- (ix) the Vendors providing the Purchaser with the unaudited consolidated financial statements of the Target Group for the three months ended 31 March 2017;
- (x) completion of the transfer of the equity interest in the OPCO from Mr. Zhou and Mr. Cai (as sellers) to the VIE Equity Owners (as purchasers) under share purchase agreements in form and content satisfactory to the Purchaser, and the completion of the registration with the local Administration of Industry and Commerce in connection with such transfer;
- (xi) a certificate of incumbency dated the Completion Date or one Business Day prior to Completion issued by the registered agent of the Target Company, the content of which shall be consistent with the information of the Target Company disclosed in the Share Purchase Agreement, having been obtained;
- (xii) capitalisation of any outstanding Shareholder Loans as at 31 December 2016 as additional paid-in capital (or other procedure that the Purchaser and the Vendors may agree in respect of such Shareholder Loans); and
- (xiii) the Vendors providing the Purchaser with a report including the details of the Shareholder Loans as at 31 December 2016 and the Shareholder Loans made by the Vendors or their related companies to the Target Group subsequent to 31 December 2016 and immediately before Completion which shall be reviewed by the auditors designated by the Purchaser.

The Conditions can be waived in whole or in part by the Purchaser except for Conditions (ii), (iii), (vi) and (viii). The Vendors shall endeavour to assist the Purchaser in completing all necessary procedures for the transfer of the Sale Shares.

## LETTER FROM THE BOARD

In the event that Completion cannot take place due to the intentional act or omission of the Purchaser, but the Existing VIE Contracts have already been terminated and replaced by the VIE Contracts, and/or the transfer of the equity interest in the OPCO from Mr. Zhou and Mr. Cai to the VIE Equity Owners has been completed in accordance with Conditions (vi) and (x) above, the Purchaser shall use reasonable efforts to assist the Vendors in (i) terminating the VIE Contracts and executing relevant agreements to restore the Target Group to the condition immediately prior to the termination of the Existing VIE Contracts; and (ii) transferring the equity interest in the OPCO back to the person(s) nominated by the Vendors, and the Purchaser shall bear reasonable expenses arising from the above.

As at the Latest Practicable Date, Conditions (vi) and (x) had been fulfilled.

### **Long stop date**

If all the above Conditions are not fulfilled or waived (as the case may be) by the Purchaser on or before 31 May 2017 or such later date as the parties may agree, the Purchaser has the right to unilaterally terminate the Share Purchase Agreement and no party shall have any liability to the other party save in respect of antecedent breaches of the Share Purchase Agreement. The Deposit (together with any interest) shall be returned to the Company within one Business Day after such termination. If the Purchaser unilaterally terminates the Share Purchase Agreement without reasonable cause, the Vendors shall not be required to return the Deposit to the Company.

### **Completion**

Subject to all the above Conditions being fulfilled (or waived by the Purchaser as applicable), Completion shall take place on the Completion Date.

### **Lock-up undertakings**

Pursuant to the Share Purchase Agreement, each of the Vendors undertakes to the Purchaser that the Consideration Shares held by each of the Vendors shall be locked up for a period of six months commencing from the Completion Date and the Vendors shall not transfer, dispose of or pledge the Consideration Shares in any form during such period.

### **Service contracts**

Each of the Vendors shall, on or before Completion, procure certain key management and technical staff of the Target Group (the “**Key Employees**”) to execute service contracts for a term of three years on terms and forms satisfactory to the Purchaser. The notice period for termination of these service contracts shall be at least 180 days. In any event, the Key Employees shall not resign in the first year from the effective date of the service contracts. The Key Employees shall include Mr. Zhou (the chief executive officer and chairman of the Target Company), Ms. Zhang (the chief operational officer of the Target Company), Ms. Lai (the chief accountant of the OPCO) and Mr. Zhang Youming (the chief technology officer of the Target Company).

## LETTER FROM THE BOARD

The existing Directors and senior management of the Group do not have any experience or expertise in the mobile gamified social networking industry. Therefore, the Directors consider that the execution of the aforesaid service contracts can ensure the smooth operation of the Target Group after Completion.

To ensure that there will be sufficient managerial competencies in operating the business of the Target Group in the event that the Key Employees resign from the Target Group, the Company will consider, after Completion, proposing new member(s) of management with experience and expertise relevant to the industry in which the Target Group operates. Taking into account that (i) the Duimian platform is well established; and (ii) it is not difficult to recruit new staff with appropriate skill and expertise to maintain and enhance the Duimian platform, the Directors consider that the resignation of the Key Employees after the first year from the effective date of the service contracts (if occurred) will not have a material adverse impact on the business of the Target Group.

### **Non-competition undertakings**

Pursuant to the Share Purchase Agreement, each of the Vendors shall execute and procure each of the Guarantors to execute a non-competition undertaking prior to Completion, under which each of them undertakes that (i) for a period of three years after the date of the non-competition undertaking, each of them shall not (a) engage in any business, whether directly or indirectly through any other person or company as a shareholder, director, employee, partner, agency or any other ways, that competes with all the businesses of the Target Group in the PRC (except holding an interest in any company listed on any stock exchange not exceeding 5% of the issued share capital of the company in question); (b) solicit or induce any existing or prospective customer of the Target Group or any person or company with whom the Target Group has usual dealings in the last three years prior to the date of the non-competition undertaking to enter into any contract or accept any business from them; and (c) employ or solicit or induce any officer, employee or consultant of the Target Group to leave, whether directly or indirectly through any other person or company; (ii) at any time after the date of the non-competition undertaking, each of them shall not (a) use or disclose to any third party any information in relation to the Target Group (including the intellectual property rights owned by the Target Group) except that such information is publicly available or is required to be disclosed by court orders; (b) use or procure any other person or company to use any name or symbol in relation to any trade or business or application which is sufficient or is likely to cause confusion with that of the Target Group; and (c) use any technology and product owned or any extended technology and product to be owned by the Target Group for any business activity other than that of the Target Group; and (iii) it shall procure its affiliates to comply with the contents of the non-competition undertaking.

## LETTER FROM THE BOARD

### Financial support from Mr. Zhang Qi

On 21 March 2017, the Company entered into a loan agreement (the “**Loan Agreement**”) with Mr. Zhang Qi, an executive Director, pursuant to which Mr. Zhang Qi agreed to provide a loan facility (the “**Facility**”) to the Company in an aggregate amount of US\$10 million (equivalent to approximately HK\$77.8 million) (the “**Cap**”). Under the Loan Agreement, during the period from the date of the Loan Agreement to 20 March 2018 (the “**Drawdown Period**”), the Company is allowed to draw down the Facility, for one or more times, provided that the total outstanding amount at any time during the Drawdown Period shall not exceed the Cap. The Facility is unsecured, interest-free and repayable in full on the first anniversary from the date of drawdown or such later date as the parties may agree.

The Company may also, from time to time, consider various fund raising exercises, whether in the form of equity and/or debt financings, in case it requires additional funds to support the development of its business and/or for working capital, including but not limited to open offer, rights issue and/or placing of new Shares to independent individuals, corporate and/or institutional and professional investors, depending on the then prevailing market conditions. Notwithstanding the foregoing, the Directors confirm that as at the Latest Practicable Date, the Company had no concrete plan to conduct any fund raising activity.

### INFORMATION OF THE TARGET GROUP

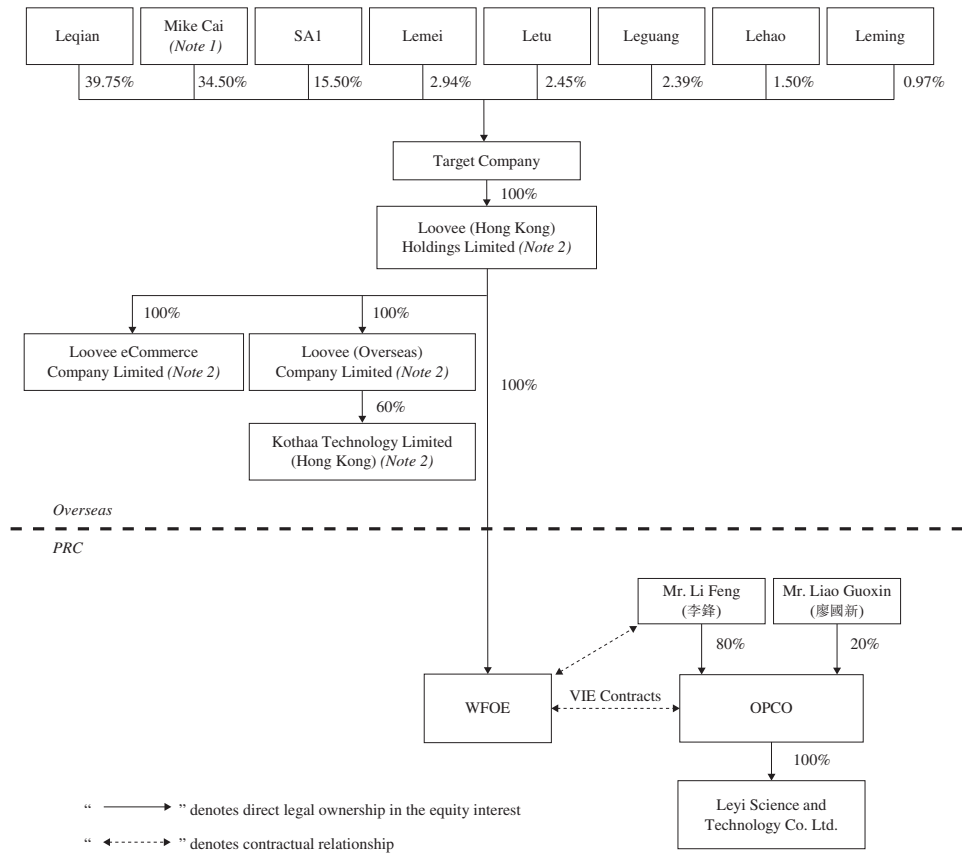
#### Shareholding structure and corporate structure

The Target Company is a company incorporated in the Cayman Islands with limited liability. The entire issued share capital of the Target Company is held by the Vendors. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendors and their beneficial owners is an Independent Third Party.

The Target Company, through its subsidiary, owns the entire registered capital of the WFOE, which has entered into a series of the VIE Contracts with the OPCO and the VIE Equity Owners. Through the VIE Contracts, the WFOE has effective control over the finance and operation of the OPCO and enjoys the entire economic interest and benefits generated by the OPCO.

# LETTER FROM THE BOARD

Set out below is the shareholding structure and corporate structure of the Target Group as at the Latest Practicable Date:



*Notes:*

1. 17.25% is held by Mike Cai on trust in favour of Mr. Tsang, being the beneficial owner of such shares in the Target Company.
2. The principal business activity is investment holding.

## LETTER FROM THE BOARD

### **Business model**

The Target Group, through the OPCO, is principally engaged in the development and operation of a mobile social networking platform named “Duimian” (“對面”), the largest gamified mobile social networking platform and the second largest stranger-to-stranger mobile social networking platform in the PRC, as measured by the number of downloads on Android devices, according to the Analysys Report. The Target Group has started its operation since July 2011. The user base of the Duimian platform has grown rapidly since the Duimian platform was launched in 2013. As at 31 December 2016, it had approximately 99.7 million registered users and approximately 19.8 million monthly active users, as measured by the total number of registered users that opened the Duimian application during December 2016.

The Duimian platform is scalable and can be expanded to accommodate a fast growing number of users, offer additional gamification features and facilitate various monetisation models. The Target Group has developed proprietary technology to support the growth of its business. Its cloud-based server and network infrastructure enables the Duimian platform to simultaneously and reliably deliver entertainment contents to millions of domestic and overseas users.

Under the Duimian platform, users are given specific tasks and awarded points to encourage social interaction, such as speaking to a stranger, joining a social group and giving and receiving virtual gifts. Users are encouraged to apply these skills towards creating and cultivating virtual relationships and communities, which enhances user stickiness. Using their personal pages, community activities and interaction with other participants, users can accumulate points, attract followers and receive gifts, medals and recognition, potentially becoming online celebrities, who are identified and recognised through various lists and award of medals and banners. These gamification features allow the Duimian platform to engage users and enhance interaction among them. Offline events, such as speed dating events, are also organised where users can gather and meet in person.

### *Revenue generation methods*

Since the launch of Duimian platform in 2013, the Target Group has been constantly considering ways to monetise the platform without adversely affecting user experience. The Target Group has two major monetisation channels. One is to generate revenue from active individual users through the sale of virtual items and the second is from advertising clients through provision of advertising services.

Virtual items include VIP membership subscriptions, virtual gifts, special effects and other value-added services. Different virtual gifts and a range of special effects for users are added to the platform to attract active individual users to spend on the platform. The Target Group also incentivises users to spend more through flexible pricing and pricing adjustments such as discounts and promotions. The Target Group gives users discounts when they spend more and offers promotional prices for services during holidays or other appropriate times. For the three years ended 31 December 2016, revenue from the sale of virtual items accounted for approximately 97.0%, 92.8%, and 72.9% of the total revenue of the Target Group, respectively.



## LETTER FROM THE BOARD

The Target Group also allows advertisers to promote their products on its Duimian platform. The Target Group started generating advertising revenue in 2014. The Target Group believes it will be an important source of revenue for its future business growth. The Target Group plans to further expand this monetisation channel by offering diversified, targeted and customised services to advertisers, including the development of more innovative advertising services and comprehensive mobile marketing solutions. For the three years ended 31 December 2016, revenue from provision of advertising services accounted for approximately 3.0%, 7.2%, and 27.1% of the total revenue of the Target Group, respectively.

The Target Group also plans to add more monetisation channels including monetisation of interactive live video streaming. The Target Group expects to generate revenues from interactive live video streaming by incentivising users to purchase more virtual items such as sending virtual gifts to hosts. The Directors consider that there is a high growth potential in the interactive live video streaming market which will represent a major revenue driver for the Target Group in the future. The future revenue growth of the Target Group will be affected by its ability to effectively execute its monetisation strategies.

The Directors consider that with (i) its strong market position, being the largest gamified mobile social networking platform and the second largest stranger-to-stranger mobile social networking platform in the PRC according to the Analysys Report; and (ii) its well-established user base, the Target Group will be able to monetise its user base by introducing interactive live video streaming service onto its Duimian platform and converting more of its existing users into paying users.

### *Major cost components*

The major cost components to the business of the Target Group comprises of (i) cost of revenue; (ii) selling and marketing expenses; and (iii) general and administrative expenses.

Cost of revenue relates to direct expenses incurred in order to generate revenue, and consists primarily of costs associated with the operation and maintenance of the Duimian platform, including cost of goods for redemption of bonus points and salary and welfare. Cost of goods for redemption of bonus points represents provisions made based on the total bonus points accumulated by users from their receipt of virtual gifts. These bonus points can be used in the bonus points store to purchase virtual coins or physical gifts such as digital products and cosmetics. Salary and welfare consists of salaries and benefits paid to the Target Group's staff members that are responsible for maintaining and supporting its platform, website and customer services.

Selling and marketing expenses mainly represent (a) advertising and market promotion expenses; (b) salary and welfare for sales and marketing personnel; and (c) research and development expenses including salary and welfare for research and development personnel, rental expenses and depreciation of office equipment and servers utilised by research and development personnel.

General and administrative expenses mainly represent salary and welfare for general and administrative personnel, professional service fees, property management fees, depreciation of furniture and fixtures, travelling expenses, training expenses and utility expenses.

## LETTER FROM THE BOARD

### *User bases*

Set out below are the numbers of registered users, monthly active users, paying users and revenue of the Target Group for the period from 2014 to 2016:

| <i>(approximate)</i>                | <b>As at/for the year<br/>ended 31 December</b> |             |             | <b>CAGR</b> |
|-------------------------------------|---|-------------|-------------|-------------|
|                                     | <b>2014</b>                                     | <b>2015</b> | <b>2016</b> |             |
| <b>Registered users</b>             |   |             |             |             |
| (in million) <i>(Note 1)</i>        | 17.9  | 62.0        | 99.7        | 136.0%      |
| <b>Monthly active users</b>         |   |             |             |             |
| (in million) <i>(Note 2)</i>        | 3.5   | 13.2        | 19.8        | 137.8%      |
| <b>Paying users</b> <i>(Note 3)</i> | 28,322  | 255,524     | 507,421     | 323.3%      |
| <b>Revenue</b> (in RMB million)     | 6.3   | 33.1        | 81.2        | 259.0%      |

*Notes:*

1. Refers to users that have registered through the Duimian application and logged onto the platform at least once since registering.
2. Refers to the total number of registered users that opened the Duimian application during December of the respective financial years.
3. Refers to the number of users that purchased at least 100 virtual gold coins during the year ended 31 December of the respective financial years.

As shown in the table above, the Target Group has recorded remarkable growth in both the user bases (including registered users, monthly active users and paying users) and revenue during the period from 2014 to 2016. This highlights the market potential in the mobile gamified social networking industry in the PRC.

Taking into account that (i) the Target Group generates its revenue from both (a) sales of VIP membership subscription, virtual gifts and virtual items; and (b) provision of advertising services; and (ii) the Target Group has been generating an increasing proportion of its revenue from provision of advertising services, from approximately 3.0% in 2014 to approximately 27.1% in 2016, the Directors consider that the expected financial performance of the Target Group cannot be determined solely based on the number of paying users as an increasing number of registered users and monthly active users is likely to attract more advertisers to place advertisements on its Duimian platform. The Directors expect that as more users (including both paying and non-paying users) use the Duimian platform, the Target Group will not only generate more revenue from its paying users but also attract more advertisers to use its advertising services. The Directors also expect that the number of paying users of the Target Group will be driven by the introduction of interactive live video streaming service in the future.

## LETTER FROM THE BOARD

### *Competitive advantages*

The Target Group considers the competitive advantages of the Target Group include the following:

- the largest gamified and mobile social networking platform in the PRC;
- a rapidly growing and highly engaged user base;
- proven track record of rapidly growing revenue driven by innovative and effective monetisation channels;
- first mover advantage built on gamification focus and research and development technology;
- well-known brand name associated with and supported by satisfied users; and
- strong and experienced management team.

### **Industry overview**

Gamified social networking combines the data-driven techniques that game designers use to engage players and applies them to the mobile social networking experience. Gamified social networking platforms expand on this concept by extensively incorporating game mechanics into the mobile social networking experience to encourage user participation, engagement and loyalty. These gaming techniques include in-app games, tasks, badges, leveling up, competition, rankings, points, and virtual relationships and communities.

According to the Analysys Report, the mobile gamified social networking industry in the PRC continues to grow as the industry begins to consolidate and emerging technologies drive market growth. The market size of the PRC's mobile gamified social networking market in terms of revenue increased by 136.6% from RMB56 million in 2014 to RMB133 million in 2015, according to the Analysys Report. Moreover, it is expected to further increase to RMB375 million in 2016, RMB1,023 million in 2017 and RMB2,086 million in 2018, representing a compound annual growth rate of 147.1% for the period from 2014 to 2018. On this basis, the Directors consider there is huge market potential in the mobile gamified social networking industry in the PRC and therefore the prospect of the Target Group is optimistic.

Gamified social networking platforms help users to improve social and communication skills that conservative Chinese culture does not emphasise, incentivise users to interact with each other through gamification features and build on the fundamental human need to socialise, compete and be recognised. Keys to success in the PRC's mobile gamified social networking industry include having a clear value proposition, offering user-orientated products and services, integrating new technology and successful and scalable monetisation models.

## LETTER FROM THE BOARD

### Financial information of the Target Group

The following table sets out the audited consolidated financial information of the Target Group for the two years ended 31 December 2016:

|  | <b>For the year ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>31 December</b>        |                    |
|  | <b>2015</b>               | <b>2016</b>        |
|  | <i>RMB</i>                | <i>RMB</i>         |
| Revenue                                      | 33,090,030                | 81,205,848         |
| Loss before tax                              | 5,511,915                 | 19,046,484         |
| Loss after tax                               | 5,511,915                 | 19,046,484         |
|  |                           | <b>As at</b>       |
|  |                           | <b>31 December</b> |
|  |                           | <b>2016</b>        |
|  |                           | <i>RMB</i>         |
| Net liabilities attributable to shareholders |                           | 18,085,178         |

As at the Latest Practicable Date, only the OPCO in the Target Group generated revenue and there was no revenue generated from other subsidiaries of the Target Company.

Pursuant to the VIE Contracts, the WFOE is able to control the finance and operation of the OPCO so as to obtain its entire economic interest and benefits despite the lack of registered equity ownership. The Directors have discussed with the auditors of the Company and are of the view that the financial results and position of the OPCO are capable of being consolidated into the financial statements of the Target Company. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. Accordingly, the financial results of the Target Group will be consolidated into the financial statements of the Company.

### Information on the shareholders of the OPCO

Pursuant to condition (x) set out in the section headed “The Share Purchase Agreement — Conditions”, the equity interests in the OPCO have been transferred from Mr. Zhou and Mr. Cai (as sellers) to the VIE Equity Owners (as purchasers) who are Independent Third Parties and PRC citizens. As at the Latest Practicable Date, the shareholders of the OPCO are Mr. Li Feng (李鋒) and Mr. Liao Guoxin (廖國新), who held 80% and 20% equity interests in the OPCO, respectively.

### INFORMATION ON THE VENDORS AND THE GUARANTORS

Other than Mr. Tsang, each of the Vendors is a BVI incorporated company and is principally engaged in investment holding.

The Guarantors are shareholders and beneficial owners of the Vendors.

## LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Guarantors, the Vendors and their beneficial owners is an Independent Third Party.

### **Leqian and Mr. Zhou**

Leqian is wholly-owned by Mr. Zhou, who is the chief executive officer and chairman of the Target Company.

### **Mike Cai and Mr. Cai**

Mike Cai is wholly-owned by Mr. Cai, who is the chief marketing officer and a director of the Target Company.

### **Mr. Tsang**

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Tsang is an Independent Third Party.

### **SA1 and Mr. Sung**

SA1 is wholly-owned by Mr. Sung, who is the chief financial officer and a director of the Target Company.

### **Lemei and Ms. Lai**

Lemei is wholly-owned by Ms. Lai, who is the chief accountant of the OPCO.

### **Letu and Mr. Zhang**

Letu is wholly-owned by Mr. Zhang, who is the chief technology officer of the Target Company.

### **Leguang and Ms. Zhang**

Leguang is wholly-owned by Ms. Zhang, who is the chief operational officer of the Target Company.

### **Lehao and Mr. Feng**

Lehao is wholly-owned by Mr. Feng. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Feng is an Independent Third Party.

### **Leming and Mr. Liu**

Leming is wholly-owned by Mr. Liu, who is the project manager of the Target Company.

## LETTER FROM THE BOARD

### THE VIE CONTRACTS

#### Background of and reasons for use of the VIE Contracts

The OPCO currently possesses (i) 中華人民共和國增值電信業務經營許可證 (The PRC's License for Value-Added Telecommunications Business\*) issued by 廣東省通信管理局 (Communications Administration of Guangdong Province\*) which permits the OPCO to engage in information service business of class two value-added telecommunications business; and (ii) 網絡文化經營許可證 (the Online Culture Operating License\*) issued by 廣東省文化廳 (Department of Culture of Guangdong Province\*) which permits the OPCO to operate gaming products with the use of online information including distribution of online game virtual currency and engage in performance.

According to 《外商投資產業指導目錄(2015年修訂)》 (The Guidance Catalogue of Industries for Foreign Investment (2015 Amended\*)) (the “**Catalogue**”), value-added telecommunications service business is restricted for foreign investors and foreign ownership in such business (except e-commerce) cannot exceed 50%, and in particular, internet cultural business (except for music) is prohibited for foreign investors. Moreover, under 《外商投資電信企業管理規定》 (The Provisions on the Administration of Foreign-Invested Telecommunications Enterprises\*), the major foreign investor should possess a good track record and operational experience of the operations of value-added telecommunication services (the “**Qualifications**”).

The OPCO Group is principally engaged in the development and operation of a mobile social networking platform named “Duimian” (“對面”) which is considered to be engaged in the provision of value-added telecommunications services and the internet cultural business, a restricted and prohibited business respectively for foreign investors pursuant to the Catalogue. Moreover, the Company and its subsidiaries do not possess the required Qualifications. As such, the Target Company as a foreign investor cannot directly or indirectly hold the equity interest in the OPCO.

In order to comply with the applicable PRC laws and regulations, the WFOE, the OPCO and the VIE Equity Owners have entered into the VIE Contracts to enable the financial results, the entire economic benefits and the risks of the business of the OPCO to flow onto the WFOE and to enable the WFOE to gain control over the OPCO. Based on the terms and reasons set out below, the Directors are of the view that the VIE Contracts will allow the entire economic benefits and the risks of the business of the OPCO to flow onto the WFOE and to enable the WFOE to gain control over the OPCO.

## LETTER FROM THE BOARD

### Details of the VIE Contracts

The principal terms of the VIE Contracts are summarised as follows:

(i) *The Exclusive Technology Consulting and Services Agreement*

Parties: (i) WFOE; and  
(ii) OPCO

Services: The WFOE has the exclusive right to provide the OPCO with the following consulting services: (i) research and development of relevant software and technology in accordance with the business needs of the OPCO and licensing the OPCO to use such software and technology; (ii) design, monitoring, testing and maintenance of the OPCO's computer network equipment and webpages; (iii) technical training and support for employees of the OPCO; (iv) repair and maintenance, safety and testing services for the OPCO's Internet systems; (v) hardware and software purchasing consulting services; (vi) market development and marketing of application software; (vii) industry consulting and product development; (viii) business cooperation opportunities such as customers, business partners and related market information; and (ix) other related consulting and technical services in accordance with the business needs of the OPCO.

Without the prior written consent of the WFOE, the OPCO cannot engage any third party to provide the same or similar technical and consulting services provided by the WFOE under the Exclusive Technology Consulting and Services Agreement.

Fees: For the services provided by the WFOE under the Exclusive Technology Consulting and Services Agreement, the OPCO shall pay, on a quarterly basis, to the WFOE a service fee that equal to 100% of the net profit of the OPCO after deducting taxes, costs and expenses incurred during the course of business.

The WFOE has the right to adjust the service fee in accordance with the actual services provided to the OPCO as well as the operating condition and development needs of the OPCO.

Term: The Exclusive Technology Consulting and Services Agreement has an initial term of ten years from the date of execution, and may be extended at the sole discretion of the WFOE.

The WFOE has the right to terminate the Exclusive Technology Consulting and Services Agreement at any time with a prior 30-day written notice to the OPCO. The OPCO, in any event, shall not have the right to unilaterally terminate the Exclusive Technology Consulting and Services Agreement or to declare it invalid.

## LETTER FROM THE BOARD

(ii) *The Business Operation Agreement*

- Parties:
- (i) WFOE;
  - (ii) OPCO; and
  - (iii) VIE Equity Owners

Subject matter: The VIE Equity Owners agree that, without the prior written consent from the WFOE, the OPCO would not enter into any transaction or perform any act that could materially affect its assets, business, personnel, undertakings, rights or operations, including but not limited to the following transactions or acts:

- (i) conducting business beyond the usual and normal scope or inconsistent with past practice;
- (ii) entering into any loan or other debtor-creditor relationship with any third party or assuming any debt;
- (iii) appointing or dismissing any director or senior management of OPCO;
- (iv) selling, transferring or acquiring assets or rights or dispose of them in any other way, including but not limited to intellectual property rights, to any third party;
- (v) providing any form of guarantee in favor of any third party with its assets or intellectual property rights or creating any other encumbrance on any of its assets;
- (vi) modifying the articles of association, business scope, normal business procedure or internal rules or guidance of the OPCO;
- (vii) assigning any right and obligation under the Business Operation Agreement to any third party;
- (viii) making material changes to the business model, marketing strategy, operational guidelines or client relationships of the OPCO; and
- (ix) distributing bonuses or dividends to shareholders.



## LETTER FROM THE BOARD

The VIE Equity Owners also agree:

- (i) to vote for or appoint nominees designated by the WFOE to serve as the directors, chairman, general managers, financial controllers and other senior managers of the OPCO;
- (ii) to accept and implement proposals set forth by the WFOE regarding employment, day-to-day business operations and financial management; and
- (iii) to unconditionally transfer any dividend or other interest declared by the OPCO to the WFOE.

**Term:** The Business Operation Agreement has an initial term of ten years from the date of execution, and may be extended at the discretion of the WFOE.

The WFOE has the right to terminate the Business Operation Agreement at any time by giving a prior 30-day written notice to the OPCO and the VIE Equity Owners. Neither the OPCO nor the VIE Equity Owners can terminate the Business Operation Agreement prior to the expiry of its term.

### *(iii) The Exclusive Call Option Agreement*

**Parties:**

- (i) WFOE;
- (ii) OPCO; and
- (iii) VIE Equity Owners

**Option:** The VIE Equity Owners unconditionally and irrevocably grant the WFOE an irrevocable and exclusive option to purchase or designate one or more persons to purchase, to the extent permitted under the relevant PRC laws and regulations, all or part of their equity interests in the OPCO.

The OPCO also grants the WFOE an irrevocable and exclusive option to purchase or designate another party to purchase, to the extent permitted under the relevant PRC laws and regulations, any or all of the assets owned by the OPCO (including its equity interest in 深圳市樂宜科技有限公司 (Leyi Science and Technology Co. Ltd.\*)).

Without the WFOE's prior written consent, the OPCO and the VIE Equity Owners will not themselves or procure others to sell, transfer, mortgage or otherwise dispose of all or part of the equity interests in or assets of the OPCO.

## LETTER FROM THE BOARD

Exercise price: For acquisition of the entire equity interests in the OPCO, if the PRC law does not require an evaluation of the equity interests in or assets of the OPCO when the option is exercised, the total purchase price shall be RMB10,000 for 100% of the equity interests.

If the PRC law requires such an evaluation, the total purchase price shall be (i) 1% of the evaluation price; or (ii) the minimum price permitted by the then applicable PRC law.

For acquisition of assets of the OPCO, the purchase price shall be the lower of (i) the book value; and (ii) the minimum price permitted by the then applicable PRC law.

The proceeds received by the OPCO and the VIE Equity Owners from the exercise of the option under the Exclusive Call Option Agreement shall be unconditionally returned to the WFOE or its designated party.

Term: The Exclusive Call Option Agreement shall remain effective until all the equity interests in the OPCO held by the VIE Equity Owners are transferred or assigned to the WFOE or its designated party.

The WFOE has the right to terminate the Exclusive Call Option Agreement at any time with a prior 30-day written notice to the OPCO and the VIE Equity Owners. Save as the WFOE, no other party shall have the right to unilaterally terminate the Exclusive Call Option Agreement.

### *(iv) The Equity Interest Pledge Agreement*

Parties: (i) WFOE (as pledgee); and  
(ii) VIE Equity Owners (as pledgors)

Pledge: The VIE Equity Owners agree to pledge all of their equity interests in the OPCO (including any equity interest subsequently acquired or subscribed) to the WFOE to guarantee the performance by the OPCO and the VIE Equity Owners of their respective obligations under the Contractual Arrangements.

If the OPCO or the VIE Equity Owners breach their obligations under the Contractual Arrangements, the WFOE, as the pledgee, shall be entitled to certain rights and remedies, including priority in receiving the proceeds from the auction or disposal of the pledged equity interests in the OPCO.

## LETTER FROM THE BOARD

The VIE Equity Owners shall instruct the OPCO not to distribute any dividend, bonus or other forms of profits during the term of the pledge. Any economic benefit (other than the above) generated by the pledged equity interests during the term of the pledge shall be returned to the WFOE.

**Term:** The Equity Interest Pledge Agreement shall become effective on the date when the pledge of the equity interests in the OPCO is registered on the register of members of the OPCO and shall remain binding until the VIE Equity Owners discharge all their obligations under the Contractual Arrangements or the termination of the VIE Contracts (other than the Equity Interest Pledge Agreement).

During the term of the Equity Interest Pledge Agreement, the VIE Equity Owners shall take all actions to ensure that the registration of the pledge of the equity interests in the OPCO on the register of members of the OPCO continues to be valid.

### *(v) The Powers of Attorney*

**Parties:** VIE Equity Owners (each of the VIE Equity Owners executed a Power of Attorney separately)

**Subject matter:** Each of the VIE Equity Owners irrevocably appoints the WFOE as their attorney-in-fact to act for all matters pertaining to the OPCO and to exercise all of their rights as shareholders of the OPCO, including but not limited to:

- (i) proposing to convene and attend shareholders' meetings of the OPCO;
- (ii) receiving notice of convening and proceedings of shareholders' meetings of the OPCO;
- (iii) exercising all the voting rights as shareholders of the OPCO (including appointment of directors, general managers, financial controllers and other senior managers of the OPCO and distribution of bonuses) and signing minutes of shareholders' meetings;
- (iv) selling, transferring, pledging or disposing of the shares of the OPCO, executing all necessary documents and performing all necessary procedures;

## LETTER FROM THE BOARD

- (v) executing all documents required to be signed by the shareholders of the OPCO and submitting any documents to relevant company registration authorities for filing purpose; and
- (vi) exercising all other shareholders' rights under other applicable PRC laws and regulations and the articles of association (as amended from time to time) of the OPCO.

The WFOE shall have the right to designate certain person appointed by the board of directors or executive director to exercise rights granted by the VIE Equity Owners under the Powers of Attorney.

**Term:** Unless the Business Operation Agreement is terminated for any reason, the Powers of Attorney executed by each of the VIE Equity Owner has an initial term of ten years from the date of execution, and may be extended at the discretion of the WFOE.

### *(vi) The Commitment Letters*

**Parties:** VIE Equity Owners (each of the VIE Equity Owners executed a Commitment Letter separately)

**Subject matter:** The VIE Equity Owners irrevocably undertake that:

- (i) for whatever reason the equity interests in the OPCO are transferred or inherited to other person(s) (including but not limited to bankruptcy, divorce or death of the VIE Equity Owners), such transferee(s) or successor(s) shall be legally bound by the VIE Contracts (as appropriate) and such transfer or inheritance or other relevant arrangement shall not contravene the VIE Contracts unless with the prior written consent from the WFOE;
- (ii) all the equity interests held in the OPCO shall not form part of their matrimonial property and all decision made by them in the OPCO shall not be affected by their spouses;
- (iii) they shall not, whether directly or indirectly through any other person or entity, participate in, carry out, acquire or hold any interest in any business which is or may be in competition with the OPCO or its related companies, and shall not do anything which gives rise to any conflict of interest between them and the WFOE;

## LETTER FROM THE BOARD

- (iv) they shall transfer any assets of the OPCO obtained as a result of the liquidation of the Company to the WFOE at nil consideration or the lowest price permitted by the applicable law; and
- (v) they shall unconditionally return any proceeds received as a result of the exercise of the option under the Exclusive Call Option Agreement to the WFOE or its designated party.

### *(vii) The Spousal Consent Letters*

Parties: The spouses of the VIE Equity Owners (the spouse of each of the VIE Equity Owners executed a Spousal Consent Letter separately)

Subject matter: The spouse of each of the VIE Equity Owners irrevocably agrees that:

- (i) all the equity interests held by the VIE Equity Owners in the OPCO and all the benefits generated from these equity interests do not form part of their matrimonial property;
- (ii) all the benefits generated from the equity interests in the OPCO belong to the VIE Equity Owners and can be dealt with in any way by the VIE Equity Owners without the consent of their spouses;
- (iii) the VIE Equity Owners may execute any supplemental document to the relevant VIE Contracts without the signature, confirmation, consent and approval from their spouses; and
- (iv) they shall be bound by the relevant VIE Contracts in the event that they obtain any equity interest in the OPCO held by the VIE Equity Owners for any reason.

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### **Compliance of VIE Contracts with PRC laws, rules and regulations**

As advised by the PRC Legal Adviser, the VIE Contracts do not violate mandatory provisions of laws and regulations of validity nature, including those applicable to the business of the WFOE and the OPCO, and the articles of association of the WFOE and the OPCO. The VIE Contracts are legally binding on each relevant party to the VIE Contracts and shall not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC contract law.

The GAAP’s Notice 13 prohibits foreign investors from using any agreements or contractual agreements to gain control of or operate an online game business in the PRC. Taking into account that details of the implementation and the scope for execution of the GAAP’s Notice 13 have not yet been issued by the relevant authorities and based on confirmations by the relevant authorities in the interviews with the same, the PRC Legal Adviser is of the view that the VIE Contracts would not constitute a violation of the GAAP’s Notice 13.

As at the Latest Practicable Date, the WFOE had not encountered any interference or encumbrance from any governing bodies in operating its business through the OPCO under the Existing VIE Contracts or the VIE Contracts.

### **Dispute resolutions in the VIE Contracts**

The VIE Contracts are governed by and will be constructed in accordance with the PRC laws and contain a provision for resolving disputes by arbitration at 華南國際經濟貿易仲裁委員會 (South China International Economic and Trade Arbitration Commission) in accordance with its arbitration rules. The VIE Contracts provide that the arbitration tribunal may award remedies over the equity interests or assets of the OPCO, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Contracts also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Bermuda, the PRC and the locations where the principal assets of the Company or the OPCO are located. However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Contracts provide that overseas courts (e.g. courts in Hong Kong and Bermuda) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws.

### **Possible impact of the Draft Law (as defined below) on the VIE Contracts and the business of the Target Group**

On 19 January 2015, the Ministry of Commerce of the PRC published 《中華人民共和國外國投資法(草案徵求意見稿)》(the draft PRC Foreign Investment Law\*) and 《關於〈中華人民共和國外國投資法(草案徵求意見稿)〉的說明》(the Explanation on the draft PRC Foreign Investment Law\*) (collectively the “**Draft Law**”), which contain changes to the PRC foreign investment legal regime and the treatment of the VIE arrangement. The Draft Law

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clearly defines the VIE arrangement as a form of foreign investment. When the Draft Law is adopted, 《中華人民共和國外國投資法》(the PRC Foreign Investment Law\*) shall apply to investments using the VIE arrangements.

There is no concrete guidance on how the existing and new VIE arrangements should be treated in the Draft Law. For investments using the VIE arrangements which exist before the Draft Law is adopted and becomes law, if the underlying businesses are still being categorised as prohibited or restricted foreign investment businesses after the Draft Law is adopted and becomes law, there are three suggested available alternatives in dealing with such VIE arrangements pursuant to the Draft Law:

- (i) The foreign investment enterprise under the VIE arrangement shall declare to the foreign investment authority under the State Council of the PRC that it is effectively controlled by PRC investors. After such declaration, the VIE arrangement can be retained and the relevant parties can continue the operation;
- (ii) The foreign investment enterprise under the VIE arrangement shall file an application with the foreign investment authority under the State Council of the PRC for being recognised as a party under the effective control of PRC investors. If the foreign investment authority recognises it as being effectively controlled by PRC investors, the VIE arrangement can be retained and the relevant parties can continue the operation; or
- (iii) The foreign investment enterprise under the VIE arrangement shall apply for entry permit from the foreign investment authority under the State Council of the PRC, and the foreign investment authority and relevant authorities will consider factors including the actual controller of the foreign investment enterprise and make a decision on how the relevant VIE arrangement should be handled.

For the purpose of the Draft Law, “control” refers to the circumstances that any of the following conditions is met with respect to an enterprise: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise; (ii) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise, but falling under any of the following circumstances: (a) having the right to directly or indirectly appoint not less than half of the members of the board of directors or other similar decision-making body of the enterprise; (b) having the ability to ensure that its nominees occupy not less than half of the seats on the board of directors or other similar decision-making body of the enterprise; or (c) holding voting rights sufficient to impose significant impacts on any resolution of the meetings of shareholders, at the general meeting of shareholders, or of the board of directors or other decision-making body of the enterprise; or (iii) imposing decisive impacts on the operation, finance, personnel or technology of the enterprise by contract, trust, or other means. For the purpose of the Draft Law, “actual controllers” refer to natural persons or enterprises that directly or indirectly control any foreign investor or foreign-invested enterprise.

As defined in the Draft Law, “PRC investors” refer to the following subjects: (i) natural persons with PRC nationality; (ii) the PRC government and the departments or agencies there under; or (iii) domestic enterprises under the control of the subjects as mentioned in the

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preceding two categories. Meanwhile, “foreign investors” refer to the following subjects making investments within the territory of the PRC: (i) natural persons without the PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than the PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; or (iv) international organisations. Domestic enterprises under the control of foreign investors as mentioned in the preceding sentence are deemed as foreign investors.

According to the PRC Legal Adviser, the Draft Law is published for consultation purpose and has not yet been legally binding. As there are uncertainties on the final content and interpretations of the Draft Law if and when it is adopted and becomes law, there is no assurance that the VIE Contracts will comply with the Draft Law when it is adopted and becomes law and the business of the Target Group will not be materially affected in the future. In order to continuously monitor the development of the Draft Law to assess the possible impact on the VIE Contracts and the business of the Target Group, the Board will monitor the updates of the Draft Law and discuss with the Company’s PRC legal adviser. In case there would be material impact on the Group or the business of the Target Group, the Company will timely publish announcements in relation to material developments of and arising from the Draft Law.

### **Compliance with the Draft Law when it is adopted and becomes law**

As disclosed in the section headed “Effects of the Acquisition on the shareholding structure” below, upon Completion, Daohe Global Investment Holding Limited (“**Daohe Investment**”), through its subsidiaries, shall hold approximately 43.99% of the issued share capital of the Company (assuming no exercise of the Share Options) and shall remain as the controlling Shareholder under the Listing Rules. Daohe Investment is in turn beneficially owned as to 80% by Mr. Zhou Xijian and 20% by Mr. Zhang Qi. Both Mr. Zhou Xijian and Mr. Zhang Qi (collectively, the “**Controlling Persons**”) are Directors and PRC nationals.

At the same time, Leqian shall become the second largest Shareholder and hold approximately 11.85% of the issued share capital of the Company upon Completion (assuming no exercise of the Share Options). Leqian is beneficially owned by Mr. Zhou who is an Independent Third Party and a PRC national.

As a result, upon Completion, the aggregate shareholding interests of the Controlling Persons and Mr. Zhou, all being PRC nationals, will be over 50% of the issued share capital of the Company.

As mentioned above, under the Draft Law, “control” of an enterprise can refer to a circumstance where there is a direct or indirect holding of not less than 50% of share, equities, share of properties, voting rights or other similar rights of the enterprise. In addition, in the context of an enterprise with multiple PRC investors, as advised by the PRC Legal Adviser, the Draft Law does not require the PRC investors, who jointly hold more than 50% equity interests in a company, (i) to be parties acting in concert; or (ii) to have an agreement or understanding to actively cooperate in order to constitute “control” of the company for the purpose of the Draft Law. Furthermore, pursuant to 指導外商投資方向規定 (Provisions on Guiding Direction of Foreign Investment) issued by 中華人民共和國國務院 (the State Council of the People’s Republic of China) on 11 February 2002, the term “中方控股” (PRC parties



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with a controlling interest) means PRC investors holding more than 51% interest in a foreign investment project. As such, the PRC Legal Adviser is of the view that, based on the current relevant PRC laws on foreign investment, the meaning of “control” does not follow a restrictive interpretation requiring the relevant PRC investors to be acting in concert or to have an agreement amongst each other to consolidate control of the company.

Since the aggregate shareholding interests of the Controlling Persons and Mr. Zhou, who are PRC nationals (i.e. “PRC investors” as defined under the Draft Law), in the Company will be not less than 50% upon Completion, the PRC Legal Adviser is of the view and the Board concurs that upon Completion, the Company (which shall control the OPCO through the VIE Contracts) is likely to be considered as being “controlled” by “PRC investors” as defined under the Draft Law.

### **The Controlling Persons’ and Mr. Zhou’s undertakings:**

Each of the Controlling Persons and Mr. Zhou (collectively, the “**Subject Persons**”) has undertaken to the Company that, after Completion:

- (i) he shall maintain his PRC nationality so as to be qualified as a “PRC investor”; and
- (ii) he shall only dispose of any of his interest in the Shares, if:
  - (a) after such disposal, the Company shall still be considered as “controlled” by “PRC investors”;
  - (b) all the other Subject Persons have given their written consent to such disposal; and
  - (c) where the disposal would result in the Subject Persons together holding not more than 50% voting rights in the Company, the transferee in such a disposal must:
    - (1) be a “PRC investor”; and
    - (2) provide the same undertaking to the Company as the Subject Persons did.

Prior to such disposal, the Subject Persons must demonstrate to the satisfaction of the Company and the Stock Exchange that the Company shall remain “controlled” by “PRC investors” after such disposal.

The aforesaid undertakings shall be made to the Company solely for the purpose of complying with the relevant foreign investment laws and related laws applicable to the Group from time to time in connection with domestic investment and shall remain effective until compliance with the relevant foreign investment laws and related laws is not required and shall only terminate subject to the approval of the Company and that the Subject Persons can demonstrate to the satisfaction of the Company and the Stock Exchange that the Group is no longer required to comply with the relevant foreign investment laws and related laws in relation to domestic investment.

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### **The Company's undertaking:**

The Company, subject to Completion having taken place, undertakes to the Stock Exchange (the “**Company's Undertaking**”) that:

1. the Company shall at all times enforce the letters of undertakings provided by the Subject Persons;
2. save for any issue of new Shares pursuant to the exercise of any Share Options, the Company shall not issue any new Shares to any person(s) who are not the Subject Persons, whether pursuant to the specific mandate and/or the general mandate from the Shareholders, unless the following conditions are satisfied:
  - (i) the aggregate shareholdings of all the Subject Persons would represent not less than 50% (or such other percentage shareholding in the Company as required by applicable PRC laws and regulations from time to time as confirmed in writing by the Company's PRC legal adviser to ensure “control” of the Company as defined in and for the purpose of the Draft Law so that the VIE Contracts continue to be in full force and effect) of the enlarged issued share capital of the Company, assuming all Share Options have been fully exercised, upon completion of such issue of Shares; and
  - (ii) the Stock Exchange has confirmed in writing that it has no objection to the proposed issue of Shares. If so requested by the Stock Exchange, the Company shall provide to the Stock Exchange a legal opinion issued by a PRC legal adviser for its assessment of the implications (if any) of the proposed issue of Shares under the Draft Law.

The Company's Undertaking shall continue in full force and effect unless and until the Company is no longer required to comply with the relevant PRC laws and regulations governing the VIE Contracts and the Stock Exchange has given its written consent for the termination of the Company's Undertaking.

Given the aforesaid undertakings, the PRC Legal Adviser is of the view that the Company is likely to remain “controlled” by “PRC investors” after the Acquisition.

On the above bases, the PRC Legal Adviser is of the view and the Board concurs that the contractual arrangement under the VIE Contracts are likely to be deemed as “a foreign investment enterprise under the actual control of PRC investors” and may be permitted to continue if the Draft Law is adopted and becomes law.

### **The Board's view on the VIE Contracts**

Based on the above, the Board is of the view that the VIE Contracts are an effective mechanism to facilitate the WFOE's control over the finance and operation of the OPCO so as to obtain the entire economic interest and benefits generated by the OPCO despite the lack of registered equity ownership in the OPCO and are enforceable under the relevant PRC laws and regulations (save for the dispute resolution clauses as contained in the VIE Contracts, details

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of which are set out in the section headed “The VIE Contracts — Dispute resolutions in the VIE Contracts” above and the section headed “Risk factors in relation to the VIE Contracts — Certain provisions in the VIE Contracts may not be enforceable under PRC laws” below). Pursuant to the relevant provisions of the VIE Contracts, the WFOE has the right to unwind the VIE Contracts as soon as the relevant PRC laws allow the WFOE to register itself as the shareholder of the OPCO. The VIE Equity Owners have also undertaken that in the event the relevant PRC laws allow the WFOE to operate the business of the OPCO without the VIE Contracts in the future, they shall unwind the VIE Contracts and return any consideration received if the WFOE or its designated party acquires the equity interests in the OPCO from them.

### REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) sales of merchandise including garments, fashion accessories, hardgoods and labels; (ii) provision of services including procurement and value-added services relating to the procurement agency business; and (iii) money lending business. As disclosed in the interim report of the Company for the six months ended 31 October 2016, the Company will continue to explore potential investment opportunities aiming to bring a greater return to the Shareholders. The Company has been interested in identifying opportunities in the internet industry. The discussion on the potential Acquisition commenced when the Company took the initiative in approaching the management of the Target Group.

Taking into account, among other things:

- (i) the competitive strengths of the Duimian platform as the largest gamified mobile social networking platform and the second largest stranger-to-stranger mobile social networking platform in the PRC with a rapidly growing and highly engaged user base according to the Analysys Report;
- (ii) the remarkable growth in both the user bases (including registered users, monthly active users and paying users) and revenue during the period from 2014 to 2016 as set out in the section headed “Information on the Target Group — Business model — User bases” above;
- (iii) the market potential of the mobile gamified social networking industry in the PRC as set out in the section headed “Information on the Target Group — Industry overview” above;
- (iv) the monetisation strategies to be implemented by the Target Group in the future as set out in the section headed “Information on the Target Group — Business model — Revenue generation methods” above;
- (v) the implied P/S ratio (i.e. 8.8 times) for the Acquisition is comparable to the average (i.e. 8.6 times) and the median (i.e. 8.9 times) of the P/S ratios of the Comparable Companies as set out in the section headed “The Share Purchase Agreement — Consideration and Deposit” above;

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- (vi) the Consideration will be substantially settled by way of the Consideration Shares which will enlarge the equity base of the Company while preserving the Company's liquidity;
- (vii) the issue price of the Consideration Shares is fair and reasonable on the bases set out in the section headed "The Share Purchase Agreement — Issue Price" above;
- (viii) the decreasing profit of the Group in the past few years;
- (ix) the Acquisition will enable the Group to diversify its businesses and broaden its revenue source; and
- (x) the fact that most technology companies tend to incur losses during their initial stage of development before generating any profit as they focus on building up their market shares and developing new sources of revenue, as it was the case with the Target Group that a significant amounts of advertising and research and development expenses have been incurred since commencement of operations,

the Directors consider that the terms of the Share Purchase Agreement (including the Consideration and the Issue Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole, despite the current financial performance and position of the Target Group and the possible goodwill impairment upon Completion as mentioned in the section headed "Financial effect of the entering into of the Share Purchase Agreement and the transactions contemplated thereunder" below. The Directors consider that such goodwill impairment, if materialised upon Completion, is purely an accounting treatment that will not affect the cash flow and liquidity position of the Enlarged Group.

As disclosed in the unaudited pro forma financial information of the Enlarged Group (the "**Pro Forma Financial Information**") set out in Appendix III to this circular, Roma Appraisals Limited valued the fair values of the identifiable intangible assets of the Target Group as US\$53,694,000. Such valuation only represents the values of intangible assets of the Target Group that are capable of being identified separately. Goodwill arising from the Acquisition represents the excess of the fair value of the total consideration transferred over the fair values of the net identifiable tangible and intangible assets acquired of the Target Group and reflects the portion of the Target Group's value that cannot be ascribed to any physical or identifiable asset, e.g. managerial and executive talent and innovation. In this sense, a technology company's true worth may be far more than the value of its identifiable assets. As such, the Directors consider that the Consideration should not be directly compared with the fair values of the identifiable tangible and intangible assets (net of the related deferred tax liabilities) of the Target Group (i.e. US\$37,664,000) for the purpose of assessing the reasonableness and fairness of the Consideration.

## LETTER FROM THE BOARD

### RISK FACTORS IN RELATION TO THE VIE CONTRACTS

**There is no assurance that the VIE Contracts could comply with future changes in the PRC foreign investment legal regime and the PRC government may determine that the VIE Contracts do not comply with applicable regulations.**

Save for the dispute resolution clauses as contained in the VIE Contracts, the PRC Legal Adviser is of the opinion that the VIE Contracts are legally binding on each relevant party to the VIE Contracts. The VIE Contracts do not violate mandatory provisions of laws and regulations of validity nature, including those applicable to the business of the WFOE and the OPCO, and the articles of association of the WFOE and the OPCO, and shall not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC contract law. However, there can be no assurance that the VIE Contracts will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable PRC laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Contracts will be deemed to be in compliance of the PRC laws and regulations.

On 19 January 2015, the Ministry of Commerce of the PRC published the Draft Law pursuant to which foreign companies gaining control over domestic companies via VIE arrangement will be regarded as foreign investments and will be governed by the Draft Law when it is adopted and becomes law. According to the PRC Legal Adviser, the Draft Law is published for consultation purpose and has not yet been legally binding. As there are uncertainties on the final content and interpretations of the Draft Law if and when it is adopted and becomes law, there is no assurance that the VIE Contracts will comply with the Draft Law when it is adopted and becomes law.

If the authorities deny the validity, effectiveness and enforceability of the VIE Contracts, the Group would (i) lose control of the OPCO; and (ii) be unable to consolidate the financial results of the OPCO or properly safeguard or control the assets of the OPCO, which would result in a material adverse effect on the Group’s business, financial condition and results of operations.

The Company will, from time to time, together with its PRC legal adviser, check if there are any legal developments in the PRC affecting the arrangements contemplated under the VIE Contracts, and the Board will determine if any modification or amendment are required to be made.

### **The VIE Contracts may not be as effective as direct ownership in providing control over the OPCO**

The Group relies on the contractual arrangement under the VIE Contracts to operate the business of the OPCO. Such contractual arrangement may not be as effective in providing the WFOE with control over the OPCO as direct ownership. If the WFOE has direct ownership of the OPCO, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the OPCO, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Contracts, the Group relies on the performance by the VIE Equity Owners of their obligations under the VIE

## **LETTER FROM THE BOARD**

Contracts to exercise control over the OPCO. Therefore, the VIE Contracts with the VIE Equity Owners may not be as effective in ensuring the WFOE's control over the OPCO as direct ownership would be.

### **The VIE Equity Owners may potentially have potential conflicts of interest with the Group**

The Group's control over the OPCO is based on the contractual arrangement under the VIE Contracts. Therefore, conflict of interests of the VIE Equity Owners will adversely affect the interests of the Group. Pursuant to the Powers of Attorney, the VIE Equity Owners shall irrevocably appoint the WFOE as their attorney-in-fact to act for all matters pertaining to the OPCO and to exercise all of their rights as shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the VIE Equity Owners. However, in the unlikely event that conflicts of interest arise between the VIE Equity Owners and the Group and such conflicts cannot be resolved, the Company will consider to remove and replace the VIE Equity Owners under the VIE Contracts.

### **Certain provisions in the VIE Contracts may not be enforceable under the PRC laws**

The VIE Contracts provide that the arbitration tribunal may award remedies over the equity interests or assets of the OPCO or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Contracts also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Bermuda, the PRC and the location where the principal assets of the Company or the OPCO are located.

However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Contracts provide that overseas courts (e.g. courts in Hong Kong and Bermuda) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that the OPCO or any of the VIE Equity Owners breaches the terms of the VIE Contracts, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OPCO could be materially and adversely affected.

## LETTER FROM THE BOARD

### **The contractual arrangement under the VIE Contracts may be subject to the scrutiny of the PRC tax authorities and additional tax may be imposed**

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangement under the VIE Contracts was not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust the income and expenses of the WFOE and/or the OPCO for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the OPCO.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of the OPCO or those of the WFOE increase significantly or if they are required to pay interest on late payments.

### **The Group does not have any insurance which covers the risks relating to the VIE Contracts and the transactions contemplated thereunder**

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

### **WFOE's ability to acquire the equity interests in the OPCO may be subject to various limitations and substantial costs**

In case the WFOE exercises its option to acquire all or part of the equity interests in the OPCO under the Exclusive Call Option Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under the applicable PRC laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the equity interests in the OPCO) or other limitations as imposed by the applicable PRC laws. Further, a substantial amount of other costs (if any), expenses and time may be involved in transferring the ownership of the OPCO, which may have a material adverse impact on the Group's business, prospects and results of operation.

### **Economic risks the WFOE bears as the primary beneficiary of the OPCO, financial support to the OPCO and potential exposure of the Target Company to losses**

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

## LETTER FROM THE BOARD

### **There is a lack of clear guidance or interpretation on the Qualifications which may cast uncertainty to the Group when the foreign ownership restriction in value-added telecommunications is relaxed**

In respect of the Qualifications, there is no clear formal guideline and provision on what constitutes “a good track record” and “operational experience”. Despite the lack of clear guidance or interpretation on the Qualifications, the Company intends to acquire the entire equity interests in the OPCO when the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in the PRC. The Group plans to take steps to build up its track record of overseas value-added telecommunications business operations in an attempt to comply with the Qualifications, so as to be qualified to acquire the entire equity interests in the OPCO when the restrictions on the percentage of foreign ownership in value-added telecommunications services and on foreign ownership in value-added telecommunication enterprises are lifted. The Company, however, cannot assure that such measures are ultimately sufficient to comply with the Qualifications. If the restriction on foreign ownership in companies providing value-added telecommunications services under the current PRC laws is lifted, the Group may still not be in a position to comply with the Qualifications and not qualified to acquire the entire equity interests in the OPCO.

### **INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP**

In addition to the internal control measures provided in the VIE Contracts, it is the intention of the Company, following Completion, to implement, through the WFOE, additional internal control measures against the OPCO as appropriate, having regard to the internal control measures adopted by the Group from time to time, which may include but not limited to the following:

#### **Management controls**

- (i) The Group will appoint an executive director or senior management to the board of the OPCO mainly responsible for enforcing all management controls of the OPCO (the “**Responsible Director**”). The Responsible Director is required to conduct monthly reviews on the operations of the OPCO and shall submit the monthly reviews to the Board;
- (ii) The Responsible Director shall establish a team to be funded by the Group who shall station at the OPCO and shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;
- (iii) Upon receiving notification of any material events of the OPCO, the Responsible Director must report to the Board as soon as practicable;
- (iv) The Responsible Director shall conduct regular site visits to the OPCO and conduct interviews with the relevant senior management of the OPCO every six months and submit the interview notes to the Board; and
- (v) All seals, chops, incorporation documents and all other legal documents of the OPCO and its subsidiary must be kept at the office of the WFOE.



## LETTER FROM THE BOARD

### **Financial controls**

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

### **Legal review**

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

## LETTER FROM THE BOARD

### EFFECTS OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Consideration Shares (assuming no exercise of the Share Options); and (iii) immediately after the allotment and issue of the Consideration Shares (assuming full exercise of the Share Options):

|   | As at the Latest Practicable Date |                       | Immediately after<br>the allotment and issue of<br>the Consideration Shares<br>(assuming no exercise of<br>the Share Options) |                       | Immediately after<br>the allotment and issue of<br>the Consideration Shares<br>(assuming full exercise of<br>the Share Options) |                       |
|---|-----------------------------------|-----------------------|---|-----------------------|---|-----------------------|
|   | No. of Shares                     | Approximate %         | No. of Shares   | Approximate %         | No. of Shares   | Approximate %         |
| <b>Daohe Global Investment Holding Limited (Note 1)</b> |                                   |                       |   |                       |   |                       |
| Sino Remittance Holding Limited                         | 170,750,000                       | 48.35%                | 170,750,000   | 33.93%                | 170,750,000   | 33.76%                |
| Oceanic Force Limited                                   | 30,680,964                        | 8.69%                 | 30,680,964  | 6.10%                 | 30,680,964  | 6.07%                 |
| Fame City Developments Limited                          | 19,896,845                        | 5.63%                 | 19,896,845  | 3.95%                 | 19,896,845  | 3.93%                 |
| Winning Port International Limited                      | 46,000                            | 0.01%                 | 46,000  | 0.01%                 | 46,000  | 0.01%                 |
|   | <u>221,373,809</u>                | <u>62.68%</u>         | <u>221,373,809</u>  | <u>43.99%</u>         | <u>221,373,809</u>  | <u>43.77%</u>         |
| Wong Hing Lin, Dennis (Note 2)                          | 1,250,000                         | 0.35%                 | 1,250,000   | 0.25%                 | 1,250,000   | 0.25%                 |
| Wang Arthur Minshiang (Note 3)                          | 130,000                           | 0.04%                 | 130,000   | 0.03%                 | 130,000   | 0.03%                 |
| A director of the Company's subsidiary                  | 5,000                             | 0.00%                 | 5,000   | 0.00%                 | 5,000   | 0.00%                 |
| <b>Vendors (Note 4)</b>                                 |                                   |                       |   |                       |   |                       |
| Leqian  | —                                 | —                     | 59,625,000  | 11.85%                | 59,625,000  | 11.79%                |
| *Mike Cai   | —                                 | —                     | 25,875,000  | 5.14%                 | 25,875,000  | 5.12%                 |
| *Mr. Tsang  | —                                 | —                     | 25,875,000  | 5.14%                 | 25,875,000  | 5.12%                 |
| *SA1  | —                                 | —                     | 23,250,000  | 4.62%                 | 23,250,000  | 4.60%                 |
| *Lemei  | —                                 | —                     | 4,410,000   | 0.88%                 | 4,410,000   | 0.87%                 |
| *Letu   | —                                 | —                     | 3,675,000   | 0.73%                 | 3,675,000   | 0.73%                 |
| *Lequang  | —                                 | —                     | 3,585,000   | 0.71%                 | 3,585,000   | 0.71%                 |
| *Lehao  | —                                 | —                     | 2,250,000   | 0.45%                 | 2,250,000   | 0.44%                 |
| *Leming   | —                                 | —                     | 1,455,000   | 0.29%                 | 1,455,000   | 0.29%                 |
| *Holders of the Share Options                           | —                                 | —                     | —   | —                     | 2,500,000   | 0.49%                 |
| Existing public Shareholders                            | <u>130,438,758</u>                | <u>36.93%</u>         | <u>130,438,758</u>  | <u>25.92%</u>         | <u>130,438,758</u>  | <u>25.79%</u>         |
| <b>Total</b>  | <u><u>353,197,567</u></u>         | <u><u>100.00%</u></u> | <u><u>503,197,567</u></u>   | <u><u>100.00%</u></u> | <u><u>505,697,567</u></u>   | <u><u>100.00%</u></u> |

\* These shareholders are considered to be public Shareholders upon Completion.

## LETTER FROM THE BOARD

*Notes:*

1. Each of Sino Remittance Holding Limited, Fame City Developments Limited, Oceanic Force Limited and Winning Port International Limited is wholly-owned by Daohe Global Investment Holding Limited, which is in turn 80%-owned by Mr. Zhou Xijian and 20%-owned by Mr. Zhang Qi. Mr. Zhou Xijian and Mr. Zhang Qi are Directors.
2. Mr. Wong Hing Lin, Dennis, is an executive director and president of the Company.
3. Mr. Wang Arthur Minshiang is an independent non-executive Director.
4. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendors is an Independent Third Party and is independent of each other.

As illustrated above, the shareholding of the existing public Shareholders would be reduced from approximately 36.93% as at the Latest Practicable Date to approximately 25.92% immediately upon Completion and to approximately 25.79% immediately upon Completion and the full exercise of the Share Options.

To a certain extent, there will be dilution to the shareholding interest of the existing public Shareholders as a result of the Acquisition. However, taking into account (i) the benefits to be derived by the Group from the Acquisition as set out in the section headed “Reasons for and benefits of the Acquisition” above; (ii) that the Issue Price is considered to be fair and reasonable as set out above; and (iii) that the Acquisition is expected to enlarge the equity base of the Group, the Directors consider such dilution effect to be acceptable.

### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% and all the applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders’ approval requirements under the Listing Rules.

The issue of the Consideration Shares under the Share Purchase Agreement is subject to the Specific Mandate to be sought from the Shareholders at the SGM. The SGM will be convened at which an ordinary resolution will be proposed for the Shareholders to consider, and, if thought fit, approve the Share Purchase Agreement, the Specific Mandate and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the transactions contemplated under the Share Purchase Agreement. As such, no Shareholder is required to abstain from voting under the Listing Rules on the resolution to be proposed at the SGM.

## LETTER FROM THE BOARD

### FINANCIAL EFFECT OF THE ENTERING INTO OF THE SHARE PURCHASE AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREUNDER

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

Based on the Pro Forma Financial Information and the bases and assumptions taken into account in preparing such Pro Forma Financial Information, assuming the Acquisition had been completed as at 31 December 2016, the Group's total assets would increase by approximately US\$106.3 million and the Group's total liabilities would increase by approximately US\$22.1 million. As a result, the Group's net assets would increase by approximately US\$84.2 million to approximately US\$127.4 million.

Based on the Pro Forma Financial Information, assuming the Acquisition had been completed as at 31 December 2016, the Group would recognise a goodwill of approximately US\$60.0 million. Goodwill mainly represents the excess of the fair value of the total consideration transferred over the fair values of the net identifiable tangible and intangible assets acquired of the Target Group as at the Completion Date. For the purpose of preparing the Pro Forma Financial Information, the Consideration Shares have been fair valued based on the closing price of HK\$4.40 per Share as at 30 December 2016, being the last trading day before 31 December 2016. The fair values of the net identifiable tangible and intangible assets acquired of the Target Group are, on the other hand, determined with reference to an independent valuation, as disclosed in the Pro Forma Financial Information. Accordingly, any goodwill arising from the Acquisition will be dependent on, among other things, the closing price of the Shares as at the Completion Date.

Since the fair value of the Consideration Shares based on the closing Share price and the fair value of the underlying business of the Target Group as at the Completion Date may be different from that used in the Pro Forma Financial Information, the final carrying value of the related goodwill to be recognised may be different from that recognised in the Pro Forma Financial Information. If the fair value of the underlying business of the Target Group is below the fair value of the total consideration transferred as at the Completion Date, the related goodwill will be impaired. As a result, Shareholders should note that there may be a risk of immediate impairment of goodwill arising from the Acquisition upon Completion, which may have a material adverse impact on the Group's earnings. However, Shareholders should also note that such goodwill impairment, if materialised, is expected to be primarily due to the fair value of the Consideration Shares as at the Completion Date which may be substantially different from that used in the Pro Forma Financial Information, and is purely an accounting treatment that will not affect the cash flow and liquidity position of the Enlarged Group.

Although the Target Group has incurred losses in recent years, which was mainly due to its strategy of building up its market shares and developing new sources of revenue by devoting a significant amount of funds to advertising and research and development, taking into account the prospect of the Duimian platform and the market potential of the mobile

## **LETTER FROM THE BOARD**

gamified social networking industry in the PRC, the Directors expect that the Target Group would contribute to the results the Enlarged Group after Completion when the Target Group starts to generate profit.

The details of the financial effect of the transactions contemplated under the Share Purchase Agreement on the financial position of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out in Appendix III to this circular for illustrative purpose.

### **RE-ELECTION OF DIRECTORS**

Pursuant to bye-law 86(2) of the Bye-laws of the Company, Mr. ZHANG Jifeng who was appointed as an executive Director with effect from 11 January 2017 and Mr. LAU Shu Yan and Mr. ZHANG Huijun who were appointed as independent non-executive Directors with effect from 11 January 2017, shall hold office until the SGM and being eligible, will offer themselves for re-election at the SGM. Resolutions will be proposed at the SGM to re-elect the aforesaid Directors. Details of the aforesaid Directors are set out in Appendix VI to this circular.

### **SGM**

The SGM will be convened at which ordinary resolutions will be proposed for the Shareholders to consider, and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder, and the re-election of Directors. A notice convening the SGM to be held at Showroom 1A, 1123, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 23 May 2017 at 3:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular.

Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### **RECOMMENDATION**

The Board considers that the transactions contemplated under the Share Purchase Agreement (including the Issue Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Share Purchase Agreement and the transactions contemplated thereunder (including the Specific Mandate to be sought for the allotment and issue of the Consideration Shares).

## LETTER FROM THE BOARD

The Board considers that the re-election of Mr. ZHANG Jifeng, Mr. LAU Shu Yan and Mr. ZHANG Huijun are in the best interests of the Company as well as the Shareholders. Accordingly, the Board also recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to re-elect the aforesaid Directors.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

**Shareholders and potential investors of the Company should note that Completion is subject to the fulfillment or waiver (as the case may be) of the relevant Conditions, therefore the Share Purchase Agreement may or may not proceed. Accordingly, the Acquisition may or may not materialise. Shareholders and potential investors of the Company are urged to exercise caution when dealing in the securities of the Company.**

Yours faithfully,  
For and on behalf of the Board  
**ZHOU Xijian**  
*Chairman and Non-executive Director*

**CONSOLIDATED FINANCIAL STATEMENTS**

The audited consolidated financial statements of the Group for the three years ended 30 April 2014, 2015 and 2016 and the unaudited condensed consolidated financial statements of the Group for the six months ended 31 October 2016 together with the relevant notes thereto are disclosed in the following documents which have been published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company (<http://www.daoheglobal.com.hk>):

- pages 54 to 143 in the annual report of the Company for the year ended 30 April 2014 published on 28 July 2014;
- pages 58 to 147 in the annual report of the Company for the year ended 30 April 2015 published on 27 July 2015;
- pages 73 to 163 in the annual report of the Company for the year ended 30 April 2016 published on 27 July 2016; and
- pages 3 to 36 in the interim report of the Company for the six months ended 31 October 2016 published on 21 December 2016.

Each of the said consolidated financial statements of the Group is incorporated by reference to this circular and forms part of this circular. Please also see below the links to the relevant annual reports and interim report of the Company:

Annual Report 2014:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0728/LTN20140728403.pdf>

Annual Report 2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0727/LTN20150727485.pdf>

Annual Report 2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0727/LTN20160727227.pdf>

Interim Report 2017:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/1221/LTN20161221151.pdf>

**INDEBTEDNESS STATEMENT****Borrowings**

As at 28 February 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had nil outstanding bank loan.

As at 28 February 2017, the Enlarged Group had total available unsecured and unguaranteed banking facilities of approximately US\$10.3 million, of which approximately US\$1.5 million representing trade finance was utilised.

**Contingent liabilities**

As at 28 February 2017, the Enlarged Group had no significant contingent liabilities.

**Capital commitments and other commitments**

As at 28 February 2017, the Enlarged Group did not have any capital commitments for the acquisition of property, plant and equipment.

As at 28 February 2017, the Enlarged Group had operating lease commitments of approximately US\$4.7 million in respect of office premises, staff quarters, furniture and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Save as disclosed above, the Enlarged Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loan, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities at the close of business on 28 February 2017.

**WORKING CAPITAL SUFFICIENCY**

After due and careful consideration, the Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the Group's business prospects, internal resources, available banking facilities together with funds available as a result of a repayment of a loan according to a notice of loan repayment made by the Company's subsidiary, the financial support from a Director and the effect of the Acquisition, the Group has sufficient working capital for its requirements for at least twelve months from the date of this circular.

**FINANCIAL AND TRADING PROSPECTS**

The principal businesses of the Group include (i) sales of merchandise including garments, fashion accessories, hardgoods and labels; (ii) provision of services including procurement and value-added services relating to the procurement agency business; and (iii) money lending business.



**Sales of merchandise and provision of services**

The global trade environment has been unfavorable for the Group's business. Potential adverse U.S. trade policies against the PRC under the new presidency is expected to negatively affect the Group's trading business, given the PRC is the major sourcing hub of the Group. In addition, the increased popularity of e-commerce has given rise to the shifting from traditional in-store shopping to online shopping as well as higher price transparency and pricing pressures, resulting in increased competition in the consumer market. Furthermore, the weakening of many currencies against US\$ is expected to dampen consumer spending in some of the Group's key markets, such as Europe and Australia.

The Group will continue to strengthen ties with its key customers by providing more value-added services and product categories to expand the existing business, to remain cautious on cost and implement effective cost control measures, to continue expanding different markets to mitigate the political risks and widen vendor base to address customers' needs, and to explore new customers and new business platform and opportunities.

**Money lending business**

In May 2016, the Group acquired the entire issued share capital of a company, which is a holder of a money lenders licence issued under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). In December 2016, pursuant to the facility agreement dated 15 November 2016, the Company granted a loan to the owner of a company engaged in trading and supplying goods from outside the PRC to customer(s) in the PRC, secured against the entire issued share capital of that company. The loan is expected to generate stable income for the Group.

The loan is expected to be repaid on 1 July 2017 according to a notice of loan repayment made by the Company's subsidiary to the borrower on 27 February 2017, where the borrower has on 2 March 2017 acknowledged and promised to make the repayment.

**Potential mobile gamified social networking business**

The Directors consider that the transactions contemplated under the Share Purchase Agreement present a good investment opportunity for the Group to participate in the mobile gamified social networking industry in the PRC. The Board considers that the Acquisition will enable the Group to diversify its businesses and broaden its revenue source.

Going forward, the Group will continue to explore other potential investment opportunities to further develop its business, bringing a long-term income, aiming to bring a greater return to the Shareholders.

**NO MATERIAL ADVERSE CHANGE**

The Directors have confirmed that there was no material adverse change in the financial or trading position or prospect of the Group since 30 April 2016, being the date to which the latest audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date.

*The following is the text of a report set out on pages II-1 to II-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*



羅兵咸永道

## ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF DAOHE GLOBAL GROUP LIMITED

### Introduction

We report on the historical financial information of Loovee Holdings Inc. (the "Target") and its subsidiaries (together, the "Target Group") set out on pages II-3 to II-32, which comprises the consolidated and company statements of financial position as at 31 December 2014, 2015 and 2016, the consolidated statements of comprehensive loss, the consolidated statements of changes in shareholders' deficits and the consolidated statements of cash flows for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-32 forms an integral part of this report, which has been prepared for inclusion in the circular of Daohe Global Group Limited (the "Company") dated 28 April 2017 (the "Circular") in connection with the proposed acquisition of the Target by the Company.

### Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target Group for the Track Record Period. The directors of the Target are responsible for the preparation and fair presentation of the previously issued financial statements of the Target Group in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board, and for such internal control as the directors of the Target determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Reporting accountant's 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 accountant's 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 accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 accountant's report, a true and fair view of the consolidated and company statements of financial position as at 31 December 2014, 2015 and 2016 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Note 2.1 to the Historical Financial Information.

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

#### ***Adjustments***

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

#### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong

28 April 2017

**I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP**

**Preparation of Historical Financial Information**

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

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB.

The Historical Financial Information is presented in Renminbi except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

*FOR THE YEARS ENDED 31 DECEMBER 2014, 2015 AND 2016*

|   | <i>Note</i> | <b>Year ended 31 December</b> |                    |                     |
|---|-------------|-------------------------------|--------------------|---------------------|
|   |             | <b>2014</b>                   | <b>2015</b>        | <b>2016</b>         |
|   |             | <i>RMB</i>                    | <i>RMB</i>         | <i>RMB</i>          |
| Revenue                                   | 5           | 6,340,189                     | 33,090,030         | 81,205,848          |
| Cost of revenue                           | 8           | <u>(3,796,494)</u>            | <u>(4,832,731)</u> | <u>(6,775,909)</u>  |
| <b>Gross profit</b>                       |             | 2,543,695                     | 28,257,299         | 74,429,939          |
| Selling and marketing expenses            | 8           | (6,172,409)                   | (28,026,061)       | (82,435,740)        |
| General and administrative expenses       | 8           | (3,252,148)                   | (6,542,160)        | (12,174,751)        |
| Other income                              | 6           | 724,596                       | 806,364            | 872,552             |
| Other gains/(losses), net                 | 7           | <u>475,619</u>                | <u>(12,749)</u>    | <u>250,012</u>      |
| <b>Operating loss</b>                     |             | (5,680,647)                   | (5,517,307)        | (19,057,988)        |
| Finance income                            | 10          | <u>1,069</u>                  | <u>5,392</u>       | <u>11,504</u>       |
| <b>Loss before income tax</b>             |             | (5,679,578)                   | (5,511,915)        | (19,046,484)        |
| Income tax expenses                       | 12          | <u>—</u>                      | <u>—</u>           | <u>—</u>            |
| <b>Loss for the year</b>                  |             | <u>(5,679,578)</u>            | <u>(5,511,915)</u> | <u>(19,046,484)</u> |
| <b>Loss for the year attributable to:</b> |             |                               |                    |                     |
| Owners of the Target                      |             | (5,679,578)                   | (5,511,915)        | (19,045,618)        |
| Non-controlling interests                 |             | <u>—</u>                      | <u>—</u>           | <u>(866)</u>        |
|   |             | <u>(5,679,578)</u>            | <u>(5,511,915)</u> | <u>(19,046,484)</u> |

|  | <i>Note</i> | Year ended 31 December    |                           |                            |
|--|-------------|---------------------------|---------------------------|----------------------------|
|  |             | 2014                      | 2015                      | 2016                       |
|  |             | RMB                       | RMB                       | RMB                        |
| <b>Other comprehensive income:</b>                     |             |                           |                           |                            |
| <i>Item that may be reclassified to profit or loss</i> |             |                           |                           |                            |
| Currency translation differences                       |             | <u>(14,000)</u>           | <u>(395,513)</u>          | <u>(1,458,986)</u>         |
| <b>Total comprehensive loss for the year</b>           |             | <u><u>(5,693,578)</u></u> | <u><u>(5,907,428)</u></u> | <u><u>(20,505,470)</u></u> |
| <b>Total comprehensive loss attributable to:</b>       |             |                           |                           |                            |
| Owners of the Target                                   |             | (5,693,578)               | (5,907,428)               | (20,504,599)               |
| Non-controlling interests                              |             | <u>—</u>                  | <u>—</u>                  | <u>(871)</u>               |
| <b>Total comprehensive loss for the year</b>           |             | <u><u>(5,693,578)</u></u> | <u><u>(5,907,428)</u></u> | <u><u>(20,505,470)</u></u> |

**APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
AS AT 31 DECEMBER 2014, 2015 AND 2016

|   |             | <b>As at 31 December</b>   |                            |                            |
|---|-------------|----------------------------|----------------------------|----------------------------|
|   |             | <b>2014</b>                | <b>2015</b>                | <b>2016</b>                |
|   | <i>Note</i> | <i>RMB</i>                 | <i>RMB</i>                 | <i>RMB</i>                 |
| <b>Assets</b>   |             |                            |                            |                            |
| <b>Non-current assets</b>   |             |                            |                            |                            |
| Property and equipment  | 13          | 1,819,360                  | 1,710,007                  | 1,142,092                  |
| Deposits  | 14          | <u>210,079</u>             | <u>210,079</u>             | <u>122,304</u>             |
|   |             | -----<br>2,029,439         | -----<br>1,920,086         | -----<br>1,264,396         |
| <b>Current assets</b>   |             |                            |                            |                            |
| Trade receivables, prepayments,<br>deposits and other receivables | 14          | 1,096,418                  | 980,794                    | 659,010                    |
| Amounts due from related parties                                  | 23          | 10,000                     | —                          | —                          |
| Cash and cash equivalents   | 15          | <u>87,695</u>              | <u>6,129,122</u>           | <u>4,371,989</u>           |
|   |             | -----<br>1,194,113         | -----<br>7,109,916         | -----<br>5,030,999         |
| <b>Total assets</b>   |             | <u><u>3,223,552</u></u>    | <u><u>9,030,002</u></u>    | <u><u>6,295,395</u></u>    |
| <b>Deficits and liabilities</b>                                   |             |                            |                            |                            |
| <b>Deficits attributable to owners of the Target</b>              |             |                            |                            |                            |
| Share capital   | 16          | 625                        | 1,000                      | 1,000                      |
| Reserves  | 17          | <u>(17,078,233)</u>        | <u>(15,486,036)</u>        | <u>(18,086,109)</u>        |
|   |             | (17,077,608)               | (15,485,036)               | (18,085,109)               |
| Non-controlling interests   |             | <u>—</u>                   | <u>—</u>                   | <u>(69)</u>                |
| <b>Total deficits</b>   |             | <u><u>(17,077,608)</u></u> | <u><u>(15,485,036)</u></u> | <u><u>(18,085,178)</u></u> |
| <b>Current liabilities</b>  |             |                            |                            |                            |
| Other payables and accruals                                       | 18          | 4,894,995                  | 4,544,721                  | 15,331,123                 |
| Deferred revenue  | 19          | 1,301,048                  | 4,774,918                  | 9,049,450                  |
| Amounts due to related parties                                    | 23          | <u>14,105,117</u>          | <u>15,195,399</u>          | <u>—</u>                   |
| <b>Total current liabilities</b>                                  |             | <u><u>20,301,160</u></u>   | <u><u>24,515,038</u></u>   | <u><u>24,380,573</u></u>   |
| <b>Total liabilities</b>  |             | <u><u>20,301,160</u></u>   | <u><u>24,515,038</u></u>   | <u><u>24,380,573</u></u>   |
| <b>Total deficits and liabilities</b>                             |             | <u><u>3,223,552</u></u>    | <u><u>9,030,002</u></u>    | <u><u>6,295,395</u></u>    |

|                    |  |
|--------------------|--|
| <b>APPENDIX II</b> | <b>FINANCIAL INFORMATION OF THE TARGET GROUP</b> |
|--------------------|--|

**STATEMENTS OF FINANCIAL POSITION**  
*AS AT 31 DECEMBER 2014, 2015 AND 2016*

|   |             | <b>As at 31 December</b> |             |             |
|---|-------------|--------------------------|-------------|-------------|
|   |             | <b>2014</b>              | <b>2015</b> | <b>2016</b> |
|   |             | <i>RMB</i>               | <i>RMB</i>  | <i>RMB</i>  |
|   | <i>Note</i> |                          |             |             |
| <b>Assets</b>   |             |                          |             |             |
| <b>Non-current asset</b>  |             |                          |             |             |
| Investment in a subsidiary                                      | 24          | 1                        | 1           | 1           |
|   |             | 1                        | 1           | 1           |
| <b>Current assets</b>   |             |                          |             |             |
| Amounts due from subsidiaries                                   |             | 625                      | 5,786,697   | 24,082,930  |
| Cash and cash equivalents                                       |             | —                        | —           | 13,276      |
|   |             | 625                      | 5,786,697   | 24,096,206  |
| <b>Total assets</b>   |             | 626                      | 5,786,698   | 24,096,207  |
| <b>(Deficits)/equities and liabilities</b>                      |             |                          |             |             |
| <b>(Deficits)/equities attributable to owners of the Target</b> |             |                          |             |             |
| Share capital   | 16          | 625                      | 1,000       | 1,000       |
| Reserves  | 17          | (1,250,000)              | 4,485,697   | 17,423,257  |
| <b>Total (deficits)/equities</b>                                |             | (1,249,375)              | 4,486,697   | 17,424,257  |
| <b>Current liabilities</b>                                      |             |                          |             |             |
| Other payables and accruals                                     |             | 1,250,000                | 1,300,000   | 5,205,000   |
| Amounts due to a related party                                  |             | 1                        | 1           | 1           |
| Amount due to a subsidiary                                      |             | —                        | —           | 1,466,949   |
| <b>Total current liabilities</b>                                |             | 1,250,001                | 1,300,001   | 6,671,950   |
| <b>Total liabilities</b>  |             | 1,250,001                | 1,300,001   | 6,671,950   |
| <b>Total equities and liabilities</b>                           |             | 626                      | 5,786,698   | 24,096,207  |

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICITS  
FOR THE YEARS ENDED 31 DECEMBER 2014, 2015 AND 2016**

|   | Attributable to owners of the Target |                     |                     | Non-         |                     |
|---|--------------------------------------|---------------------|---------------------|--------------|---------------------|
|   | Share                                | Reserves            | Total               | controlling  | Total               |
|   | capital                              | RMB                 | RMB                 | interests    | RMB                 |
|   | RMB                                  | (Note 17)           | RMB                 | RMB          | RMB                 |
| <b>Balance as at 1 January 2014</b>                 | 625                                  | (11,384,655)        | (11,384,030)        | —            | (11,384,030)        |
| Comprehensive loss                                  |                                      |                     |                     |              |                     |
| Loss for the year                                   | —                                    | (5,679,578)         | (5,679,578)         | —            | (5,679,578)         |
| Other comprehensive loss                            |                                      |                     |                     |              |                     |
| Currency translation differences                    | —                                    | (14,000)            | (14,000)            | —            | (14,000)            |
| <b>Balance as at 31 December 2014</b>               | <u>625</u>                           | <u>(17,078,233)</u> | <u>(17,077,608)</u> | <u>—</u>     | <u>(17,077,608)</u> |
| <b>Balance as at 1 January 2015</b>                 | <u>625</u>                           | <u>(17,078,233)</u> | <u>(17,077,608)</u> | <u>—</u>     | <u>(17,077,608)</u> |
| Comprehensive loss                                  |                                      |                     |                     |              |                     |
| Loss for the year                                   | —                                    | (5,511,915)         | (5,511,915)         | —            | (5,511,915)         |
| Other comprehensive loss                            |                                      |                     |                     |              |                     |
| Currency translation differences                    | —                                    | (395,513)           | (395,513)           | —            | (395,513)           |
| <b>Total comprehensive loss</b>                     | <u>—</u>                             | <u>(5,907,428)</u>  | <u>(5,907,428)</u>  | <u>—</u>     | <u>(5,907,428)</u>  |
| Exercise of share options (Note 16)                 | 375                                  | 7,499,625           | 7,500,000           | —            | 7,500,000           |
| <b>Total transaction with owners</b>                | <u>375</u>                           | <u>7,499,625</u>    | <u>7,500,000</u>    | <u>—</u>     | <u>7,500,000</u>    |
| <b>Balance as at 31 December 2015</b>               | <u>1,000</u>                         | <u>(15,486,036)</u> | <u>(15,485,036)</u> | <u>—</u>     | <u>(15,485,036)</u> |
| <b>Balance as at 1 January 2016</b>                 | <u>1,000</u>                         | <u>(15,486,036)</u> | <u>(15,485,036)</u> | <u>—</u>     | <u>(15,485,036)</u> |
| Comprehensive loss                                  |                                      |                     |                     |              |                     |
| Loss for the year                                   | —                                    | (19,045,618)        | (19,045,618)        | (866)        | (19,046,484)        |
| Other comprehensive loss                            |                                      |                     |                     |              |                     |
| Currency translation differences                    | —                                    | (1,458,981)         | (1,458,981)         | (5)          | (1,458,986)         |
| <b>Total comprehensive loss</b>                     | <u>—</u>                             | <u>(20,504,599)</u> | <u>(20,504,599)</u> | <u>(871)</u> | <u>(20,505,470)</u> |
| Capitalisation of shareholder loans (Note 17)       | —                                    | 20,000,000          | 20,000,000          | —            | 20,000,000          |
| Capital contribution from non-controlling interests | —                                    | —                   | —                   | 802          | 802                 |
| Distribution to shareholders (Note 20)              | —                                    | (2,095,474)         | (2,095,474)         | —            | (2,095,474)         |
| <b>Total transaction with owners</b>                | <u>—</u>                             | <u>17,904,526</u>   | <u>17,904,526</u>   | <u>802</u>   | <u>17,905,328</u>   |
| <b>Balance as at 31 December 2016</b>               | <u>1,000</u>                         | <u>(18,086,109)</u> | <u>(18,085,109)</u> | <u>(69)</u>  | <u>(18,085,178)</u> |



|                    |  |
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| <b>APPENDIX II</b> | <b>FINANCIAL INFORMATION OF THE TARGET GROUP</b> |
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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*FOR THE YEARS ENDED 31 DECEMBER 2014, 2015 AND 2016*

|  |             | <b>Year ended 31 December</b> |                         |                         |
|--|-------------|-------------------------------|-------------------------|-------------------------|
|  |             | <b>2014</b>                   | <b>2015</b>             | <b>2016</b>             |
|  | <i>Note</i> | <i>RMB</i>                    | <i>RMB</i>              | <i>RMB</i>              |
| <b>Cash flows from operating activities</b>                              |             |                               |                         |                         |
| Cash used in operations  | 21          | <u>(5,058,790)</u>            | <u>(1,538,646)</u>      | <u>(2,960,744)</u>      |
| Net cash used in operating activities                                    |             | <u>(5,058,790)</u>            | <u>(1,538,646)</u>      | <u>(2,960,744)</u>      |
| <b>Cash flows from investing activities</b>                              |             |                               |                         |                         |
| Purchase of property and equipment                                       | 13          | (915,170)                     | (674,696)               | (380,385)               |
| Proceeds from disposal of property and equipment                         | 21          | <u>802,596</u>                | <u>—</u>                | <u>—</u>                |
| Net cash used in investing activities                                    |             | <u>(112,574)</u>              | <u>(674,696)</u>        | <u>(380,385)</u>        |
| <b>Cash flows from financing activities</b>                              |             |                               |                         |                         |
| Proceeds from issuance of ordinary shares from exercise of share options | 16          | —                             | 7,500,000               | —                       |
| Proceeds from capital contribution from non-controlling interests        |             | —                             | —                       | 802                     |
| Amounts due to related parties   |             | <u>4,267,742</u>              | <u>753,013</u>          | <u>1,758,316</u>        |
| Net cash generated from financing activities                             |             | <u>4,267,742</u>              | <u>8,253,013</u>        | <u>1,759,118</u>        |
| <b>Net (decrease)/increase in cash and cash equivalents</b>              |             | (903,622)                     | 6,039,671               | (1,582,011)             |
| Cash and cash equivalents at the beginning of year                       |             | 991,317                       | 87,695                  | 6,129,122               |
| Exchange gains/(losses) on cash and cash equivalents                     |             | <u>—</u>                      | <u>1,756</u>            | <u>(175,122)</u>        |
| <b>Cash and cash equivalents at the end of year</b>                      | 15          | <u><u>87,695</u></u>          | <u><u>6,129,122</u></u> | <u><u>4,371,989</u></u> |

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. GENERAL INFORMATION AND REORGANISATION

#### 1.1 General information of the Target Group

Loovee Holdings Inc. (the “Target”), through its subsidiaries, and its controlled structured entity (collectively referred to as the “Target Group”) is principally engaged in the operation of an online social platform, Duimian. Its users are primarily in the People’s Republic of China (the “PRC” or “China”).

The Target was incorporated in the Cayman Islands on 24 April 2015. The address of its registered office is at the offices of Offshore Incorporations (Cayman) Limited, Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands.

The Historical Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

#### 1.2 Reorganisation

The Target began its operations in the PRC in July 2011 through its PRC domestic company, Loovee Science and Technology Development Co. Ltd. (“Shenzhen Loovee”). Shenzhen Loovee holds the necessary licenses and approvals to operate internet-related businesses in the PRC.

In June 2015, the Target completed a reorganisation (the “Reorganisation”) and established Loovee (Hong Kong) Holdings Limited (“Loovee Hong Kong”), a Hong Kong incorporated company wholly owned by the Target, and Loovee Science and Technology (Shenzhen) Co. Ltd (“Loovee Technology”), a wholly-owned foreign enterprise (“WFOE”) in the PRC owned by Loovee Hong Kong (collectively “Loovee Limited Group Structure”). The Reorganisation was necessary to comply with PRC laws and regulations which prohibit or restrict foreign ownership of companies that provide internet content services in the PRC where licenses are required.

By entering into a series of agreements among Mr. Zhou Congwei (the “founder” or the “CEO”), Mr. Cai Shengqi, Ms. Lai Jinchun, Mr. Zhang Youming, Mr. Liu Jinfeng and Ms. Zhang Xin (collectively, the “Co-founders”), Shenzhen Loovee, and Loovee Technology (collectively, “Contractual Agreements”), Loovee Technology is able to effectively control and recognise substantially all the economic benefit of the business and operations of Shenzhen Loovee. Accordingly, Shenzhen Loovee is treated as a controlled structured entity of the Target and consolidated by the Target.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

Immediately prior to and after the Reorganisation, the operation of an online social platform business in the PRC, Duimian was carried out by Shenzhen Loovee which was under the control of the controlling shareholders. Pursuant to the Reorganisation, the operation of the online social platform business is effectively controlled by Loovee Hong Kong, and ultimately controlled by the Target, through direct equity holding and the Contractual Agreements. The Target and those companies newly set up during the Reorganisation have not been involved in any other business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a reorganisation of the operation of the online social platform business and does not result in any changes in business substance, in any management members nor the controlling shareholders of the

operation of the online social platform business. Accordingly, the financial information of the companies now comprising the Target Group is presented using the carrying value of the operation of the online social platform business in the PRC for the Track Record Period presented.

The Historical Financial Information of the Target Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Historical Financial Information have been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

### **2.1.1 Going concern**

As at 31 December 2014, 2015 and 2016, the Target Group had net current liabilities of RMB19,107,047, RMB17,405,122 and RMB19,349,574, respectively and total deficits of RMB17,077,608, RMB15,485,036 and RMB18,085,178, respectively. As the continuation of the business of the Target Group largely depends on continuing financial support from the Company and existing shareholders of the Target Group, the Company and existing shareholders of the Target Group indicated their intention to provide financial support to the Target Group to operate without significant curtailment of its operations and to meet its liabilities as and when they would fall due. Accordingly, the Historical Financial Information of the Target Group was prepared on a going concern basis which assumed the continued financial support from the Company and existing shareholders of the Target Group.

### **2.1.2 Changes in accounting policy and disclosures**

#### *New standards and amendments not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these Historical Financial Information. None of these is expected to have a significant effect on the Historical Financial Information of the Target Group.

|   | <b>Effective for<br/>annual periods<br/>beginning on or after</b> |
|---|---|
| IAS 7 (Amendment), “Disclosure Initiative”  | 1 January 2017  |
| IAS 12 (Amendment), “Recognition of Deferred Tax Assets for Unrealised Losses”  | 1 January 2017  |
| IFRS 2 (Amendment), “Classification and Measurement of Share-based Payment Transactions”                                | 1 January 2018  |
| IFRS 9, “Financial instruments”   | 1 January 2018  |
| IFRS 15, “Revenue from contracts with customers”  | 1 January 2018  |
| IFRS 16, “Leases”   | 1 January 2019  |
| IFRS 10 and IAS 28 (Amendment), “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined  |

## 2.2 Subsidiaries

### 2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provide evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

#### Subsidiaries controlled through Contractual Agreements

As described in Note 1.2, Shenzhen Loovee and its shareholders have entered into the following Contractual Agreements:

- Exclusive technology support and technology services agreement

Under the exclusive technology support and technology services agreement between Shenzhen Loovee and Loovee Technology, Loovee Technology has the exclusive right to provide to Shenzhen Loovee technology support and technology services related to all technologies needed for its business. Loovee Technology owns the exclusive intellectual property rights created as a result of the performance of this agreement. The service fee payable by Shenzhen Loovee to Loovee Technology is a certain percentage (90% — 100%) of its earnings. The percentage is determined by various factors, including the expenses Loovee Technology incurs for providing such services and Shenzhen Loovee's revenues. The term of this agreement will expire in 2025 and may be extended with Loovee Technology's request prior to the expiration date. Loovee Technology is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Shenzhen Loovee.

- Exclusive business cooperation agreement

Under the exclusive business cooperation agreement between Loovee Technology and Shenzhen Loovee, Loovee Technology has the exclusive right to provide to Shenzhen Loovee consulting services related to its daily operations, financial management and appointment and dismissal of employees. Loovee Technology has the right to appoint directors and high-level management of Shenzhen Loovee. The term of this agreement will expire in 2035 and may be extended with Loovee Technology's request prior to the expiration date. Loovee Technology is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Shenzhen Loovee.

- Exclusive option agreement

The parties to the exclusive option agreement are Loovee Technology, Shenzhen Loovee and each of the shareholders of Shenzhen Loovee. Under the exclusive option agreement, each of the shareholders of Shenzhen Loovee irrevocably granted Loovee Technology or its designated representative(s) an exclusive option to purchase, to the extent permitted under PRC law, all or part of his or its equity interests in Shenzhen Loovee and all or part of assets of Shenzhen Loovee. Loovee Technology or its designated representative(s) have sole discretion as to when to exercise such options, either in part or in full. Without Loovee Technology's prior written consent, Shenzhen Loovee's shareholders shall not sell, transfer, mortgage or otherwise dispose their equity interests in Shenzhen Loovee. The agreement is expired until all shares or assets of Shenzhen Loovee

have been transferred to Loovee Technology or its designated representative(s). Loovee Technology is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Shenzhen Loovee. The exclusive option, if taken, is at a nominal amount.

- Powers of attorney

Pursuant to the irrevocable power of attorney executed by each shareholder of Shenzhen Loovee, each such shareholder appointed Loovee Technology as its attorney-in-fact to exercise such shareholders' rights in Shenzhen Loovee, including, without limitation, the power to vote on its behalf on all matters of Shenzhen Loovee requiring shareholder approval under PRC laws and regulations and the articles of association of Shenzhen Loovee. Each power of attorney will remain in force until the shareholder ceases to hold any equity interest in Shenzhen Loovee.

- Share pledge agreement

Pursuant to the share pledge agreement between Loovee Technology and the shareholders of Shenzhen Loovee, the shareholders of Shenzhen Loovee have pledged all of their equity interests in Shenzhen Loovee to Loovee Technology to guarantee the performance by Shenzhen Loovee and its shareholders' performance of their respective obligations under the exclusive business cooperation agreement, exclusive option agreement, exclusive technology support and technology services agreement and powers of attorney. If Shenzhen Loovee and/or its shareholders breach their contractual obligations under those agreements, Loovee Technology, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests.

Through the above Contractual Agreements, Shenzhen Loovee is considered a controlled structured entity because the Target, through Loovee Technology has the ability to:

- exercise effective control over Shenzhen Loovee;
- bear substantially all the risks and rewards from the controlled structured entity as if it were their sole shareholder; and
- have an exclusive option to purchase all of the equity interests in the controlled structured entity.

Management evaluated the relationships among the Target, Loovee Technology and the controlled structured entity, and concluded that Loovee Technology is considered to control the controlled structured entity. As a result, the controlled structured entity's results of operations, assets and liabilities have been included in the Target Group's Historical Financial Information.

### 2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the historical financial statements of the investee's net assets including goodwill.

**2.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (“CODM”), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

**2.4 Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the Historical Financial Information of each of the Target Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Target is United States dollars (“US\$”). The Target’s primary subsidiaries were incorporated in the PRC and these subsidiaries considered Renminbi (“RMB”) as their functional currency. The Historical Financial Information is presented in RMB, which is the Target Group’s presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statements of comprehensive loss within ‘finance income’. All other foreign exchange gains and losses are presented in the statements of comprehensive loss within ‘other gains/losses, net’.

**2.5 Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated using the straight-line method over their estimated useful lives. Residual rate is determined based on the economic value of the equipment at the end of the estimated useful lives as a percentage of the original cost.

|   | <b>Estimated useful lives</b>    | <b>Residual rate</b> |
|---|----------------------------------|----------------------|
| Servers, computers and equipment        | 3 years                          | 10%                  |
| Furniture, fixture and office equipment | 3 years                          | 10%                  |
| Motor vehicles                          | 3 years                          | 10%                  |
| Leasehold improvements                  | Shorter of lease term or 3 years | —                    |

Expenditures for maintenance and repairs are expensed as incurred. The gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the consolidated statements of comprehensive loss.

## 2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.7 Financial assets

### 2.7.1 Classification

The Target Group classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise "amounts due from related parties", "trade and other receivables" and "cash and cash equivalents" in the consolidated statements of financial position (Notes 2.8 and 2.9).

### 2.7.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

## 2.8 Trade and other receivables

Trade receivable and other receivables are presented net of allowance for doubtful accounts. The Target Group uses specific identification in providing for bad debts when facts and circumstances indicate that collection is doubtful and a loss is probable and estimable. If the financial conditions of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

The Target maintains an allowance for doubtful accounts which reflects its best estimate of amounts that potentially will not be collected. The Target determines the allowance for doubtful accounts on an individual basis taking into consideration various factors including but not limited to historical collection experience and credit-worthiness of the debtors as well as the age of the individual receivables balance. Additionally, the Target makes specific bad debt provisions based on any specific knowledge the Target has acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require the Target to use substantial judgment in assessing its collectability.

## 2.9 Cash and cash equivalents

Cash includes currency on hand and deposits held with financial institutions with original maturities of less than three months that can be withdrawn without limitation. Cash equivalents represent short-term and highly liquid investments placed with banks, which are readily convertible to known amounts of cash throughout the maturity period.

## 2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2.11 Other payables and accruals

Other payables and accruals are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### (b) *Deferred income tax*

#### *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the historical financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Target Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Target Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

**(c) Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.13 Provisions**

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**2.14 Revenue recognition***IVAS revenues*

The Target Group generates revenues from internet value-added services ("IVAS"). Revenues from IVAS are generated from the Target Group's online social platform, and other IVAS. Revenue is recognised when persuasive evidence of an arrangement exists, service has been rendered, the price is fixed or determinable and collection is probable. Revenue is deferred until these criteria are met as described below.

The Target Group operates a virtual currency system, under which, the users can directly purchase virtual currency on Loovee's mobile phone application ("APP") via online payment systems provided by third parties including payments using mobile phones, internet debit/credit cards and other third party payment systems. The virtual currency can be used to purchase virtual items and virtual services on Loovee's mobile phone APP.

The Target Group creates and offers consumable and durable virtual items to be used by users on the Target Group's online social platform and other services, which the Target Group operates and maintains. The virtual items are sold to users at different specified prices as pre-determined by the Target Group. Users purchase virtual items from the Target Group and present them to other users for appreciation or consumption by themselves, which provide users with recognised status, such as priority speaking rights or special symbols over a certain period of time on APP.

Upon the sales of the virtual currency, the Target Group typically has an implied obligation to provide services to enable the virtual currency to be consumed in the APP through the virtual items and virtual services in the APP. As a result, the proceeds received from sales of the virtual currency is initially recorded as deferred revenue. The attributable portion of the deferred revenue relating to values of the virtual currency consumed are immediately or ratably recognised as revenues only when the services are rendered to the respective users.

For the purposes of determining when services have been provided to the respective users, the Target Group has determined that consumable virtual items represent items that are extinguished after being consumed by the users, upon which revenue is recognised (as a release from deferred revenue). The Target Group has determined that durable virtual items are distinguished over the time when the durable virtual items are consumed by the users (e.g. when the special symbols are displayed as the users' APP). Accordingly, the related revenue is recognised over such consumption or display period.

#### *Advertising revenues*

Advertising revenues are derived principally from advertising arrangements where the advertisers pay to place their advertisements on the Target Group's platform in different formats over a particular period of time. Such formats generally include but are not limited to banners, text-links, videos, logos, and buttons. Advertisements on the Target Group's platform are generally charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. Where collectability is reasonably assured, advertising revenues from advertising contracts are recognised ratably over the contract period of display.

The Target Group enters into advertising contracts directly with advertisers or third party advertising agencies that represent advertisers. Contract terms generally range from 1 to 3 months. Both third party advertising agencies and direct advertisers are generally billed at the end of the display period and payments are due usually within 6 months.

### **2.15 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the structured entity of the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to statements of comprehensive loss on a straight-line basis over the expected lives of the related assets.

### **2.16 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statements of comprehensive loss on a straight-line basis over the period of the lease.

### 2.17 Distribution to shareholders

Dividend distribution to the Target's shareholders is recognised as a liability in the Historical Financial Information in the year in which the distribution to shareholders is approved by the Target's shareholders or directors, where appropriate.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Target Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. Risk management is carried out by the senior management of the Target Group approved by the Board of Directors.

#### (a) *Market risk*

##### (i) *Foreign exchange risk*

The Target Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US\$ and HK\$. Therefore, foreign exchange risk primarily arose from the cash and cash equivalents and amounts due from/to related parties denominated in US\$ and HK\$. As at 31 December 2014, 2015 and 2016, the Target Group's PRC subsidiaries did not have significant exchange risk as the net exposure in relation to cash and cash equivalents and amounts due from/to related parties denominated in US\$ and HK\$ are not material.

The Target Group does not hedge against any fluctuation in foreign currency.

##### (ii) *Interest rate risk*

Other than interest-bearing cash and cash equivalents, the Target Group has no other significant interest-bearing assets. The Target does not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly. The Target Group does not have any interest-bearing liabilities of borrowings and does not anticipate there is any significant exposure of interest rate risk.

#### (b) *Credit risk*

The Target Group is exposed to credit risk in relation to its cash and cash equivalents, amounts due from related parties and trade and other receivables. The carrying amounts of each class of the above financial assets represent the Target Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk arising from cash and cash equivalents, the Target Group only transacts with state-owned or reputable financial institutions in the PRC and reputable international financial institution outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For trade receivables, a significant portion of trade receivables at the end of the year was due from those third party platforms in cooperation and advertising agents with the Target Group. If the strategic relationship with the platforms or the advertising agents is terminated or scaled-back; or if the platforms alter the co-operative arrangements; or if they experience financial difficulties in paying the Target Group, the Target Group's receivables might be adversely

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affected in terms of recoverability. To manage this risk, the Target Group assesses the credit quality of the platforms and advertising agents, taking into account their financial position, past experience and other factors.

For amounts due from related parties and other receivables, management make periodic collective assessments as well as individual assessment on the recoverability of amounts due from related parties and other receivables based on historical settlement records and past experience.

**(c) Liquidity risk**

The Target Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Target Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents. The table below analyses the Target Group's non-derivative financial liabilities that will be settled into relevant maturity Grouping based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

|  | <b>Within 1 year</b><br><i>RMB</i> |
|--|------------------------------------|
| <b>As at 31st December 2014</b>  |                                    |
| Other payables and accruals<br>(excluding accrued payroll and other tax liabilities) | 354,189                            |
| Amounts due to related parties   | <u>14,105,117</u>                  |
|  | <u><u>14,459,306</u></u>           |
| <b>As at 31st December 2015</b>  |                                    |
| Other payables and accruals<br>(excluding accrued payroll and other tax liabilities) | 184,545                            |
| Amounts due to related parties   | <u>15,195,399</u>                  |
|  | <u><u>15,379,944</u></u>           |
| <b>As at 31st December 2016</b>  |                                    |
| Other payables and accruals<br>(excluding accrued payroll and other tax liabilities) | <u>25,802</u>                      |

**3.2 Capital management**

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Target Group monitors capital (including share capital and other reserves) by regularly reviewing the capital structure. As a part of this review, the Target considers the cost of capital and the risks associated with the issued share capital. The Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, capitalising shareholder loans or repurchase the Target's shares.

### 3.3 Fair value estimation

The carrying amounts of the Target Group's financial assets including trade and other receivables, amounts due from related parties and cash and cash equivalents, and financial liabilities including other payables and accruals, and amounts due to related parties, approximate their fair values due to their short maturities.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Revenue recognition on unused virtual currencies held by Inactive Users

Based on review of historical login activities, the Target Group determined that users that have not logged in to the APP for more than 6 months are generally not expected to log in subsequently. As a result, the Target Group determined those users as "Inactive Users". The impact of Inactive Users who log in after 6 months of inactivity is immaterial. Deferred revenue relating to unused virtual currencies held by these Inactive Users are recognised as revenue when these users are determined by the Target Group as Inactive Users. Accordingly, deferred revenue amounting to RMB489,403, RMB461,929 and RMB869,155 were recognised as revenue for the years ended 31 December 2014, 2015 and 2016, respectively.

The determination of the Inactive Users is based on the Target Group's best estimate that takes into account users' behaviour in term of the period of time that the users did not log in to the APP. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the user behaviour as a result of new information will be accounted for prospectively as a change in accounting estimate.

### (b) Useful lives of property, plant and equipment

The Target Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycle. Management reassesses the useful lives on a regular basis. Management will increase the depreciation charge where useful lives are shorter than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

### (c) Provision for impairment of trade and other receivables

The Target Group's management determines the provision for impairment of trade and other receivables based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter considered indicators that the trade receivable is impaired. Management reassesses the provision at each balance sheet date.

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### (d) Income taxes

The Target Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### 5. REVENUE

|                     | Year ended 31 December  |                          |                          |
|---------------------|-------------------------|--------------------------|--------------------------|
|                     | 2014                    | 2015                     | 2016                     |
|                     | <i>RMB</i>              | <i>RMB</i>               | <i>RMB</i>               |
| IVAS revenue        | 6,151,510               | 30,691,641               | 59,187,500               |
| Advertising revenue | <u>188,679</u>          | <u>2,398,389</u>         | <u>22,018,348</u>        |
| <b>Total</b>        | <b><u>6,340,189</u></b> | <b><u>33,090,030</u></b> | <b><u>81,205,848</u></b> |

The directors of the Target consider that the Target Group's operations are managed as a single segment; accordingly no segment information is presented.

The Target Group has a large number of users mainly located in the PRC, none of which contributed to 10% or more of the Target Group's revenue for the years ended 31 December 2014, 2015 and 2016.

As at 31 December 2014, 2015 and 2016, majority of the non-current assets of the Target Group were located in the PRC.

### 6. OTHER INCOME

|                   | Year ended 31 December |                       |                       |
|-------------------|------------------------|-----------------------|-----------------------|
|                   | 2014                   | 2015                  | 2016                  |
|                   | <i>RMB</i>             | <i>RMB</i>            | <i>RMB</i>            |
| Government grants | 706,000                | 806,330               | 855,125               |
| Others            | <u>18,596</u>          | <u>34</u>             | <u>17,427</u>         |
| <b>Total</b>      | <b><u>724,596</u></b>  | <b><u>806,364</u></b> | <b><u>872,552</u></b> |

### 7. OTHER GAINS/(LOSSES), NET

|   | Year ended 31 December |                        |                       |
|---|------------------------|------------------------|-----------------------|
|   | 2014                   | 2015                   | 2016                  |
|   | <i>RMB</i>             | <i>RMB</i>             | <i>RMB</i>            |
| Gains on disposal of property and equipment | 475,619                | —                      | —                     |
| Foreign exchange (losses)/gains             | <u>—</u>               | <u>(12,749)</u>        | <u>250,012</u>        |
|   | <b><u>475,619</u></b>  | <b><u>(12,749)</u></b> | <b><u>250,012</u></b> |

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**8. EXPENSES BY NATURE**

|   | <b>Year ended 31 December</b> |                          |                           |
|---|-------------------------------|--------------------------|---------------------------|
|   | <b>2014</b>                   | <b>2015</b>              | <b>2016</b>               |
|   | <i>RMB</i>                    | <i>RMB</i>               | <i>RMB</i>                |
| Cost of goods for redemption of bonus points              | 1,222,116                     | 735,795                  | 413,372                   |
| Depreciation of property and equipment ( <i>Note 13</i> ) | 492,933                       | 784,049                  | 951,283                   |
| Payment handling costs                                    | 582,431                       | 584,743                  | 528,862                   |
| Server and bandwidth costs                                | 210,803                       | 2,166,917                | 4,117,619                 |
| Employee benefit expenses ( <i>Note 9</i> )               | 5,563,901                     | 7,560,143                | 11,166,343                |
| Advertising costs   | 2,279,386                     | 21,940,257               | 74,143,125                |
| Operating lease rental                                    | 725,611                       | 973,603                  | 1,098,915                 |
| Auditor's remuneration                                    |                               |                          |                           |
| — Audit services  | 1,251,250                     | 1,268,267                | 2,013,469                 |
| — Non-audit services                                      | —                             | —                        | —                         |
| Legal and professional fee                                | 190,055                       | 1,414,996                | 4,332,912                 |
| Other expenses  | 702,565                       | 1,972,182                | 2,620,500                 |
| <b>Total</b>  | <u><u>13,221,051</u></u>      | <u><u>39,400,952</u></u> | <u><u>101,386,400</u></u> |

**9. EMPLOYEE BENEFIT EXPENSES**

|                                       | <b>Year ended 31 December</b> |                         |                          |
|---------------------------------------|-------------------------------|-------------------------|--------------------------|
|                                       | <b>2014</b>                   | <b>2015</b>             | <b>2016</b>              |
|                                       | <i>RMB</i>                    | <i>RMB</i>              | <i>RMB</i>               |
| Wages, salaries and bonus             | 4,965,626                     | 6,686,339               | 9,628,893                |
| Social security cost and housing fund | 339,438                       | 465,092                 | 774,406                  |
| Employee's benefits                   | 258,837                       | 408,712                 | 763,044                  |
|                                       | <u><u>5,563,901</u></u>       | <u><u>7,560,143</u></u> | <u><u>11,166,343</u></u> |

Employees of the Target Group in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Target Group contributes funds which are calculated on certain percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

**10. FINANCE INCOME**

|                                  | <b>Year ended 31 December</b> |                     |                      |
|----------------------------------|-------------------------------|---------------------|----------------------|
|                                  | <b>2014</b>                   | <b>2015</b>         | <b>2016</b>          |
|                                  | <i>RMB</i>                    | <i>RMB</i>          | <i>RMB</i>           |
| Interest income on bank deposits | <u><u>1,069</u></u>           | <u><u>5,392</u></u> | <u><u>11,504</u></u> |

**11. CONSOLIDATED ENTITIES**

The following is a list of the principal subsidiaries (including a structured entity) as at 31 December 2014, 2015 and 2016:

| Name  | Place and date of incorporation/establishment | Issued and fully paid share capital | Effective interest held as at 31 December |      |      | Principal activities   |
|---|---|-------------------------------------|---|------|------|--|
|   |   |                                     | 2014                                      | 2015 | 2016 |  |
| <b>Directly held by the Target</b>                    |   |                                     |   |      |      |  |
| Loovee (Hong Kong) Holdings Limited                   | Incorporated on 7 May 2015 in Hong Kong       | HK\$1                               | 100%                                      | 100% | 100% | Investment holding   |
| <b>Indirectly held by the Target</b>                  |   |                                     |   |      |      |  |
| Loovee eCommerce Company Limited                      | Incorporated on 18 May 2015 in Hong Kong      | US\$100                             | N/A                                       | 100% | 100% | Investment holding   |
| Loovee Science and Technology (Shenzhen) Co., Limited | Incorporated on 26 June 2015 in the PRC       | RMB1,000,000                        | N/A                                       | 100% | 100% | Investment holding   |
| Loovee (Overseas) Company Limited                     | Incorporated on 23 October 2015 in Hong Kong  | US\$100                             | N/A                                       | 100% | 100% | Investment holding   |
| Kothaa Technology Limited                             | Incorporated on 3 June 2016 in Hong Kong      | US\$300                             | N/A                                       | N/A  | 60%  | Investment holding   |
| Loovee Science and Technology Development Co. Ltd.*   | Incorporated on 26 July 2011 in the PRC       | RMB12,500,000                       | 100%                                      | 100% | 100% | Holder of internet content provider licenses and internet value added services |

\* This company is the Target Group's structured entity.

**12. INCOME TAX EXPENSES**

No provision for income tax has been made as the Target Group has no assessable profit for the years ended 31 December 2014, 2015 and 2016.

The taxation on the Target Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to losses of the consolidated entities as follows:

|  | Year ended 31 December |             |              |
|--|------------------------|-------------|--------------|
|  | 2014                   | 2015        | 2016         |
|  | RMB                    | RMB         | RMB          |
| Loss before income tax   | (5,679,578)            | (5,511,915) | (19,046,484) |
| Tax calculated at statutory income tax rates applicable to losses of the consolidated entities in their respective jurisdictions | (666,537)              | (650,034)   | (2,667,579)  |
| Tax effects of:  |                        |             |              |
| Income not subject to tax  | (90,900)               | (90,907)    | (92,758)     |
| Expenses not deductible for tax purposes   | 15,155                 | 33,587      | 143,364      |
| Tax losses for which no deferred income tax asset was recognised   | 742,282                | 707,354     | 2,616,973    |
| Income tax expense   | —                      | —           | —            |



**(i) Cayman Islands**

Under the current tax laws of Cayman Islands, the Target is not subject to tax on income or capital gains. Besides, upon payment of dividends by the Target to its shareholders, no Cayman Islands withholding tax will be imposed.

**(ii) Hong Kong profits tax**

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profit for the years ended 31 December 2014, 2015 and 2016.

**(iii) PRC Enterprise Income Tax (“EIT”)**

The Target Group’s subsidiary, and its controlled structured entity in China are governed by the Enterprise Income Tax Law (“EIT Law”). Pursuant to the EIT Law and its implementation rules, enterprises in China are generally subjected to tax at a statutory rate of 25%.

On 30 August 2013, the Target Group’s controlled structured entity, Shenzhen Loozee, was granted the qualification as a software enterprise. Qualified software enterprises can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to the applicable tax rate for the subsequent three years. Since Shenzhen Loozee reported tax loss from 2012 to 2016, no preferential tax rate was enjoyed from 2014 to 2016.

Shenzhen Loozee was further approved as a High and New Technology Enterprise (“HNTE”) in 2013, and it is subject to a reduced preferential EIT rate of 15% from 2013 to 2016 according to the applicable tax preference in relating to the HNTE. Since Shenzhen Loozee reported tax loss from 2012 to 2016, no HNTE tax incentive was enjoyed from 2014 to 2016.

Shenzhen Loozee shall apply lower of the above preferential tax rate, where applicable.

The PRC subsidiary of the Target Group is subject to the statutory income tax rate of 25%.

In addition, according to the New EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in the PRC but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in the PRC shall be subject to PRC withholding tax (“WHT”) at 10% (a further reduced WHT rate of 5% may be available according to the applicable double tax treaty or arrangement). The WHT is applicable to any dividends to be distributed from the Target Group’s PRC subsidiary and its controlled structured entity to the Target Group’s overseas companies.

The undistributed earnings and reserves of the Target Group’s subsidiary and controlled structured entity located in the PRC are considered to be indefinitely reinvested, if any, because the Target Group does not have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business. Accordingly, no deferred tax liability on WHT of aggregate undistributed earnings and reserves of the Target Group’s subsidiary and controlled structured entity located in the PRC has been accrued for the China dividend withholding taxes that would be payable upon the distribution of those amounts to the Target as at 31 December 2014, 2015 and 2016. In addition, as at 31 December 2014, 2015 and 2016, there is no distributable earnings or reserves for the Target Group’s subsidiary and its controlled structured entity located in the PRC.

As at 31 December 2014, 2015 and 2016, the Target Group did not recognise deferred income tax assets in respect of tax losses incurred by its subsidiaries and its controlled structured entity incorporated in the PRC and Hong Kong amounting to approximately RMB2,409,000, RMB3,116,000 and RMB5,733,000, respectively. These losses can be carried forward against future taxable income. Cumulative tax losses of approximately RMB16,063,000, RMB20,009,000 and RMB32,424,000 for the years ended 31 December 2014, 2015 and 2016, respectively, would expire (if not utilised) within the next five years from the respective years ended; cumulative tax losses of nil, nil and approximately RMB1,422,000 for the years ended 31 December 2014, 2015 and 2016, respectively, can be carried forward indefinitely.

## 13. PROPERTY AND EQUIPMENT

|                                       | Leasehold<br>improvements<br><i>RMB</i> | Servers,<br>computers<br>and<br>equipment<br><i>RMB</i> | Furniture,<br>fixtures and<br>equipment<br><i>RMB</i> | Motor<br>vehicles<br><i>RMB</i> | Total<br><i>RMB</i> |
|---------------------------------------|---|---|---|---------------------------------|---------------------|
| <b>At 1 January 2014</b>              |   |   |   |                                 |                     |
| Cost                                  | —                                       | 1,559,578   | 319,925   | —                               | 1,879,503           |
| Accumulated depreciation              | —                                       | —   | (155,403)   | —                               | (155,403)           |
| <b>Net book amount</b>                | <b>—</b>                                | <b>1,559,578</b>  | <b>164,522</b>  | <b>—</b>                        | <b>1,724,100</b>    |
| <b>Year ended 31 December 2014</b>    |   |   |   |                                 |                     |
| Opening net book amount               | —                                       | 1,559,578   | 164,522   | —                               | 1,724,100           |
| Additions                             | 562,000                                 | 35,491  | 317,679   | —                               | 915,170             |
| Depreciation charge ( <i>Note 8</i> ) | (14,050)                                | (398,607)   | (80,276)  | —                               | (492,933)           |
| Disposals                             | —                                       | (318,578)   | (8,399)   | —                               | (326,977)           |
| <b>Closing net book amount</b>        | <b>547,950</b>                          | <b>877,884</b>  | <b>393,526</b>  | <b>—</b>                        | <b>1,819,360</b>    |
| <b>At 31 December 2014</b>            |   |   |   |                                 |                     |
| Cost                                  | 562,000                                 | 1,241,094   | 553,604   | —                               | 2,356,698           |
| Accumulated depreciation              | (14,050)                                | (363,210)   | (160,078)   | —                               | (537,338)           |
| <b>Net book amount</b>                | <b>547,950</b>                          | <b>877,884</b>  | <b>393,526</b>  | <b>—</b>                        | <b>1,819,360</b>    |
| <b>Year ended 31 December 2015</b>    |   |   |   |                                 |                     |
| Opening net book amount               | 547,950                                 | 877,884   | 393,526   | —                               | 1,819,360           |
| Additions                             | 66,000                                  | 45,366  | 150,153   | 413,177                         | 674,696             |
| Depreciation charge ( <i>Note 8</i> ) | (209,332)                               | (378,358)   | (159,720)   | (36,639)                        | (784,049)           |
| <b>Closing net book amount</b>        | <b>404,618</b>                          | <b>544,892</b>  | <b>383,959</b>  | <b>376,538</b>                  | <b>1,710,007</b>    |
| <b>At 31 December 2015</b>            |   |   |   |                                 |                     |
| Cost                                  | 628,000                                 | 1,286,460   | 703,757   | 413,177                         | 3,031,394           |
| Accumulated depreciation              | (223,382)                               | (741,568)   | (319,798)   | (36,639)                        | (1,321,387)         |
| <b>Net book amount</b>                | <b>404,618</b>                          | <b>544,892</b>  | <b>383,959</b>  | <b>376,538</b>                  | <b>1,710,007</b>    |

|                                       | Leasehold<br>improvements<br><i>RMB</i> | Servers,<br>computers<br>and<br>equipment<br><i>RMB</i> | Furniture,<br>fixtures and<br>equipment<br><i>RMB</i> | Motor<br>vehicles<br><i>RMB</i> | Total<br><i>RMB</i> |
|---------------------------------------|---|---|---|---------------------------------|---------------------|
| <b>Year ended 31 December 2016</b>    |   |   |   |                                 |                     |
| Opening net book amount               | 404,618                                 | 544,892   | 383,959   | 376,538                         | 1,710,007           |
| Additions                             | 182,377                                 | 45,570  | 152,438   | —                               | 380,385             |
| Depreciation charge ( <i>Note 8</i> ) | (245,752)                               | (395,371)   | (186,207)   | (123,953)                       | (951,283)           |
| Written off                           | —                                       | —   | (3,154)   | —                               | (3,154)             |
| Currency translation differences      | 6,137                                   | —   | —   | —                               | 6,137               |
| Closing net book amount               | <u>347,380</u>                          | <u>195,091</u>  | <u>347,036</u>  | <u>252,585</u>                  | <u>1,142,092</u>    |
| <b>At 31 December 2016</b>            |   |   |   |                                 |                     |
| Cost                                  | 818,045                                 | 1,332,030   | 832,879   | 413,177                         | 3,396,131           |
| Accumulated depreciation              | <u>(470,665)</u>                        | <u>(1,136,939)</u>                                      | <u>(485,843)</u>                                      | <u>(160,592)</u>                | <u>(2,254,039)</u>  |
| <b>Net book amount</b>                | <u>347,380</u>                          | <u>195,091</u>  | <u>347,036</u>  | <u>252,585</u>                  | <u>1,142,092</u>    |

Depreciation expense charged in consolidated statements of comprehensive loss is as follows:

|                                     | <b>Year ended 31 December</b> |                |                |
|-------------------------------------|-------------------------------|----------------|----------------|
|                                     | <b>2014</b>                   | <b>2015</b>    | <b>2016</b>    |
|                                     | <i>RMB</i>                    | <i>RMB</i>     | <i>RMB</i>     |
| Cost of revenue                     | 398,607                       | 378,358        | 395,371        |
| Selling and marketing expenses      | 56,240                        | 33,363         | 11,405         |
| General and administrative expenses | <u>38,086</u>                 | <u>372,328</u> | <u>544,507</u> |
|                                     | <u>492,933</u>                | <u>784,049</u> | <u>951,283</u> |

#### 14. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|  | <b>As at 31 December</b> |                  |                  |
|--|--------------------------|------------------|------------------|
|  | <b>2014</b>              | <b>2015</b>      | <b>2016</b>      |
|  | <i>RMB</i>               | <i>RMB</i>       | <i>RMB</i>       |
| Trade receivables  | 373,938                  | 510,267          | 382,255          |
| Prepayments of advertising and other administrative expenses | 566,804                  | 406,131          | 32,576           |
| Rental and other deposits                                    | 287,845                  | 260,079          | 332,770          |
| Other receivables  | <u>77,910</u>            | <u>14,396</u>    | <u>33,713</u>    |
|  | 1,306,497                | 1,190,873        | 781,314          |
| Less non-current portion: rental deposits                    | <u>(210,079)</u>         | <u>(210,079)</u> | <u>(122,304)</u> |
| Current portion  | <u>1,096,418</u>         | <u>980,794</u>   | <u>659,010</u>   |

|                    |  |
|--------------------|--|
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|--------------------|--|

Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

|                | <b>As at 31 December</b> |                |                |
|----------------|--------------------------|----------------|----------------|
|                | <b>2014</b>              | <b>2015</b>    | <b>2016</b>    |
|                | <i>RMB</i>               | <i>RMB</i>     | <i>RMB</i>     |
| 0 to 90 days   | 368,671                  | 502,888        | 369,156        |
| 91 to 180 days | 3,467                    | 5,277          | 13,099         |
| Over 180 days  | 1,800                    | 2,102          | —              |
|                | <u>373,938</u>           | <u>510,267</u> | <u>382,255</u> |

At 31 December 2014, 2015 and 2016, no trade receivables were past due.

The carrying amounts of the Target Group's trade receivables are denominated in the following currencies:

|                           | <b>As at 31 December</b> |                |                |
|---------------------------|--------------------------|----------------|----------------|
|                           | <b>2014</b>              | <b>2015</b>    | <b>2016</b>    |
|                           | <i>RMB</i>               | <i>RMB</i>     | <i>RMB</i>     |
| RMB                       | 210,405                  | 472,300        | 363,114        |
| US\$                      | 97,013                   | 13,256         | 8,143          |
| New Taiwan dollar ("NTD") | 66,520                   | 24,711         | 10,998         |
|                           | <u>373,938</u>           | <u>510,267</u> | <u>382,255</u> |

#### 15. CASH AND CASH EQUIVALENTS

|                          | <b>As at 31 December</b> |                  |                  |
|--------------------------|--------------------------|------------------|------------------|
|                          | <b>2014</b>              | <b>2015</b>      | <b>2016</b>      |
|                          | <i>RMB</i>               | <i>RMB</i>       | <i>RMB</i>       |
| Cash at bank and on hand | 87,695                   | 6,129,122        | 4,371,989        |
|                          | <u>87,695</u>            | <u>6,129,122</u> | <u>4,371,989</u> |

Cash and cash equivalents are denominated in the following currencies:

|      | <b>As at 31 December</b> |                  |                  |
|------|--------------------------|------------------|------------------|
|      | <b>2014</b>              | <b>2015</b>      | <b>2016</b>      |
|      | <i>RMB</i>               | <i>RMB</i>       | <i>RMB</i>       |
| HK\$ | —                        | 47,479           | 32,887           |
| RMB  | 87,695                   | 4,891,363        | 4,277,674        |
| US\$ | —                        | 1,190,280        | 61,428           |
|      | <u>87,695</u>            | <u>6,129,122</u> | <u>4,371,989</u> |

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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**16. SHARE CAPITAL**

|   | 2014             |                | As at 31 December 2015 |                | 2016             |                |
|---|------------------|----------------|------------------------|----------------|------------------|----------------|
|   | No. of shares    | RMB            | No. of shares          | RMB            | No. of shares    | RMB            |
| <b>Authorised</b>                       |                  |                |                        |                |                  |                |
| <b>Ordinary shares at US\$0.01 each</b> |                  |                |                        |                |                  |                |
| At beginning and end of the year        | <u>5,000,000</u> | <u>312,500</u> | <u>5,000,000</u>       | <u>312,500</u> | <u>5,000,000</u> | <u>312,500</u> |
| <b>Issued and fully paid</b>            |                  |                |                        |                |                  |                |
| <b>Ordinary shares at US\$0.01 each</b> |                  |                |                        |                |                  |                |
| At 1 January                            | 10,000           | 625            | 10,000                 | 625            | 16,000           | 1,000          |
| Exercise of share options (Note)        | <u>—</u>         | <u>—</u>       | <u>6,000</u>           | <u>375</u>     | <u>—</u>         | <u>—</u>       |
| At 31 December                          | <u>10,000</u>    | <u>625</u>     | <u>16,000</u>          | <u>1,000</u>   | <u>16,000</u>    | <u>1,000</u>   |

*Note:* In November 2015, the Target issued 6,000 ordinary shares for exercise of share options. Share options were granted to two advisors in 2013 for their consulting services rendered to the Target Group and were fully vested as at 31 December 2013. The Target has no outstanding share options as at 31 December 2014, 2015 and 2016.

**17a. RESERVES — THE TARGET GROUP**

|  | Share premium<br>RMB | Exchange reserve<br>RMB | Accumulated losses<br>RMB | Total<br>RMB        |
|--|----------------------|-------------------------|---------------------------|---------------------|
| <b>As at 1 January 2014</b>                | —                    | —                       | (11,384,655)              | (11,384,655)        |
| Loss for the year                          | —                    | —                       | (5,679,578)               | (5,679,578)         |
| Currency translation differences           | <u>—</u>             | <u>(14,000)</u>         | <u>—</u>                  | <u>(14,000)</u>     |
| <b>As at 31 December 2014</b>              | <u>—</u>             | <u>(14,000)</u>         | <u>(17,064,233)</u>       | <u>(17,078,233)</u> |
| <b>As at 1 January 2015</b>                | —                    | (14,000)                | (17,064,233)              | (17,078,233)        |
| Loss for the year                          | —                    | —                       | (5,511,915)               | (5,511,915)         |
| Currency translation differences           | —                    | (395,513)               | —                         | (395,513)           |
| Exercise of share options (Note 16)        | <u>7,499,625</u>     | <u>—</u>                | <u>—</u>                  | <u>7,499,625</u>    |
| <b>As at 31 December 2015</b>              | <u>7,499,625</u>     | <u>(409,513)</u>        | <u>(22,576,148)</u>       | <u>(15,486,036)</u> |
| <b>As at 1 January 2016</b>                | 7,499,625            | (409,513)               | (22,576,148)              | (15,486,036)        |
| Loss for the year                          | —                    | —                       | (19,045,618)              | (19,045,618)        |
| Currency translation differences           | —                    | (1,458,981)             | —                         | (1,458,981)         |
| Capitalisation of shareholder loans (Note) | 20,000,000           | —                       | —                         | 20,000,000          |
| Distribution to shareholders (Note 20)     | <u>(2,095,474)</u>   | <u>—</u>                | <u>—</u>                  | <u>(2,095,474)</u>  |
| <b>As at 31 December 2016</b>              | <u>25,404,151</u>    | <u>(1,868,494)</u>      | <u>(41,621,766)</u>       | <u>(18,086,109)</u> |

*Note:* On 28 September 2016, all shareholders agreed to convert RMB20,000,000 of shareholder loans into capital contributions of an equivalent amount, which was accounted as share premium. In addition, the shareholder loans were originally provided by each of the shareholders in proportion to their respective share ownership amounts, the percentage of equity interests held by each of the shareholders did not change because of this conversion.

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**17b. RESERVES — THE TARGET**

|  | Share<br>premium<br><i>RMB</i> | Exchange<br>reserve<br><i>RMB</i> | Accumulated<br>losses<br><i>RMB</i> | Total<br><i>RMB</i> |
|--|--------------------------------|-----------------------------------|-------------------------------------|---------------------|
| <b>As at 1 January 2014</b>            | —                              | —                                 | —                                   | —                   |
| Loss for the year                      | —                              | —                                 | (1,236,000)                         | (1,236,000)         |
| Currency translation differences       | —                              | (14,000)                          | —                                   | (14,000)            |
| <b>As at 31 December 2014</b>          | <u>—</u>                       | <u>(14,000)</u>                   | <u>(1,236,000)</u>                  | <u>(1,250,000)</u>  |
| <b>As at 1 January 2015</b>            | —                              | (14,000)                          | (1,236,000)                         | (1,250,000)         |
| Loss for the year                      | —                              | —                                 | (1,948,886)                         | (1,948,886)         |
| Currency translation differences       | —                              | 184,958                           | —                                   | 184,958             |
| Exercise of share options<br>(Note 16) | 7,499,625                      | —                                 | —                                   | 7,499,625           |
| <b>As at 31 December 2015</b>          | <u>7,499,625</u>               | <u>170,958</u>                    | <u>(3,184,886)</u>                  | <u>4,485,697</u>    |
| <b>As at 1 January 2016</b>            | 7,499,625                      | 170,958                           | (3,184,886)                         | 4,485,697           |
| Loss for the year                      | —                              | —                                 | (5,058,030)                         | (5,058,030)         |
| Currency translation differences       | —                              | 91,064                            | —                                   | 91,064              |
| Capitalisation of shareholder loans    | 20,000,000                     | —                                 | —                                   | 20,000,000          |
| Distribution to shareholders (Note 20) | (2,095,474)                    | —                                 | —                                   | (2,095,474)         |
| <b>As at 31 December 2016</b>          | <u>25,404,151</u>              | <u>262,022</u>                    | <u>(8,242,916)</u>                  | <u>17,423,257</u>   |

**18. OTHER PAYABLES AND ACCRUALS**

|                            | As at 31 December  |                    |                    |
|----------------------------|--------------------|--------------------|--------------------|
|                            | 2014<br><i>RMB</i> | 2015<br><i>RMB</i> | 2016<br><i>RMB</i> |
| Other payables             | 1,201,283          | 1,038,242          | 830,318            |
| Accrued expenses           | 2,481,712          | 2,900,479          | 14,500,805         |
| Deferred government grants | 1,212,000          | 606,000            | —                  |
|                            | <u>4,894,995</u>   | <u>4,544,721</u>   | <u>15,331,123</u>  |

The carrying amounts of the Target Group's other payables approximate their fair values, and are denominated in the following currencies:

|      | As at 31 December  |                    |                    |
|------|--------------------|--------------------|--------------------|
|      | 2014<br><i>RMB</i> | 2015<br><i>RMB</i> | 2016<br><i>RMB</i> |
| HK\$ | —                  | —                  | 52,632             |
| RMB  | 3,644,995          | 3,244,721          | 10,073,491         |
| US\$ | 1,250,000          | 1,300,000          | 5,205,000          |
|      | <u>4,894,995</u>   | <u>4,544,721</u>   | <u>15,331,123</u>  |

**APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP**

**19. DEFERRED REVENUE**

|                       | <b>As at 31 December</b> |                  |                  |
|-----------------------|--------------------------|------------------|------------------|
|                       | <b>2014</b>              | <b>2015</b>      | <b>2016</b>      |
|                       | <i>RMB</i>               | <i>RMB</i>       | <i>RMB</i>       |
| Deferred IVAS revenue | <u>1,301,048</u>         | <u>4,774,918</u> | <u>9,049,450</u> |

**20. DISTRIBUTION TO SHAREHOLDERS**

|  | <b>As at 31 December</b> |             |                  |
|--|--------------------------|-------------|------------------|
|  | <b>2014</b>              | <b>2015</b> | <b>2016</b>      |
|  | <i>RMB</i>               | <i>RMB</i>  | <i>RMB</i>       |
| Distribution made and paid ( <i>Note</i> ) | <u>—</u>                 | <u>—</u>    | <u>2,095,474</u> |

*Note:* Pursuant to the written resolutions passed by the shareholders of the Target on 31 December 2016, a distribution of RMB2,095,474 was made and settled against outstanding amounts due from shareholders using the distributable reserves of the Target as at 31 December 2016.

**21. CASH USED IN OPERATIONS**

|   | <b>Year ended 31 December</b> |                    |                    |
|---|-------------------------------|--------------------|--------------------|
|   | <b>2014</b>                   | <b>2015</b>        | <b>2016</b>        |
|   | <i>RMB</i>                    | <i>RMB</i>         | <i>RMB</i>         |
| Loss before income tax                      | (5,679,578)                   | (5,511,915)        | (19,046,484)       |
| Adjustments for:                            |                               |                    |                    |
| Depreciation of property and equipment      | 492,933                       | 784,049            | 951,283            |
| Gains on disposal of property and equipment | (475,619)                     | —                  | —                  |
| Property and equipment written off          | —                             | —                  | 3,154              |
| Changes in working capital:                 |                               |                    |                    |
| Trade and other receivables                 | (995,248)                     | 115,624            | 414,493            |
| Other payables and accrued expense          | 1,423,858                     | (400,274)          | 10,442,278         |
| Deferred revenue                            | <u>174,864</u>                | <u>3,473,870</u>   | <u>4,274,532</u>   |
| Cash used in operations                     | <u>(5,058,790)</u>            | <u>(1,538,646)</u> | <u>(2,960,744)</u> |

In the consolidated statements of cash flows, proceeds from sale of property and equipment comprise:

|  | <b>Year ended 31 December</b> |             |             |
|--|-------------------------------|-------------|-------------|
|  | <b>2014</b>                   | <b>2015</b> | <b>2016</b> |
|  | <i>RMB</i>                    | <i>RMB</i>  | <i>RMB</i>  |
| Net book amount ( <i>Note 13</i> )               | 326,977                       | —           | —           |
| Gains on disposal of property and equipment      | <u>475,619</u>                | <u>—</u>    | <u>—</u>    |
| Proceeds from disposal of property and equipment | <u>802,596</u>                | <u>—</u>    | <u>—</u>    |

**Non-cash transactions**

The principal non-cash transactions are the capitalisation of shareholder loans and the settlement of distribution to shareholders which offset against amounts due from shareholders discussed in Notes 17 and 20, respectively.

**22. COMMITMENTS AND CONTINGENCIES**

**Operating lease commitments**

The Target Group leases facilities in the PRC under non-cancellable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases.

The future minimum payments under non-cancellable operating leases for office rental and bandwidth rental consist of the following:

|   | <b>As at 31 December</b> |                         |                         |
|---|--------------------------|-------------------------|-------------------------|
|   | <b>2014</b>              | <b>2015</b>             | <b>2016</b>             |
|   | <i>RMB</i>               | <i>RMB</i>              | <i>RMB</i>              |
| Within 1 year                               | 956,757                  | 4,759,006               | 1,051,777               |
| Later than 1 year and no later than 5 years | <u>1,579,163</u>         | <u>682,032</u>          | <u>215,685</u>          |
|   | <u><u>2,535,920</u></u>  | <u><u>5,441,038</u></u> | <u><u>1,267,462</u></u> |

**23. RELATED PARTY TRANSACTIONS**

As at 31 December 2016, the major shareholder of the Target is Mr. Zhou Congwei, who owns 40% of the Target's shares.

**Year end balance with related parties**

|   | <b>As at 31 December</b> |                   |             |
|---|--------------------------|-------------------|-------------|
|   | <b>2014</b>              | <b>2015</b>       | <b>2016</b> |
|   | <i>RMB</i>               | <i>RMB</i>        | <i>RMB</i>  |
| <b>Amounts due from related parties</b> |                          |                   |             |
| Amounts due from shareholders           | <u>10,000</u>            | <u>—</u>          | <u>—</u>    |
| <b>Amounts due to related parties</b>   |                          |                   |             |
| Amounts due to shareholders (Note 17)   | <u>14,105,117</u>        | <u>15,195,399</u> | <u>—</u>    |

The amounts due from shareholders are denominated in RMB, unsecured, interest-free and repayable on demand.

The amounts due to shareholders represents loans provided by the shareholders which are unsecured, interest-free, with no fixed repayment terms and denominated in the following currencies:

|      | <b>As at 31 December</b> |                          |                 |
|------|--------------------------|--------------------------|-----------------|
|      | <b>2014</b>              | <b>2015</b>              | <b>2016</b>     |
|      | <i>RMB</i>               | <i>RMB</i>               | <i>RMB</i>      |
| RMB  | 14,105,117               | 11,033,389               | —               |
| US\$ | <u>—</u>                 | <u>4,162,010</u>         | <u>—</u>        |
|      | <u><u>14,105,117</u></u> | <u><u>15,195,399</u></u> | <u><u>—</u></u> |

*Notes:*

- (a) During the year ended 31 December 2016, an amount of RMB20,000,000 of shareholder loans were converted into capital contribution (Note 17).
- (b) During the year ended 31 December 2016, a distribution of RMB2,095,474 was made and settled through offsetting the outstanding amounts due from shareholders using the distributable reserves of the Target (Note 20).



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| <b>APPENDIX II</b> | <b>FINANCIAL INFORMATION OF THE TARGET GROUP</b> |
|--------------------|--|

**24. INVESTMENT IN A SUBSIDIARY — THE TARGET**

|                              | As at 31 December |            |            |
|------------------------------|-------------------|------------|------------|
|                              | 2014              | 2015       | 2016       |
|                              | <i>RMB</i>        | <i>RMB</i> | <i>RMB</i> |
| Unlisted investment, as cost | 1                 | 1          | 1          |

Particulars of the subsidiary of the Target as at 31 December 2014, 2015 and 2016 are as follows:

| Name                                | Place and date of incorporation/<br>establishment | Issued and fully paid share capital | % of economic ownership | Principal activities |
|-------------------------------------|---|-------------------------------------|-------------------------|----------------------|
| Loovee (Hong Kong) Holdings Limited | Incorporated on 7 May, 2015 in Hong Kong          | HK\$1                               | 100%                    | Investment holding   |

**25. BENEFITS AND INTERESTS OF DIRECTORS**

**(a) Directors' emoluments**

The directors, who represent key management personnel of the Target, having authority and responsibility for planning, directing and controlling the activities of the Target Group, did not receive or will not receive any fees or emoluments in respect of their services to the Target during each of the years ended 31 December 2014, 2015 and 2016.

**(b) Directors' retirement benefits**

No retirement benefits were paid to or receivable by any directors of the Target in respect of their other services in connection with the management of the affairs of the Target or its subsidiaries undertaking during the years ended 31 December 2014, 2015 and 2016.

**(c) Directors' termination benefits**

No payment was made to directors as compensation for the early termination of the appointment during each of the years ended 31 December 2014, 2015 and 2016.

**(d) Consideration provided to third parties for making available directors' services**

During each of the years ended 31 December 2014, 2015 and 2016, the Target Group did not pay consideration to any third parties for making available directors' services.

**(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and controlled entities with such directors**

As at 31 December 2014, 2015 and 2016 and during each of the years ended 31 December 2014, 2015 and 2016, there were no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such directors.

**(f) Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Target Group's business to which the Target was a party and in which a director of the Target Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during each of the years ended 31 December 2014, 2015 and 2016.

**26. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Target or any of its subsidiaries in respect of any period subsequent to 31 December 2016 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Target or any of its subsidiaries in respect of any period subsequent to 31 December 2016.

## **UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

### **Introduction**

The accompanying unaudited pro forma statement of assets and liabilities (the “Unaudited Pro Forma Financial Information”) of the Enlarged Group has been prepared by the directors of the Company in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effects of the completion of the proposed acquisition of 100% equity interest of Loovee Holdings Inc. (the “Target Company”) (the “Acquisition”) on the historical consolidated statement of assets and liabilities of the Group, as if the Acquisition had been effected on 31 December 2016.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared based on the unaudited consolidated statement of financial position of the Group as at 31 October 2016, which has been extracted from the Group’s published interim report for the six months ended 31 October 2016; and the audited consolidated statement of financial position of the Target Group as at 31 December 2016 which has been extracted from the accountants’ report of the Target Group set out in Appendix II to this Circular; and after taking into account the pro forma adjustments relating to the Acquisition as described in the notes thereto, that are (i) clearly shown and explained; (ii) directly attributable to the Acquisition and not relating to future events or decisions; and (iii) factually supportable, as explained in the accompanying notes, as if the Acquisition had been effected on 31 December 2016.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors based on a number of assumptions, estimates, uncertainties and currently available information to provide information of the Enlarged Group upon completion of the Acquisition. As the Unaudited Pro Forma Financial Information of the Enlarged Group is prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition and does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been effected on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future financial position of the Enlarged Group after the completion of Acquisition.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules. The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this Circular, the accountants’ report of the Target Company as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

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| <b>APPENDIX III</b> | <b>UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP</b> |
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### Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

|  | The Group as<br>at 31 October<br>2016<br>(unaudited)<br><i>US\$'000</i><br><i>(Note 1)</i> | The Target<br>Group as at<br>31 December<br>2016<br>(audited)<br><i>US\$'000</i><br><i>(Note 2)</i> | Subtotal<br><i>US\$'000</i> | Pro forma<br>adjustments<br><i>US\$'000</i> | Notes | Enlarged<br>Group<br><i>US\$'000</i> |
|--|--|---|-----------------------------|---|-------|--------------------------------------|
| <b>NON-CURRENT ASSETS</b>                    |  |   |                             |   |       |                                      |
| Property, plant and equipment                | 356  | 165   | 521                         |   |       | 521                                  |
| Goodwill                                     | 26,373   | —   | 26,373                      | 60,022                                      | 5     | 86,395                               |
| Available-for-sale financial asset           | 229  | —   | 229                         |   |       | 229                                  |
| Investment in a joint venture                | 10   | —   | 10                          |   |       | 10                                   |
| Deposits                                     | —  | 18  | 18                          |   |       | 18                                   |
| Intangible assets                            | —  | —   | —                           | 53,694                                      | 5     | 53,694                               |
| Deferred tax assets                          | 10   | —   | 10                          |   |       | 10                                   |
| <b>Total non-current assets</b>              | <b>26,978</b>  | <b>183</b>  | <b>27,161</b>               |   |       | <b>140,877</b>                       |
| <b>CURRENT ASSETS</b>                        |  |   |                             |   |       |                                      |
| Trade receivables                            | 4,857  | 55  | 4,912                       |   |       | 4,912                                |
| Prepayments, deposits and other receivables  | 2,699  | 40  | 2,739                       |   |       | 2,739                                |
| Cash and cash equivalents                    | 27,252   | 630   | 27,882                      | (8,359)                                     | 4, 6  | 19,523                               |
| <b>Total current assets</b>                  | <b>34,808</b>  | <b>725</b>  | <b>35,533</b>               |   |       | <b>27,174</b>                        |
| <b>CURRENT LIABILITIES</b>                   |  |   |                             |   |       |                                      |
| Trade payables                               | (5,242)  | —   | (5,242)                     |   |       | (5,242)                              |
| Accruals and other payables                  | (10,135)   | (2,210)   | (12,345)                    | (5,141)                                     | 4     | (17,486)                             |
| Deferred revenue                             | —  | (1,305)   | (1,305)                     |   |       | (1,305)                              |
| Tax payables                                 | (2,629)  | —   | (2,629)                     |   |       | (2,629)                              |
| <b>Total current liabilities</b>             | <b>(18,006)</b>  | <b>(3,515)</b>  | <b>(21,521)</b>             |   |       | <b>(26,662)</b>                      |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>      | <b>16,802</b>  | <b>(2,790)</b>  | <b>14,012</b>               |   |       | <b>512</b>                           |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |  |   |                             |   |       |                                      |
|  | 43,780   | (2,607)   | 41,173                      |   |       | 141,389                              |
| <b>NON-CURRENT LIABILITIES</b>               |  |   |                             |   |       |                                      |
| Post-employment benefits                     | (531)  | —   | (531)                       |   |       | (531)                                |
| Deferred tax liabilities                     | —  | —   | —                           | (13,423)                                    | 5     | (13,423)                             |
| <b>Total non-current liabilities</b>         | <b>(531)</b>   | <b>—</b>  | <b>(531)</b>                |   |       | <b>(13,954)</b>                      |
| <b>Net assets/(liabilities)</b>              | <b>43,249</b>  | <b>(2,607)</b>  | <b>40,642</b>               |   |       | <b>127,435</b>                       |

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| <b>APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION<br/>OF THE ENLARGED GROUP</b> |
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*Notes:*

1. The unaudited consolidated statement of assets and liabilities as at 31 October 2016 was extracted from the published interim report of the Group for the six months ended 31 October 2016.
2. The audited consolidated statement of assets and liabilities of the Target Group as at 31 December 2016 was extracted from the accountants' report as set out in Appendix II to this Circular.
3. For the purpose of the Unaudited Pro Forma Financial Information, the Directors assumed that the VIE Contracts will allow the entire economic benefits and the risks of the business of the OPCO to flow onto the WFOE and to enable the WFOE to gain control over the OPCO.
4. The total purchase consideration shall be satisfied by the Company in the form of cash consideration of HK\$100,000,000 (equivalent to US\$12,853,000) and the issue and allotment of 150,000,000 consideration shares upon completion of the transaction.

For the purpose of the Unaudited Pro Forma Financial Information, the closing price of the share of the Company of US\$0.57 each as at 30 December 2016, being the latest trading date before 31 December 2016, was adopted for the calculation of the fair value of the consideration shares, as if the Acquisition had been effected on 31 December 2016. Accordingly, the total consideration is calculated as follows:

|                          |                      |
|--------------------------|----------------------|
|                          | <i>US\$'000</i>      |
| Cash consideration (a)   | 12,853               |
| Consideration shares (b) | <u>84,833</u>        |
| Total consideration      | <u><u>97,686</u></u> |

- (a) An aggregate amount of HK\$60,000,000 (equivalent to US\$7,712,000) of the total cash consideration of HK\$100,000,000 is to be settled upon completion.
  - (b) However, the above share price of the consideration shares is only a hypothetical assumption. The fair value of the consideration shares will be determined upon completion of the actual transaction, which consequently may result in a financial effect which is materially different from the above.
5. The identified assets and liabilities of the Target Group acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under acquisition accounting in accordance with International Financial Reporting Standard 3 *Business Combinations* ("IFRS 3"). For the purpose of the Unaudited Pro Forma Financial Information, the allocation of the purchase price is determined based on the Directors' estimates of the fair values of the identified assets and liabilities of the Target Group as at 31 December 2016, calculated as follows:

|   |                      |
|---|----------------------|
|   | <i>US\$'000</i>      |
| Consideration so determined per note 4 above  | 97,686               |
| Fair values of the identifiable tangible net liabilities of the Target Group as at 31 December 2016   | 2,607                |
| Fair values of the identifiable intangible assets including technology platform, other software applications and non-competition agreements (a) | (53,694)             |
| Deferred tax liabilities  | <u>13,423</u>        |
| Goodwill (b)  | <u><u>60,022</u></u> |

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| <b>APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION<br/>OF THE ENLARGED GROUP</b> |
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- (a) The estimated fair values of the identifiable intangible assets including technology platform, other software applications and non-competition agreements were based on the independent valuation conducted by Roma Appraisals Limited, an independent valuer, as at 31 December 2016.
- (b) Actual goodwill or gain on bargain purchase arising from the Acquisition will be determined based on fair values of the identifiable tangible and intangible assets and liabilities of the Target Group and the aggregate fair value of the total consideration at the actual completion date. When the actual transaction takes place, different fair values may be determined which consequently may result in a financial effect which is materially different from the above.

Since the fair value of the Consideration Shares and the fair value of the underlying assets and liabilities of the Target Group as at the completion date may be different from the above, the resulting amount of goodwill at the date of acquisition may be different. If the recoverable amount of the Target Group (the group of cash-generating units to which the goodwill will be allocated) is below its carrying amount as at the completion date, the related goodwill will be impaired. If the fair value of the underlying assets and liabilities of the Target Group is higher than the fair value of the total consideration transferred as at the completion date, a gain on bargain purchase will be resulted.

- 6. The adjustment represents direct expenses of audit, legal, valuation and other professional services related to the transaction, and for the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, are estimated to be US\$647,000 and are charged to the Group's consolidated statement of profit or loss.
- 7. For the purpose of the above Unaudited Pro Forma Financial Information, foreign currency amounts have been translated into US\$ at the exchange rate of US\$1.00 to RMB6.937 and US\$1 to HK\$7.78 prevailing at the close of business on 31 December 2016.
- 8. For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the management of the Group has conducted an assessment of impairment of the intangible assets and the goodwill as at 31 December 2016 in accordance with International Accounting Standard 36 Impairment of Assets ("IAS 36"), which is consistent with the accounting policy of the Company. In accordance with the requirements of IAS 36, the management of the Group has assessed the impairment by considering whether the carrying amounts (the "Carrying Amounts") of goodwill plus the net identifiable assets of the underlying business of the Target Group exceed the recoverable amount (the "Recoverable Amount") of such underlying business as at 31 December 2016 as determined by a separate valuation. As the Recoverable Amount is above the Carrying Amounts, no impairment on goodwill or any assets is required for the purpose of the Pro Forma Financial Information.

The Company will conduct a separate valuation upon completion of the Acquisition in accordance with IFRS 3 and also as at each of the Company's balance sheet date in accordance with IAS 36 for the purpose of an impairment test on goodwill and the intangible assets. The auditor will review the valuations and the impairment test conducted by the management in the upcoming audit in accordance with the same methodology under IAS 36. Save for unforeseen circumstances, for the purpose of the impairment test upon completion of the Acquisition and in the subsequent balance sheet date, the auditor will adopt the same set of impairment indicators as adopted for the purpose of the Unaudited Pro Forma Financial Information for those impairment assessments.

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| <b>APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION<br/>OF THE ENLARGED GROUP</b> |
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*The following is the text of a report received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular in respect of the unaudited pro forma financial information of the Enlarged Group.*

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**



To the Directors of Daohe Global Group Limited

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Daohe Global Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 October 2016 and related notes as set out in Appendix III of the circular dated 28 April 2017 issued by the Company (the “Circular”) (the “Unaudited Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 100% equity interest of Loovee Holdings Inc. (the “Target Company”) and its subsidiaries (collectively, the “Target Group”) (the “Acquisition”) on the Group’s financial position as at 31 October 2016 as if the Acquisition had taken place at 31 December 2016. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s unaudited interim report for the six months ended 31 October 2016 as set out in the published interim report of the Company dated 14 December 2016. Information about the Target Group’s financial position has been extracted by the Directors from the audited financial information of the Target Group as at 31 December 2016 as set out in its accountants’ report included in Appendix II to the Circular.

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

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“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 Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had been undertaken at an earlier date selected for purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition would have been as presented.

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| <b>APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION<br/>OF THE ENLARGED GROUP</b> |
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A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition, and to obtain sufficient appropriate evidence about whether:

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

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

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

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

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

28 April 2017



**MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP**

Set out below is the management discussion and analysis on the Target Group for each of the three years ended 31 December 2016 prepared in accordance with International Financial Reporting Standards.

The following discussion and analysis should be read in conjunction with the accountants' report on the Target Group set out in Appendix II to this circular.

**Business and financial review**

The Target Group has commenced its operation in the PRC in July 2011 and is principally engaged in the development and operation of a mobile social networking platform named "Duimian" ("對面"), the largest gamified mobile social networking platform and the second largest stranger-to-stranger mobile social networking platform in the PRC, as measured by the number of downloads on Android devices, according to the Analysys Report. The Duimian platform enables users to establish and expand social relationships through gamified social interactions, with a variety of related features, functionalities, tools and services available to its users and advertisers.

Amid the rapidly growing and evolving mobile social networking market in the PRC, the Target Group has focused on building and growing its user base and improving its user experience since the launch of the Duimian platform in 2013. The Target Group's registered user base has grown from approximately 17.9 million as at 31 December 2014 to approximately 62.0 million as at 31 December 2015 and to approximately 99.7 million as at 31 December 2016. According to the Analysys Report, in May 2016, the Target Group had a market share of approximately 33.1% in the mobile gamified social networking industry, as measured by the number of monthly active users.

The Target Group generates its revenue from the sale of virtual items and providing advertising services. Virtual items include VIP membership subscriptions, virtual gifts, special effects and other value-added services. The Target Group also allows advertisers to promote their products on its Duimian platform.

The loss attributable to owners of the Target Company for the three years ended 31 December 2016 were approximately RMB5.7 million, RMB5.5 million and RMB19.0 million, respectively. The loss during the three years ended 31 December 2016 were mainly due to the advertising and promotional expenditures, research and development expenditures and salary and welfare, as the Group undertook a variety of marketing strategies to boost the growth in number of users and enhance the gamification features of the Duimian platform to improve user experience.

**For the year ended 31 December 2015*****Revenue***

The Target Group generates its revenue primarily from provision of (i) internet value-added services (“IVAS”), including sales of VIP membership subscriptions, virtual gifts and virtual items; and (ii) advertising services.

Users can purchase virtual gold coins from the Target Group and use them for a variety of services on the Duimian platform, including VIP membership subscriptions, special effects, virtual gifts, participating in online and offline social events and for playing games. The Target Group also offers advertisers a broad range of advertising services, including full screen advertisements, displays and click-on advertisements and generally charges its advertising clients based on the amount of time the advertisement is displayed.

Revenue of the Target Group increased from approximately RMB6.3 million for the year ended 31 December 2014 to approximately RMB33.1 million for the year ended 31 December 2015, representing an increase of approximately 421.9%, due to the increase in both IVAS revenue and advertising revenue.

IVAS revenue increased by approximately 398.9% from approximately RMB6.2 million for the year ended 31 December 2014 to approximately RMB30.7 million for the year ended 31 December 2015, primarily due to the significant increase in the number of paying users, being partially offset by the decrease in the average IVAS revenue per paying user. The number of paying users of the Target Group increased from 28,322 in 2014 to 255,524 in 2015, representing an increase of approximately 802.2%. Such growth was partially offset by the decrease in the average IVAS revenue per paying user, which was mainly due to (i) the commencement of giving free benefits to users in 2015, such as free silver coins to encourage activity on the Duimian platform; (ii) an increased number of paying users with greater variety of spending habits, while the pioneer users tend to spend more on average; and (iii) the offering of a broader selection of IVAS at different prices as the Target Group grew its platform and business.

The Target Group has recorded an increase in advertising revenue from approximately RMB0.2 million for the year ended 31 December 2014 to approximately RMB2.4 million for the year ended 31 December 2015, primarily due to (i) the fact that the Target Group began to devote more time and resources to developing its advertising business to better monetise its rapidly expanding user base in the fourth quarter of 2015; and (ii) the efforts of its sales staff to enter into contracts with advertising clients.

*Cost of revenue and gross profit margin*

The Target Group's cost of revenue consists primarily of costs associated with the operation and maintenance of the Duimian platform, including (i) cost of goods for redemption of bonus points which represents provisions made based on the total bonus points accumulated by users from their receipt of virtual gifts purchased with gold coins; (ii) salary and welfare paid to the staff members who are responsible for maintaining and supporting the Duimian platform, website and customer services; (iii) depreciation expense for computer equipment and amortisation of software used in the Target Group's business operations; (iv) payment handling costs which represent the payment processing fees from the sales of virtual gold coins and other online purchases made by users; and (v) server and bandwidth costs which primarily consist of expenses incurred in the operation and maintenance of the servers and computer equipment and fees and charges that the Target Group paid to bandwidth service providers.

Cost of revenue increased by approximately 27.3% from approximately RMB3.8 million for the year ended 31 December 2014 to approximately RMB4.8 million for the year ended 31 December 2015, primarily due to the increase in server and bandwidth costs resulting from the increase in the Target Group's bandwidth capacity and number of servers in order to support its growing platform. This was partially offset by (i) the decrease in cost of goods for redemption of bonus points due to the increasing redemption of bonus points for virtual items (rather than real products) after allowing users to exchange bonus points for virtual items in late 2014; and (ii) the decrease in salary and welfare as the Target Group relocated its maintenance staff to other departments when the Duimian platform became more stable and mature and it automated certain customer services functions.

As a result of the above, the gross profit margin of the Target Group increased from approximately 40.1% for the year ended 31 December 2014 to approximately 85.4% for the year ended 31 December 2015.

*Operating expenses*

Operating expenses consist of (i) selling and marketing expenses, which mainly represent (a) advertising and market promotion expenses; (b) salary and welfare for sales and marketing personnel; and (c) research and development expenses including salary and welfare for research and development personnel, rental expenses and depreciation of office equipment and servers utilised by research and development personnel; and (ii) general and administrative expenses, which mainly represent salary and welfare for general and administrative personnel, professional service fees, property management fees, depreciation of furniture and fixtures, travelling expenses, training expenses and utility expenses.

*Selling and marketing expenses*

Selling and marketing expenses increased by approximately 354.1% from approximately RMB6.2 million for the year ended 31 December 2014 to approximately RMB28.0 million for the year ended 31 December 2015, primarily attributable to (i) the increase in advertising expenditure and the headcount of the sales and marketing team, as the Target Group pursued a

strategy of expanding its user base by enhancing its brand awareness and attracting new users; and (ii) the increase in the headcount of the research development team to improve the Duimian platform and develop new complementary products.

#### *General and administrative expenses*

The increase in general and administrative expenses by approximately 101.2% from approximately RMB3.3 million for the year ended 31 December 2014 to approximately RMB6.5 million for the year ended 31 December 2015 was primarily due to the increase in headcount to support various departments and various other administrative expenses associated with the Target Group's expanding operations, such as travelling expenses, depreciation of furniture and fixtures and motor vehicle expenses.

#### *Income tax expense*

The Target Group generates all of its revenue from its PRC operations.

Pursuant to the Enterprise Income Tax Law of the PRC (“**EIT Law**”) and its implementation rules, enterprises in the PRC are generally subject to enterprise income tax at a statutory rate of 25%.

Since the Target Group had net operating losses for the three years ended 31 December 2016, it did not incur any PRC income tax for those periods.

On 30 August 2013, the OPCO was granted the qualification as a software enterprise, affording it an income tax exemption for two years beginning with its first profitable year and a 50% tax reduction to the applicable tax rate for the subsequent three years. Since the OPCO reported tax loss from 2012 to 2016, no preferential tax rate was enjoyed.

In 2013, the OPCO was further approved as a high and new technology enterprise and is subject to a reduced preferential enterprise income tax rate of 15% from 2013 to 2016 according to the relevant tax preference. Since the OPCO reported tax loss from 2012 to 2016, no such tax incentive was enjoyed.

The OPCO shall apply lower of the above preferential tax rate, where applicable, while its PRC subsidiary is subject to the statutory income tax rate of 25%.

In addition, according to the new EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in the PRC but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in the PRC shall be subject to PRC withholding tax (“**WHT**”) at 10% (a further reduced WHT rate of 5% may be available according to the applicable double tax treaty or arrangement). The WHT is applicable to any dividends to be distributed from the Target Group's PRC subsidiary and the OPCO to the Target Group's overseas companies.

***Loss for the year***

As a result of the aforesaid, the Target Group recorded a loss of approximately RMB5.5 million for the year ended 31 December 2015, as compared to a loss of approximately RMB5.7 million for the year ended 31 December 2014.

**For the year ended 31 December 2016*****Revenue***

Revenue of the Target Group increased from approximately RMB33.1 million for the year ended 31 December 2015 to approximately RMB81.2 million for the year ended 31 December 2016, representing an increase of approximately 145.4%, due to the increase in both IVAS revenue and advertising revenue.

IVAS revenue increased by approximately 92.8% from approximately RMB30.7 million for the year ended 31 December 2015 to approximately RMB59.2 million for the year ended 31 December 2016, primarily due to the significant increase in the number of paying users, being partially offset by the decrease in the average IVAS revenue per paying user. The number of paying users of the Target Group increased from 255,524 in 2015 to 507,421 in 2016, representing an increase of approximately 98.6%. Such growth was partially offset by the decrease in the average IVAS revenue per paying user, which was mainly due to (i) an increased number of paying users with greater variety of spending habits, while the pioneer users tend to spend more on average; and (ii) the offering of a broader selection of IVAS at different prices as the Target Group grew its platform and business.

The Target Group has recorded an increase in advertising revenue from approximately RMB2.4 million for the year ended 31 December 2015 to approximately RMB22.0 million for the year ended 31 December 2016, primarily due to the fact that the Target Group did not focus on monetising its advertising opportunities until the fourth quarter of 2015 when it began devoting significantly greater amounts of its time and resources to developing its advertising business.

***Cost of revenue and gross profit margin***

Cost of revenue increased by approximately 40.2% from approximately RMB4.8 million for the year ended 31 December 2015 to approximately RMB6.8 million for the year ended 31 December 2016, primarily due to the increase in server and bandwidth costs resulting from the increase in the Target Group's bandwidth capacity and number of servers in order to support its growing platform. This was partially offset by the decrease in cost of goods for redemption of bonus points due to an increasingly larger user base that redeem bonus points for virtual items rather than real products.

As a result of the above, the gross profit margin of the Target Group increased from approximately 85.4% for the year ended 31 December 2015 to approximately 91.7% for the year ended 31 December 2016.

***Operating expenses******Selling and marketing expenses***

Selling and marketing expenses increased by approximately 194.1% from approximately RMB28.0 million for the year ended 31 December 2015 to approximately RMB82.4 million for the year ended 31 December 2016, primarily attributable to (i) the increase in advertising and promotional expenditures, as the Target Group pursued a strategy of expanding its user base by enhancing its brand awareness and attracting new users; and (ii) the increase in the headcount of the research development team to improve the Duimian platform and develop new complementary products.

***General and administrative expenses***

The increase in general and administrative expenses by approximately 86.1% from approximately RMB6.5 million for the year ended 31 December 2015 to approximately RMB12.2 million for the year ended 31 December 2016 was primarily due to the increase in legal and professional fee and the increase in headcount to support various departments and various other administrative expenses associated with the Target Group's expanding operations, such as travelling expenses, depreciation of furniture and fixtures and motor vehicle expenses.

***Income tax expense***

Since the Target Group had net operating loss for the year ended 31 December 2016, it did not incur any PRC income tax for this period.

***Loss for the year***

As a result of the aforesaid, the Target Group recorded a loss attributable to owners of the Target Company of approximately RMB19.0 million for the year ended 31 December 2016, as compared to a loss of approximately RMB5.5 million for the year ended 31 December 2015.

**Liquidity and financial resources**

The Target Group's sources of liquidity have been cash generated from operating activities and loans from shareholders. As at 31 December 2014, 2015 and 2016, the Target Group had net current liabilities of approximately RMB19.1 million, RMB17.4 million and RMB19.3 million, and net liabilities of approximately RMB17.1 million, RMB15.5 million and RMB18.1 million, respectively. In addition, the Target Group incurred a loss for each of the three years ended 31 December 2016. The directors of the Target Company indicated their intention to provide financial support to the Target Group to operate without significant curtailment of its operations and to meet its financial obligations as and when they fall due.

As at 31 December 2014, 2015 and 2016, the Target Group had cash and cash equivalents of approximately RMB88,000, RMB6.1 million and RMB4.4 million, respectively. Cash and cash equivalents represent cash on hand and demand deposits placed with bank, mainly denominated in RMB and USD.

As at 31 December 2014, 2015 and 2016, amounts due to shareholders of the Target Group, being loans provided by shareholders which were unsecured, interest-free and with no fixed repayment terms, were approximately RMB14.1 million, RMB15.2 million and nil, respectively.

### **Capital structure and gearing ratio**

As at 31 December 2014, 2015 and 2016, amounts due to shareholders of the Target Group were approximately RMB14.1 million, RMB15.2 million and nil and total assets of the Target Group were approximately RMB3.2 million, RMB9.0 million and RMB6.3 million, respectively. The gearing ratio, being amounts due to shareholders divided by total assets, was approximately 437.6%, 168.3% and nil as at 31 December 2014, 2015 and 2016, respectively.

### **Interest rate risk**

The Target Group's exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. The Target Group has not been exposed to material interest rate risk due to the changes in interest rates and the Target Group has not used any derivative financial instruments to manage its interest rate exposure. However, the Target Group's future interest income may fall short of expectations due to changes in market interest rates.

### **Foreign exchange risk**

The revenues and expenses of the OPCO and its subsidiary in the PRC are generally denominated in RMB and their assets and liabilities are denominated in RMB. The Target Group's financing activities are denominated in RMB. The RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC and exchange of foreign currencies into RMB require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies.

### **Treasury management**

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Target Group monitors capital (including share capital and other reserves) by regularly reviewing the capital structure. As a part of this review, the Target Company considers the cost of capital and the risks associated with the issued share capital. The Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, capitalising shareholder loans or repurchase the Target Company's shares.

**Contingent liabilities**

The Target Group is not aware of, any legal proceeding, investigation or claim which, in the opinion of the management of the Target Group, is likely to have an adverse material effect on the business, financial condition or results of operations of the Target Group. The Target Group may periodically be subject to legal proceedings, investigations and claims relating to its business. The Target Group may also initiate legal proceedings to protect its rights and interests.

As at 31 December 2014, 2015 and 2016, the Target Group did not have any material contingent liabilities.

**Pledge of assets**

As at 31 December 2014, 2015 and 2016, the Target Group did not have any pledge of assets.

**Significant investment, material acquisition and disposal**

The Target Group did not have any significant investment, material acquisition and disposal during the three years ended 31 December 2016.

**Employee and remuneration policies**

As at 31 December 2014, 2015 and 2016, the Target Group had 58, 68 and 69 employees, respectively. The Target Group periodically evaluates the performance of its employees and provides them with training to enhance performance.

Employees of the Target Group in the PRC are entitled to staff welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated multi-employer defined contribution plan. The Target Group is required to accrue for its contribution based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government.

The Target Group is required to make contributions to the plans out of the amount accrued. The PRC government is responsible for medical benefits and the pension liability to be paid to these employees and the Target Group's obligations are limited to the amounts contributed and no legal obligation beyond the contributions made.



**Commitments**

The Group leases facilities in the PRC under non-cancellable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. As at 31 December 2016, future minimum payments under non-cancellable operating leases for office rental and bandwidth rental were approximately RMB1.1 million and RMB216,000 in 2017 and during the period from 2018 to 2021, respectively.

**Future plans for material investment and acquisition of capital assets**

In the past, capital expenditures of the Target Group were principally incurred to purchase servers, computers and other office equipment. As the Target Group's business expands, it may purchase new servers and other equipment in the future. The Target Group may also make acquisitions of businesses and properties that complement its operations when suitable opportunities arise. The Target Group will continue to make capital expenditures to meet the expected growth of its business and expect that cash generated from its operating activities and financing activities will meet its capital expenditure needs in the foreseeable future.

As at 31 December 2014, 2015 and 2016, the Target Group had no specific plan for material investment and acquisition of capital assets.

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**SHARE CAPITAL**

|                      |        |                   |
|----------------------|--------|-------------------|
| <i>Authorised:</i>   |        | <i>US\$</i>       |
| <u>1,000,000,000</u> | Shares | <u>40,000,000</u> |

*Issued, fully paid or credited as fully paid:*

|                    |  |                      |
|--------------------|--|----------------------|
| 353,197,567        | Shares in issue as at the Latest Practicable Date                  | 14,127,902.68        |
| <u>150,000,000</u> | Allotment and issue of the Consideration Shares<br>upon Completion | <u>6,000,000.00</u>  |
| <u>503,197,567</u> |  | <u>20,127,902.68</u> |

**DISCLOSURE OF INTERESTS****Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations**

Save as mentioned below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions, if any, which any such Director or the chief executive of the Company was taken or deemed to have under such provisions of the SFO); or which (ii) were required to be entered

into the register maintained by the Company, pursuant to section 352 of the SFO; or which (iii) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules:

*Long position in the shares of the Company and its associated corporations*

| Name of Director   | Nature of interest                           | Number and class of securities | Approximate percentage of the issued share capital of the Company<br>(Note 2) |
|--|--|--------------------------------|---|
| <b>The Company</b>   |  |                                |   |
| ZHOU Xijian  | Interest of controlled corporations (Note 1) | 221,373,809 Shares             | 62.68%  |
| WONG Hing Lin, Dennis  | Beneficial owner                             | 1,250,000 Shares               | 0.35%   |
| WANG Arthur Minshiang  | Beneficial owner                             | 130,000 Shares                 | 0.04%   |
| <b>Associated corporation — Daohe Global Investment Holding Limited (Note 1)</b> |  |                                |   |
| ZHOU Xijian  | Beneficial owner                             | 8,000 ordinary shares          | 80%   |
| ZHANG Qi   | Beneficial owner                             | 2,000 ordinary shares          | 20%   |

*Note 1:* As at the Latest Practicable Date, (i) Sino Remittance Holding Limited owned 170,750,000 Shares, representing approximately 48.35% of the issued share capital of the Company; (ii) Fame City Developments Limited owned 19,896,845 Shares, representing approximately 5.63% of the issued share capital of the Company; (iii) Oceanic Force Limited owned 30,680,964 Shares, representing approximately 8.69% of the issued share capital of the Company; and (iv) Winning Port International Limited owned 46,000 Shares, representing approximately 0.01% of the issued share capital of the Company. Each of Sino Remittance Holding Limited, Fame City Developments Limited, Oceanic Force Limited and Winning Port International Limited is wholly-owned by Daohe Global Investment Holding Limited, which is in turn 80%-owned by Mr. Zhou Xijian and 20%-owned by Mr. Zhang Qi.

*Note 2:* The percentage shareholding in the Company is calculated on the basis of 353,197,567 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions, if any, which any such Director or the chief executive of the Company was taken or deemed to have under such provisions of the SFO); or which (ii) were required to be entered into the register maintained by the Company, pursuant to section 352 of the SFO; or which (iii) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

**Substantial Shareholders' interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations**

Save as disclosed below, the Directors and the chief executive of the Company were not aware that there was any person who, as at the Latest Practicable Date, had an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or who, as at the Latest Practicable Date, was directly and indirectly interested in ten per cent, or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

*Long position in the Shares*

| Name of substantial shareholders        | Nature of interest                           | Number of Shares | Approximate percentage of the issued share capital of the Company<br>(Note 2) |
|---|--|------------------|---|
| Sino Remittance Holding Limited         | Beneficial owner                             | 170,750,000      | 48.35%  |
| Fame City Developments Limited          | Beneficial owner                             | 19,896,845       | 5.63%   |
| Oceanic Force Limited                   | Beneficial owner                             | 30,680,964       | 8.69%   |
| Daohe Global Investment Holding Limited | Interest of controlled corporations (Note 1) | 221,373,809      | 62.68%  |

*Note 1:* As at the Latest Practicable Date, (i) Sino Remittance Holding Limited owned 170,750,000 Shares, representing approximately 48.35% of the issued share capital of the Company; (ii) Fame City Developments Limited owned 19,896,845 Shares, representing approximately 5.63% of the issued share capital of the Company; (iii) Oceanic Force Limited owned 30,680,964 Shares, representing approximately 8.69% of the issued share capital of the Company; and (iv) Winning Port International Limited owned 46,000 Shares, representing approximately 0.01% of the issued share capital of the Company.

Each of Sino Remittance Holding Limited, Fame City Developments Limited, Oceanic Force Limited and Winning Port International Limited is wholly-owned by Daohe Global Investment Holding Limited, which is in turn 80%-owned by Mr. Zhou Xijian and 20%-owned by Mr. Zhang Qi.

*Note 2:* The percentage shareholding in the Company is calculated on the basis of 353,197,567 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person who, as at the Latest Practicable Date, had an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or who, as at the Latest

Practicable Date, was directly and indirectly interested in ten per cent, or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

#### **DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any assets which have been, since 30 April 2016 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

#### **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

#### **LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

#### **DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

#### **MATERIAL CONTRACTS**

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of this circular:

- (i) the Share Purchase Agreement;
- (ii) the disposal agreement dated 10 August 2016 entered into among 林麥商品信息諮詢(深圳)有限公司 (Linmark Merchandise Consultancy (Shenzhen) Limited\*) (“**SZ Linmark**”) (as the vendor), a wholly-owned subsidiary of the Company, 深圳市國採立信投資管理有限公司 (Shenzhen Guocai Lixin Investment Management Company Limited\*) (“**Shenzhen Guocai Lixin**”) and 吳玥鋆 (Wu Yueyun\*) (“**Mr. Wu**”), in

relation to the disposal of 60% equity interest in 深圳市國採晟唐投資管理有限公司 (Shenzhen Guo Cai Sheng Tang Investment Co. Ltd.\*) (“**Guo Cai Sheng Tang**”) by SZ Linmark to Shenzhen Guocai Lixin and Mr. Wu at an aggregate consideration of HK\$5,000,000, the details of which are set out in the announcement of the Company dated 10 August 2016. Furthermore, as disclosed in the announcement dated 10 August 2016, SZ Linmark had decided not to exercise its option to acquire the 40% equity interest in Guo Cai Sheng Tang;

- (iii) the placing agreement (the “**Placing Agreement**”) dated 5 June 2016 entered into between the Company and a placing agent in relation to the placing of 690,620,000 placing Shares, on a best effort basis, to not less than six independent placees, the details of which are set out in the announcement of the Company dated 5 June 2016. As disclosed in the announcement of the Company dated 4 July 2016, the Placing Agreement had lapsed as the conditions of the placing had not been fulfilled;
- (iv) the agreement (the “**Agreement**”) dated 22 January 2016 entered into between Daohe Capital Limited (“**Daohe Capital**”), a wholly-owned subsidiary of the Company, and Hong Kong Wing Yue Financial Group Holdings Limited (“**Wing Yue Financial**”) in relation to the acquisition of the entire issued share capital of Hong Kong Wing Yue Asset Management Limited (“**Wing Yue Asset Management**”) at an aggregate consideration of HK\$14.5 million plus the net asset value of Wing Yue Asset Management, the details of which are set out in the announcement of the Company dated 22 January 2016. As disclosed in the announcement of the Company dated 10 November 2016, a memorandum of termination dated 10 November 2016 was entered into between Daohe Capital and Wing Yue Financial to terminate the Agreement;
- (v) the memorandum of understanding dated 2 December 2015 entered into between Daohe Capital and Wing Yue Financial in relation to the possible acquisition of the entire issued share capital of Wing Yue Asset Management at an aggregate consideration of HK\$14.5 million plus the net asset value of Wing Yue Asset Management, the details of which are set out in the announcement of the Company dated 2 December 2015;
- (vi) the second supplemental agreement to the Framework Agreement (as defined below) (as amended and supplemented by the Supplemental Agreement (as defined below)) dated 24 November 2015 entered into among SZ Linmark (as the purchaser), Shenzhen Guocai Lixin and Mr. Wu (together as the vendors), in relation to certain amendments to the terms of the Framework Agreement (as defined below) (as amended and supplemented by the Supplemental Agreement (as defined below)), the details of which are set out in the announcement of the Company dated 24 November 2015;

- (vii) the supplemental agreement (the “**Supplemental Agreement**”) to the Framework Agreement (as defined below) dated 3 November 2015 entered into among SZ Linmark (as the purchaser), Shenzhen Guocai Lixin and Mr. Wu (together as the vendors), in relation to certain amendments to the terms of the Framework Agreement (as defined below), the details of which are set out in the announcement of the Company dated 3 November 2015;
- (viii) the framework agreement (the “**Framework Agreement**”) dated 26 October 2015 entered into among SZ Linmark (as the purchaser), Shenzhen Guocai Lixin and Mr. Wu (together as the vendors), in relation to the conditional acquisition of the entire equity interests in Guo Cai Sheng Tang at an aggregate consideration of RMB10,000,000, the details of which are set out in the announcement of the Company dated 26 October 2015; and
- (ix) the subscription agreement dated 1 June 2015 entered into between the Company (as the issuer) and New Chain Global Limited, Exalt Spirit International Limited, New Paradise Investments Limited, Neo Vantage Developments Limited, Bountiful Links Limited and Full Eminent Trading Limited (together as the subscribers) in relation to the subscription of 20,000,000 shares of the Company at the subscription price of HK\$3.21 per share.

## EXPERTS AND CONSENTS

The following is the qualification of the experts who has given opinion or advice which is contained in this circular:

| <b>Name</b>            | <b>Qualification</b>         |
|------------------------|------------------------------|
| Ernst & Young          | Certified Public Accountants |
| PricewaterhouseCoopers | Certified Public Accountants |

As at the Latest Practicable Date, the experts named above (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (ii) had no direct or indirect interest in any assets which had been, since 30 April 2016 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group; and (iii) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the reference to its name included herein in the form and context in which it appears.

## GENERAL

- (i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

- (ii) The head office and principal place of business in Hong Kong of the Company is situated at 1123, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong.
- (iii) The secretary of the Company is Mr. Wong Lim Yam, a certified public accountant of Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.
- (iv) The principal share registrar and transfer office of the Company is Conyers Corporate Services (Bermuda) Limited (formerly known as Codan Services Limited), Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (v) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (vi) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

#### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any business day from the date of this circular up to and including the date of the SGM at the head office and principal place of business of the Company in Hong Kong at 1123, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong:

- (i) the memorandum of association and the bye-laws of the Company;
- (ii) the annual reports of the Company for each of the three financial years ended 30 April 2014, 2015 and 2016;
- (iii) the interim report of the Company for the six months ended 31 October 2016;
- (iv) the material contracts referred to under the section headed "Material contracts" in this appendix;
- (v) the report issued by PricewaterhouseCoopers in relation to the financial information of the Target Group, the text of which is set out in Appendix II to this circular;
- (vi) the report issued by Ernst & Young in relation to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (vii) the letters of consent from the experts named in the section headed "Experts and consents" in this appendix; and
- (viii) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since 30 April 2016, being the date to which the latest published audited financial statements of the Group were made up.



The following are the particulars of the three Directors proposed to be re-elected at the SGM:

**1. Mr. ZHANG Jifeng**

Mr. ZHANG Jifeng (“**Mr. Zhang Jifeng**”), aged 47, was appointed as an Executive Director and a member of the Executive Committee with effect from 11 January 2017.

Mr. Zhang Jifeng is currently the fund manager of 中恒e影視文化基金 (Zhongheng e-Film Culture Fund\*). He is specialised in planning and operation of film and TV investment and industrial town for film and TV culture. He graduated from 上海新聞廣播電視學校 (Shanghai News Broadcasting Television School\*), specialising in news editing.

Prior to Mr. Zhang Jifeng’s appointment with 中恒e影視文化基金 (Zhongheng eFilm Culture Fund\*), he had been the general manager of 北京澳金園置業發展有限公司 (Beijing Aojinyuan Real Estate & Development Pty. Ltd.\*). Formerly, he was the deputy general manager of 易居中國有限公司 (E-House (China) Holdings Limited\*), general manager of its Shenyang branch, deputy general manager of its Beijing branch and deputy general manager of its Northern China branch; the deputy general manager of 上海房屋銷售有限公司 (Shanghai Real Estate Sales Co., Limited\*), the predecessor of 易居中國有限公司 (E-House (China) Holdings Limited\*); the strategic consultant of 上海市靜安區南京西路商業功能推動委員會 (commercialization promotional committee of West Nanjing Road, Jing’an District in Shanghai); senior strategic manager of Shanghai branch of Midland Realty; strategic manager of Shanghai branch of 香港利達行房地產顧問有限公司 (Lee Tat Property Consultant Limited\*); and member of 上海市內銷商品房首批按揭試點管理方法工作小組 (Working Group for Pilot Management of First Tranche of Domestic Commodity Housing in Shanghai City\*) (the representative of 上海市房屋交易展覽市場 (Shanghai Housing Trade and Exhibition Market\*)).

Mr. Zhang Jifeng has over 20 years of experience in circulation, sales and operation of real estate. In 1993, he participated in the work of 上海內銷商品抵押貸款購房(按揭)試點管理辦法起草小組 (drafting committee of Pilot Management Measures on Purchase of Property with Secured Loans (Mortgage) with Domestic Commodity in Shanghai\*), which marked the beginning of the real estate financial business. He has more extensive experience in management and operation of listed real estate businesses specialising in services. He has working experience in the development and operation of comprehensive industrial chain of film culture.

The Company entered into a service agreement with Mr. Zhang Jifeng for an initial term of three years commencing on 11 January 2017. During the tenure, the appointment may be terminated by either party by serving not less than one month’s notice in writing. Furthermore, Mr. Zhang Jifeng is subject to retirement by rotation and re-election in accordance with the Company’s code on corporate governance practice and the Company’s bye-laws.

Under the service agreement, the base salary of Mr. Zhang Jifeng is HK\$720,000 per annum and Mr. Zhang Jifeng is also entitled to participate in a profit-based bonus scheme and a share option scheme to be determined at the discretion of the Board or a committee thereof established for such purpose. The remuneration package of Mr. Zhang Jifeng was determined by the remuneration committee of the Board (the “**Remuneration Committee**”) mainly by reference to Mr. Zhang Jifeng’s qualifications, experience, level of responsibilities undertaken and prevailing market conditions.

## **2. Mr. LAU Shu Yan**

Mr. LAU Shu Yan (“**Mr. Lau**”), aged 35, was appointed as an independent non-executive director (“**INED**”) and the chairman of the audit committee of the Board (the “**Audit Committee**”) with effect from 11 January 2017.

Mr. Lau is currently a partner of an audit firm. He had previously worked in an international accounting firm and has over 10 years of experience in finance, auditing and accounting fields. Mr. Lau is currently an independent non-executive director of Union Asia Enterprise Holdings Limited (stock code: 8173) and 深圳市明華澳漢科技股份有限公司 (Shenzhen Mingwah Aohan High Technology Corporation Limited\*) (stock code: 8301), the securities of both companies are listed on the Stock Exchange. He is also an independent non-executive director, chairman of the audit committee and member of the remuneration committee of Perfectech International Holdings Limited (stock code: 765), the securities of which are listed on the Stock Exchange. Mr. Lau graduated from University of Newcastle upon Tyne, United Kingdom with a Bachelor of Arts degree majoring in accounting and financial analysis. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Lau was formerly an independent non-executive director of Evershine Group Holdings Limited (formerly known as TLT Lottotainment Group Limited) from 11 July 2012 to 16 January 2014, the securities of which are listed on the Stock Exchange (stock code: 8022).

There is no service contract entered into between the Company and Mr. Lau. Pursuant to a letter of appointment entered into between the Company and Mr. Lau, Mr. Lau has been appointed as an INED for an initial term of two years commencing on 11 January 2017. His appointment may be terminated by either party by serving not less than one month’s notice in writing. Furthermore, Mr. Lau is subject to retirement by rotation and re-election in accordance with the Company’s code on corporate governance practices and the Company’s bye-laws.

The director’s fee of Mr. Lau is HK\$240,000 per annum which was determined by the Board by reference to his qualifications, experience, level of responsibilities undertaken and prevailing market conditions.

### **3. Mr. ZHANG Huijun**

Mr. ZHANG Huijun (“**Mr. Zhang Huijun**”), aged 60, was appointed as an INED, a member of each of the Audit Committee, the Remuneration Committee and the nomination committee of the Board with effect from 11 January 2017.

Mr. Zhang Huijun is currently a vice-chairman of each of China Film Association, Beijing Film Specialist Association and 北京影視藝術家協會 (Beijing Film and TV Artist Association\*), deputy director of China Council for the Promotion of Art Education, a tutor and professor of the Academy of Chinese Culture under Peking University, director of 中國電影高新技術研究院 (China Research Institute of Film Technology\*), vice-chairman and standing member of the council of China Society of Motion Picture and Television Engineers, member of each of the Academic Degree Committee of the State Council and National Art Professional Master Degree Education Steering Committee under the Ministry of Education. He is also a member of 國家教育部高等學校素質教育工作委員會 (Committee of Quality Education in Higher Education Institutions under the Ministry of Education\*), head of the higher education division under the Education Committee of China Photographers Association, principal specialist of Beijing Film and Television Art Research Centre, vice-president of China Advertising Association of Commerce and a specialist enjoying special government subsidies granted by the State Council. Mr. Zhang Huijun is also a tutor to doctoral students and a professor of Beijing Film Academy in which he was enrolled in 1978 (Class 78) as a student under the department of photography and graduated with a bachelor of arts (cinematography) degree in July 1982. In the same year, he assumed a teaching post at his alma mater shortly after graduating with flying colours.

Mr. Zhang Huijun was a member of the national committee of the 10th and 11th Chinese People’s Political Consultative Conference (“**CPPCC**”), a member of the 10th and 11th CPPCC Subcommittee of Education, Science, Culture, Health and Sports, as well as a specially invited supervisor of the Ministry of Public Security. He has acted as the deputy director of Beijing Film Academy for 8 years and the director of Beijing Film Academy for 14 years.

Mr. Zhang Huijun was accredited the 優秀指導教師獎 (Outstanding Tutor Award\*) at the 99全國大學生藝術節 (Arts Festival for University Students Across China 1999\*) co-hosted by the Ministry of Education, Ministry of Culture, Central Committee of the Communist Youth League of China, State Administration of Radio, Film and Television and the Beijing Municipal Government. He was conferred 意大利仁惠之星勳章(三級勳章) (Commendatore dell’Ordine della Stella della Solidarieta Italiana (3rd Class)) by the president of the Italian Republic in recognition of his positive contribution to the promotion of cultural exchange and friendly cooperation between the PRC and Italy. Being the awardee of 中國文化產業人才培養特殊貢獻大獎 (Award of Special Contribution to the Nurture of Talents for Cultural Industries of China\*) by the organizing committee of Forum on International Cultural Industries (China), Mr. Zhang Huijun has been engaged as a life member of the judging committee of Macau International Movie Festival.

Being a famous cinematographer, director, producer in the PRC, as well as a “fifth generation” leading figure of the PRC’s movie industry, Mr. Zhang Huijun has involved himself in the production of over 20 movies, making enormous artistic achievement and winning numerous prestigious awards at home and abroad. Besides, Mr. Zhang Huijun has presented over 300 TV productions, including drama series and other genres, in the capacity of director, cinematographer, organizer and producer. He has written, compiled and undertaken over 20 academic papers. He has undertaken research projects of state and provincial level covering the aspects of science, education and technology as a project leader or principal participant.

There is no service contract entered into between the Company and Mr. Zhang Huijun. Pursuant to a letter of appointment entered into between the Company and Mr. Zhang Huijun, Mr. Zhang Huijun has been appointed as an INED for an initial term of two years commencing on 11 January 2017. His appointment may be terminated by either party by serving not less than one month’s notice in writing. Furthermore, Mr. Zhang Huijun is subject to retirement by rotation and re-election in accordance with the Company’s code on corporate governance practices and the Company’s bye-laws.

The director’s fee of Mr. Zhang Huijun is HK\$240,000 per annum which was determined by the Board by reference to his qualifications, experience, level of responsibilities undertaken and prevailing market conditions.

#### **4. General**

As at the Latest Practicable Date of this circular, each of Mr. Zhang Jifeng, Mr. Lau and Mr. Zhang Huijun did not have, and was not deemed to have, any interests in any shares or underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Save as disclosed above, as at the Latest Practicable Date of this circular, each of Mr. Zhang Jifeng, Mr. Lau and Mr. Zhang Huijun did not hold any other position with the Company or any of its subsidiaries; had not held any directorship in the last three years in other listed public companies; did not have any other major appointments and professional qualifications; and did not have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

Furthermore, save as disclosed above, there are no other matters or information relating to the above Directors that need to be brought to the attention of the shareholders of the Company or to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

## NOTICE OF THE SGM



**Daohe Global Group Limited**

**道和環球集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 915)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (“SGM”) of the shareholders of Daohe Global Group Limited (the “**Company**”) will be held at Showroom 1A, 1123, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 23 May 2017 at 3:00 p.m. for the purposes of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the execution of the agreement dated 21 February 2017 (as varied and supplemented by an amendment letter dated 19 April 2017) (the “**Share Purchase Agreement**”) entered into among Glory Sino Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company, Leqian Investment Limited, Mike Cai Investment Limited, Mr. Tsang Chun Ho Anthony, SA1 Investments Inc., Lemei Investment Limited, Letu Investment Limited, Leguang Investment Limited, Lehao Investment Limited and Leming Investment Limited (together the “**Vendors**”), Mr. Congwei Zhou, Mr. Shengqi Cai, Mr. Tsang Chun Ho Anthony, Mr. Sung Lee Ming Alfred, Ms. Jinchun Lai, Mr. Youming Zhang, Ms. Xin Zhang, Mr. Qi Feng and Mr. Jinfeng Liu (together the “**Guarantors**”), pursuant to which the Purchaser conditionally agreed to buy and the Vendors conditionally agreed to sell the entire issued share capital of Loozee Holdings Inc. at the aggregate consideration of HK\$800,500,000 which will be satisfied by (i) cash consideration of HK\$100 million less the HK\$20 million deposit already paid by the Company on 20 January 2017; and (ii) allotment and issue of consideration shares (the “**Consideration Shares**”) in an aggregate amount of HK\$700,500,000 by the Company to the Vendors, and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

## NOTICE OF THE SGM

- (b) the grant of specific mandate to the directors (the “**Directors**”) of the Company to allot and issue 150,000,000 ordinary shares with par value of US\$0.04 each in the share capital of the Company at an issue price of HK\$4.67 per Consideration Share to the Vendors in accordance with the Share Purchase Agreement be and is hereby approved, confirmed and ratified; and
  - (c) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which he/they consider(s) necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the terms of the Share Purchase Agreement and the transactions contemplated thereunder and all acts by the Director(s) as aforesaid be and is/are hereby approved, ratified and confirmed.”
2. each as a separate resolution, to re-elect the following retiring directors as directors of the Company:
- 2.1 Mr. ZHANG Jifeng
  - 2.2 Mr. LAU Shu Yan
  - 2.3 Mr. ZHANG Huijun

By Order of the Board  
**Daohe Global Group Limited**  
**ZHOU Xijian**  
*Chairman and Non-executive Director*

Hong Kong, 28 April 2017

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of business in Hong Kong:*  
1123, Kowloonbay International Trade & Exhibition Centre  
1 Trademart Drive, Kowloon Bay  
Kowloon, Hong Kong

*Notes:*

- (1) A shareholder of the Company entitled to attend and vote at the above meeting may appoint one or, if he/she is the holder of two or more shares, more than one proxy to attend and vote on his/her behalf and such proxy need not be a shareholder of the Company. A form of proxy for use at the meeting is enclosed with a circular of the Company dated 28 April 2017.

## NOTICE OF THE SGM

- (2) In order to be valid, the form of proxy, together with any power of attorney or authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Hong Kong branch share registrar of the Company, Tricor Standard Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).
- (3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof (as the case may be) and in such event, the instrument appointing the proxy shall be deemed to be revoked.
- (4) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto but if more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (5) For the purpose of ascertaining the rights of the shareholders of the Company attending and voting at the meeting, the register of members of the Company will be closed from Thursday, 18 May 2017 to Tuesday, 23 May 2017, both dates inclusive. In order to be entitled to attend the meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 17 May 2017.
- (6) Typhoon or black rainstorm warning arrangements
  - (i) If a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time after 12:00 noon on the date of the meeting, the meeting will be postponed and the shareholders will be informed of the date, time and venue of the postponed meeting by a supplementary notice posted on the respective websites of the Company ([www.daoheglobal.com.hk](http://www.daoheglobal.com.hk)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).
  - (ii) If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is lowered or cancelled at or before 12:00 noon a.m. on the date of the meeting and where conditions permit, the meeting will be held as scheduled.
  - (iii) The meeting will be held as scheduled when an amber or red rainstorm warning signal is in force. Having considered their own situations, shareholders should decide on their own whether they would attend the meeting under any bad weather condition and if they do so, they are advised to exercise care and caution.
- (7) As at the date of hereof, the Board comprises one non-executive Director, being Mr. ZHOU Xijian (Chairman); three executive Directors, being Mr. ZHANG Qi (Chief Executive Officer), Mr. WONG Hing Lin, Dennis (President) and Mr. ZHANG Jifeng; and three independent non-executive Directors, being Mr. WANG Arthur Minshiang, Mr. LAU Shu Yan and Mr. ZHANG Huijun.