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## RISK FACTORS

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*Investing in the Offer Shares involves risks. Before deciding to invest in Offer Shares, you should carefully consider all of the information in this prospectus, including the following risk factors, in light of the circumstances and your own investment objectives. The occurrence of any of the following events could materially and adversely affect our business, financial condition, results of operations and prospects, in which case the trading price of our Class B Shares could also decline, and you could lose part or all of your investment. In addition to the risks described below, there may be other risks and uncertainties not currently known to us or that we currently deem to be immaterial which may in the future become material risks. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that may differ significantly from that of other countries.*

### RISKS RELATED TO OUR BUSINESS

**If we fail to retain our existing users, keep them engaged or acquire new users in a cost-efficient manner, our business, financial condition, results of operations and prospects may be materially and adversely affected.**

The size of our user base and the level of our user engagement are critical to our success. Our current monetization methods — live streaming, online marketing services, e-commerce, online games and online knowledge-sharing — depend on our ability to increase the size of our user base and user engagement. If we fail to grow our user base, either due to our failure to retain existing users or attract new users, or our users become less active, our users may spend less on our virtual items and other products and services promoted on our platform and access our platform less frequently. This could drive content creators away from our platform, discourage advertisers from purchasing advertisements on our platform, dissuade merchants from promoting products on our platform and dissuade game developers and publishers from distributing their games through our platform. We may need to conduct more marketing and branding activities and incur additional selling and marketing expenses to retain existing users and attract new users, content creators, advertisers, merchants, game developers and publishers. We may suffer from a consequential decline in revenues, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

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The average DAUs on our Kuaishou App in the nine months ended September 30, 2020 was 262 million. Growing our large user base and maintaining a high level of user engagement require us to adequately and timely respond to changes in user preferences, attract and retain popular content creators and offer new features and content. A number of factors could negatively affect user retention, growth and engagement, including if:

- we fail to maintain our user base, the breadth and diversity of our content and innovate products that keep our users interested and engaged on our platform;
- technical or other problems prevent us from delivering our services in a timely and reliable manner or otherwise adversely affect user experience;
- we fail to develop new advertisement formats that appeal to users and advertisers;
- features and functions we design and develop to enhance our user experience and retention are not effective or long-lasting;
- we fail to develop and carry out new business initiatives;
- we fail to upgrade our existing products or develop new products to adapt to new technologies such as 5G;
- we suffer from negative publicity, fail to maintain our brand image or our reputation is damaged;
- we are unable to combat spam or inappropriate or abusive use of our platform, which may lead to negative publicity;
- we fail to address user concerns related to privacy, safety, security or other factors;
- we make adverse changes to our products and services or become no longer able to provide products and services in response to new legislation, regulations or government policies;
- the growth in the number of internet users in China, or the penetration of short video and live streaming stalls;
- we fail to expand to new geographic markets or sectors with high growth potential; and
- we fail to compete effectively.

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**If we fail to attract, cultivate and retain content creators, or if our content creators cease to contribute content or their contributions become less valuable to other users, we may experience declines in the number of users accessing our platform and in user engagement.**

The quality of the content offered on our platform and our users' level of engagement are critical to our success. In order to attract and retain users and compete effectively, we must continue to offer interesting, attractive and useful content and enhance our users' viewing experience. We largely rely on our content creators to create high-quality short video and live streaming content. We cannot guarantee that our content creators will continue to create popular content on our platform. If our content creators cease to contribute content, or their content fails to attract or retain our users, we may experience declines in user traffic and user engagement and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Although we have adopted various measures to further strengthen the relationships between us and our content creators, such content creators may still choose to leave our platform, and their departure may cause a corresponding decline in our user base. As we attract content creators from other platforms, we may be involved in legal disputes with competing platforms. Although we are not the primary target of these legal disputes, such content creators may be subject to fines or even injunctions which may render our investment in recruiting them ineffective. On the other hand, some of our content creators may leave us for competing platforms despite their extensive and in-depth cooperations with us, which may result in legal disputes and a negative impact on our user retention and reputation. In order to retain our content creators, we must continue to improve monetization opportunities for them, and assist them in reaching a wider audience. We cannot guarantee that our content creators will not leave us despite our best efforts.

**If we fail to maintain our unique community culture and our vibrant ecosystem or fail to retain our existing business partners or attract new business partners, our user interactions, engagement and experience will be materially and adversely affected, which would be detrimental to our business operations.**

We have cultivated an interactive and vibrant online social community characterized by our core values of being authentic, diverse, beautiful and beneficial. We also strive for a superior user experience by continuously improving our user interface and the features of our platform and encouraging active interactions among our users and business partners. As a result, our platform fosters a vibrant ecosystem for our users and business partners to interact on the basis of our deep and diverse content base, giving rise to myriad user needs which we could address by continuously developing Kuaishou App. We believe that maintaining and promoting a vibrant community culture and ecosystem is critical to retaining and expanding our user base. We have taken multiple initiatives to preserve our community culture, values and ecosystem. Despite our efforts, we may

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be unable to maintain our community culture and ecosystem and cease to be the preferred platform for our users and business partners. For example, conflicts among our users or business partners and inflammatory comments posted on our platform may damage our community culture and brand image, which would be detrimental to our business operations.

Our business partners include advertisers, merchants and others. We help our advertisers to reach and engage with their target customers through the services and solutions we offer. We provide our merchants with a marketplace to sell their products. Our ability to grow our revenues to a certain extent depends on our ability to retain and enhance our relationships with our existing business partners and attract new ones. Our success also depends on our ability to provide effective services and solutions that meet the expectations of our business partners. For instance, if we fail to develop new advertisement formats or effective marketing solutions that are appealing to our business partners, they may turn to our competitors for alternative services. Our business also relies on content, services and technologies provided by some business partners. If we fail to retain and enhance our business relationships with these business partners, or if these business partners choose to terminate or change the terms of our cooperation arrangements for strategic, financial or other reasons, we may suffer content loss, service interruptions, reduced revenues, which may have a material and adverse effect on our business, financial condition and results of operations.

**The industry in which we operate is characterized by constant change. If we fail to keep up with changes in user preferences or behaviors, or if we fail to continuously innovate our technologies or to design features that meet the expectations of our users, our platform may become less attractive or obsolete and our ability to retain existing users and attract new users may be adversely affected.**

The internet industry, in general, is evolving. Social platforms are also characterized by constant change, including rapid technological evolution, continual shifts in customer demands and preferences, frequent introductions of new products and services and the constant emergence of new industry standards and practices. In addition, short videos and live streaming, each as a content format, may be replaced by new content formats. Our success will depend, in part, on our ability to respond to these changes in a cost-effective and timely manner; failure to do so may cause our user base to shrink and user engagement to decline, thereby materially and adversely affecting our results of operations. Furthermore, as the mobile internet penetration rate in China increases, future growth potential of the mobile internet market may not be as significant as in the past, as the market becomes relatively saturated, which may in turn materially and adversely affect our results of operations.

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Our technological capabilities are critical to our success. We need to keep up with the emergence of new technologies and assess their market acceptance. We also need to invest significant resources, including financial resources, in research and development to keep pace with technological advances in order to make our platform competitive. However, prospects of research and development activities are inherently uncertain, and we might encounter practical difficulties in commercializing our research and development results. Our significant expenditures in research and development may not generate corresponding benefits as anticipated. Given the fast pace at which technology has been and will continue to be developed, we may not be able to timely upgrade our technologies in an efficient and cost-effective manner, if at all. New technologies in short video or live streaming could render our technologies, our platform or products or services that we are developing or expect to develop in the future obsolete or unattractive, thereby limiting our ability to recover related product development costs, outsourcing costs and licensing costs, which could result in a decline in our revenues and market share.

**Our historical growth rates may not be indicative of our future growth. We may not be able to effectively manage our growth as a result of the increased complexity of our business, which may adversely affect our business and operating results.**

Our business operations commenced in 2011, and we began monetization for our business in 2016. We experienced significant growth in DAUs and revenues during the Track Record Period. We generated revenues of RMB8.3 billion, RMB20.3 billion, RMB39.1 billion, RMB27.3 billion and RMB40.7 billion in 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, respectively. The average DAUs on Kuaishou App was 67 million, 117 million, 176 million, 165 million and 262 million in 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, respectively. Regardless of the various efforts we have made and will continue to make in the future, we cannot assure you that the user engagement on our platform will continue, or that our business will be able to maintain the growth rate as in the past. In addition, as market competition intensifies and our industry matures, the growth rate of our user base may decrease.

Managing our growth will require significant expenditures and allocation of resources. To manage our growth as well as achieve and maintain profitability, we expect our costs and expenses to continue to increase in the future. We will also need to expand, train, manage and motivate our workforce and manage our relationships with viewers and content creators, advertisers, merchants and other business partners. We also expect to continue to invest in our infrastructure in order to enable us to provide our services rapidly and reliably to viewers and content creators. All of these endeavors involve risks and will require substantial management efforts and skills and significant additional expenditures, which could end up straining our ability to maintain reliable service levels for our users, to research and develop products, to improve our operational, auditing, human

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resources, financial and management controls, and to enhance our internal data systems. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**We incurred net losses during the Track Record Period and may not be able to achieve or maintain profitability in the future.**

In 2017, 2018, 2019 and the nine months ended September 30, 2020, we incurred net losses of RMB20.0 billion, RMB12.4 billion, RMB19.7 billion and RMB97.4 billion, respectively. In 2017, 2018, 2019, by using the non-IFRS measure, our adjusted net profit was RMB774.0 million, RMB204.8 million and RMB1.0 billion, respectively, and in the nine months ended September 30, 2020, our adjusted net loss was RMB7.2 billion. The time it will take for us to achieve profitability hinges on our ability to effectively monetize our product and service offerings and continuously grow revenues in a cost-effective way, which we may not successfully achieve.

While our future revenue growth will depend on the realization of our monetization strategies, our ability to grow cost-effectively will primarily depend on improvements in our operational efficiency. We may not be able to continue to increase our operational efficiency, or our operational efficiency may not reach a sufficient level to achieve profitability. Our ability to continue to improve operational efficiency will depend on, among other things, our ability to attract and retain users, to enhance the interactions among our users, to optimize our operations, and to further achieve economies of scale. Our ability to achieve profitability will also depend on various external factors, many of which are beyond our control, such as the status of short video and live streaming as popular content formats in China and the development of other social platforms.

We may continue to incur losses in the future due to our continued investment in our sales and marketing initiatives, products and services, technologies as well as research and development. Changes in the macroeconomic and regulatory environment or competitive dynamics and our inability to respond to these changes in a timely and effective manner may also impact our profitability. Accordingly, we cannot assure you that we will turn profitable in the future, and our accumulated losses may adversely affect our overall ability to declare and pay dividends after the Listing.

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**Revenue generated from live streaming accounts for a majority of our revenues and such revenue is heavily dependent on the number of paying users and ARPPU for live streaming. If we fail to continue to grow or maintain our paying user base and fail to increase ARPPU for live streaming, our revenues may not grow as we anticipate, which may materially and adversely affect our business operation and financial results.**

In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, our revenue generated from live streaming was RMB7.9 billion, RMB18.6 billion, RMB31.4 billion, RMB22.9 billion and RMB25.3 billion, contributing 95.3%, 91.7%, 80.4%, 84.1% and 62.2% of our total revenues, respectively. In order to sustain our revenue growth from live streaming, we must continue to attract users onto our platform, ensure high level of user engagement and effectively monetize our live streaming content. To effectively monetize our user base, we need to continue to develop products and services that are desirable to our users, as well as set proper pricing strategies. Although our live streaming business has experienced significant growth in recent years, we may not achieve a similar growth rate in the future, as users' demand for this service may decline, or we may fail to anticipate and cater to users' demand effectively.

Our average MPUs for live streaming grew from 12.6 million in 2017 to 28.3 million in 2018, to 48.9 million in 2019 and further to 59.9 million in the nine months ended September 30, 2020. Our monthly ARPPU for live streaming changed from approximately RMB52.5 in 2017 to RMB54.9 in 2018 to RMB53.6 in 2019 and to RMB47.0 in the nine months ended September 30, 2020. Whether we can continue to grow our paying user base or our monthly ARPPU for live streaming depends on many factors, many of which are out of our control. Although we try to optimize the merchandizing of our virtual items, if we fail to maintain attractive pricing for our virtual items, our users may be less likely to purchase them. We cannot guarantee that our attempts to monetize our live streaming content will continue to be successful, and therefore the future revenues and income potential of our business are difficult to evaluate. For example, our streamers may be less willing to remain on our platform as the amount of virtual gifting from the audience goes down due to the deterioration of general economic conditions or the decrease in their disposable income. We expect that our business will continue to be heavily dependent on live streaming revenue in the near future. Any decline in the number of paying users or ARPPU for live streaming may materially and adversely affect our results of operations.

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**We generate an increasing portion of our revenues from online marketing services. The failure to attract new advertisers, the loss of existing advertisers, or a reduction in their demand for our services could materially harm our business.**

In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, our revenue generated from online marketing services was RMB390.6 million, RMB1.7 billion, RMB7.4 billion, RMB4.3 billion and RMB13.3 billion, respectively, contributing to 4.7%, 8.2%, 19.0%, 15.6% and 32.8% of our total revenues, respectively.

Our ability to generate and maintain our online marketing services revenue depends on a number of factors, including the effectiveness of our advertisements; our ability to target the right users; the scale, engagement and loyalty of our users; effectiveness of our products and services; and market competition on advertising prices. It is important for us to attract more advertisers to our platform with increased user traffic and engagement, or offer more variety in terms of advertisement products to encourage more spending from advertisers. We cannot assure you that we will be able to retain existing advertisers or attract new ones. If we fail to retain and enhance our relationships with advertisers or expand the base of our advertisers, the growth of our online marketing services may be slowed and our business, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, our online marketing services revenue is affected by changes in the online marketing services industry in China and in particular, the evolution of short video and live streaming social platforms, as well as advertisers' budget allocation to online marketing and promotion. If the size of the Chinese online advertising market does not increase, or if we are unable to capture and retain a sufficient share of that market, our ability to maintain or increase our online marketing services revenue and our profitability and prospects could be adversely affected.

**Our other monetization strategies, including e-commerce, may not remain effective or continue to grow and we cannot guarantee that we will be able to successfully develop new monetization channels and generate sustainable growth.**

Besides our live streaming business and online marketing services, we also generate revenue from e-commerce, online games and online knowledge-sharing. It is crucial to balance, on the one hand, creating sufficient monetization opportunities, which enhances the revenues of our platform, and, on the other hand, maintaining an enjoyable platform, which helps to maintain a sizable user base, high user engagement and associated network effects. However, implementation of these monetization strategies are often associated with risks that are beyond our control. For example, for our e-commerce operations, risks related to the reliability and integrity of the merchants and buyers on our platform and service quality of the logistics providers who partner with the



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merchants, are beyond our control and may adversely affect the reputation and brand value of our online marketplace. Constant changes in the overall online games industry and uncertainties in relevant government regulations are also beyond our control and may adversely affect our online games operations. As such, we cannot guarantee that all of our other monetization strategies will remain effective in the future, or that our future monetization strategies will be successfully implemented or generate sustainable revenues or profit.

We monitor market developments and may adjust our monetization strategies accordingly from time to time, which may result in changes in our revenue mix. In addition, we may in the future introduce new services to diversify our revenue streams, including services that we have little or no prior development or operating experience in. If these new products or services fail to engage customers or our business partners, we may fail to generate sufficient revenues to justify our investments, and our business and operating results may suffer as a result. There is no guarantee that the multiple monetization opportunities we pursue will materialize.

**User misconduct and inappropriate content may adversely impact our brand image, business and results of operations, and we may be held liable for information or content displayed on, retrieved from or linked to our platform or website or distributed to our users.**

Our short video and live streaming platform enables users to present and exchange information, interact with others and engage in various other online activities, many of which are conducted in real time. As it is difficult to control user behavior in real time, our platform may be misused by individuals or groups of individuals who engage in, among other things, immoral, inappropriate, disrespectful, fraudulent or illegal activities. While we have developed technologies and a series of measures to detect inappropriate content and activities, we cannot guarantee that we will be able to fully prevent inappropriate content from being posted on our platform or inappropriate activities from being carried out on our platform. Moreover, as we have limited control over the offline behavior of our users, to the extent that such behavior is associated with our platform, our ability to protect our brand image and reputation may be limited. Our business and the public perception of our brand may be materially and adversely affected by misconduct conducted on or linked to our platform. It is possible that our users may engage in conversations or activities on our platform that may be deemed illegal under PRC laws and regulations. For example, in November 2020, we discovered that several streamers on our platform had engaged in false or misleading promotions of certain goods sold on third-party e-commerce platforms. We may be subject to fines or other disciplinary actions, including suspension of certain services, if we are deemed to not have taken actions to stop user misconduct or the display of inappropriate or illegal content posted by third parties on our platform or distributed to our users. If any of our users suffers or alleges to have suffered physical, financial or emotional harm arising from any contact initiated on our platform, we may face civil lawsuits or other proceedings initiated by the affected user, or governmental or regulatory actions. Defending such actions could be costly and involve

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significant time and attention of our management and other resources, which could materially and adversely affect our business, financial condition, results of operations and prospects. There can be no assurance that we can detect all illegal or inappropriate content displayed on, retrieved from or linked to our platform or website. If we are held liable for any of the aforementioned incidents in the future, our business, financial condition and results of operations may be materially and adversely affected.

Moreover, the PRC government and regulatory authorities have adopted regulations governing content contained within videos, games and other information over the internet. Under these regulations, internet content providers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent, violent or defamatory. These laws and regulations are subject to interpretation by the relevant authorities, and it may not be possible to determine in all cases whether certain content is prohibited. Failure to identify and prevent illegal or inappropriate content from being uploaded or streamed on our platform may subject us to liability. In 2018, our platform, along with several other content platforms in China, was required to suspend certain functions of our platform for a short period under the direction of PRC regulatory authorities to remove inappropriate content which impaired the public interest. If we fail to comply with PRC laws and regulations, we may face fines or other penalties or may lose licenses we need to operate our business and suffer reputational harm, which may materially and adversely affect our business, financial condition, results of operations and prospects.

In addition to licensed content provided by copyright owners, we allow our users to upload and stream content on our platform, which may be particularly challenging to monitor for compliance with the relevant intellectual property laws. There can be no assurance that we can timely identify or remove all the content that may violate relevant laws and regulations or may otherwise harm our reputation or brand image, due to the large amount of content uploaded and streamed by our users every day. For example, during the Track Record Period, one of our international apps was temporarily removed from certain app stores as a result of allegations from third parties that certain users were alleged to have uploaded plagiarized content in violation of our terms of services.

While we have enforced and continue to enforce a copyright protection and takedown policy consistent with standard industry practice in each of the jurisdictions in which our apps are distributed, we cannot guarantee that we will be able to effectively prevent inappropriate or illegal content from being posted on our platform, and that any of our apps will not be removed from app stores in the future or be subject to other disciplinary actions as a result.

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**Given that the internet business is highly regulated in China, intensified government regulation of the short video, live streaming and e-commerce industries in China could also restrict our ability to maintain or increase our user base or the user traffic to our platform, which will materially and negatively impact our business operations and financial results. Our failure to obtain and maintain requisite approvals, licenses or permits applicable to our business or any changes in government policies or regulations, could harm our business.**

The PRC government has, in recent years, intensified its regulation of various aspects of the short video and live streaming industries in China. The State Council, the MIIT, the MCT, the CAC and NRTA, have the authority to issue and implement regulations governing various aspects of our business. Our PRC operating entities are required to obtain and maintain applicable licenses or approvals from relevant regulatory authorities in order to provide their current services. For example, we are required to obtain an Audio-Visual Permit issued by the NRTA or complete certain registration procedures with the SARFT for providing internet audio-visual program services, the ICP License for engaging in any commercial internet information services and the ICB License for conducting internet cultural businesses. In addition, governmental authorities are likely to continue to issue new laws, rules and regulations governing these industries, enhance enforcement of existing laws, rules and regulations, and require new and additional approvals, licenses and permits. For detailed discussion of certain licenses and permits relevant to our business, see “Business — Licenses and Regulatory Approvals — Licenses, Permits and Approvals” and the relevant discussion in “Regulatory Overview.” Failure to comply with these regulations may result in fines and other penalties for us, including without limitation, shutting down of our operations and revocation of licenses. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition, results of operations and prospects. As we further develop our capabilities and enhance our product functions, we may be required to obtain additional qualifications, permits, approvals or licenses. For specific services offered online, we and the content providers may also be subject to additional qualifications, permits, approvals or licenses requirements.

The e-commerce industry, and retail e-commerce in particular, are highly regulated by the PRC governmental authorities. We are required to obtain various licenses and permits from different regulatory authorities in order to distribute certain categories of products on our mobile apps. We strive to obtain all the applicable licenses and permits, but due to the large number of products sold on our mobile apps, we may not always be able to do so and we may be penalized by governmental authorities for selling products without proper licenses. As we increase our product and service offerings, we may also become subject to new or existing laws and regulations that did not apply to us before. In August 2018, the Standing Committee of the National People’s Congress (the “SCNPC”) promulgated the E-Commerce Law of the PRC (《中華人民共和國電子商務法》) (the “**E-Commerce Law**”), which imposes a number of new requirements and obligations on e-commerce platform operators. Pursuant to the relevant PRC laws and regulations, internet

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platforms including e-commerce platforms, content platforms and social platforms shall operate legally and fulfill relevant obligations in terms of protection of consumers' rights and interests, intellectual property rights as well as cybersecurity and personal information. We have adopted a series of measures to comply with the requirements under the E-Commerce Law. We cannot assure you, however, that our current business operations meet the requirements under the E-Commerce Law in all respects. If the PRC governmental authorities determine that we are not in compliance with all the requirements under the E-Commerce Law and other applicable laws and rules, we may be subject to fines and/or other sanctions. If we are unable to maintain and renew one or more of our licenses and certificates after their current term expires, or obtain such renewals on commercially reasonable terms, our operations could be disrupted. If the PRC government requires additional licenses or permits or provides further enhanced supervision requirements in the future in order for us to conduct our businesses, there is no guarantee that we would be able to obtain such licenses or permits or meet all the supervision requirements in a timely manner, or at all.

In November 2020, the SAMR issued its “Guidelines for Antitrust in the Field of Platform Economy (Draft for Comment)” (關於平台經濟領域的反壟斷指南(徵求意見稿)), which provide guidance on competition and compliance for companies operating in the Internet-related economy. The SAMR is currently soliciting comments for the proposed guidelines, and the relevant regulatory rules are in the process of being formulated. While we do not expect that the guidelines will have a material impact on our business, any final regulations promulgated by the SAMR may increase our compliance burden in our already highly-regulated industry, and it is currently uncertain whether any final regulations promulgated by the SAMR will have an adverse impact on our business and results of operations.

On November 12, 2020, the NRTA issued its Circular on Strengthening the Administration of Online Show Live Streaming and E-commerce Live Streaming (關於加強網絡秀場直播和電商直播管理的通知) (“**Notice 78**”), which sets forth registration requirements for platforms providing online show live streaming or e-commerce live streaming to have their information and business operations registered by November 30, 2020. Notice 78 also set forth requirements for certain live streaming businesses with respect to real-name registration, limits on user spending on virtual gifting, restrictions on minors on virtual gifting, live stream review personnel requirements, content tagging requirements, and other requirements. For example, Notice 78 requires live streaming platforms to set a limit to the amount of virtual gifts a user can send per day and per month, as well as the amount that can be gifted at any one time. As advised by our PRC Legal Advisor, there is currently no clear guidance as to what limits on virtual gifting spending will be imposed by the NRTA pursuant to Notice 78 and it is unclear how and to what degree any such limits would be imposed on different platforms. Given there is no clear guidance from the regulatory authorities on how to set the cap on virtual gifting spending, we have not set such cap on our platform and we are currently not able to assess the impact this requirement under Notice 78 will have on the virtual gifting activity on our platform. During the Track Record Period, we

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generated a majority of our revenues from our live streaming business. Any such limits ultimately imposed may negatively impact our revenues derived from virtual gifting and our results of operations. During the Track Record Period, our top 50 users in terms of virtual gifting contributed less than 5% of our total gross billings from virtual gifting. For more information on Notice 78, see “Regulatory Overview — Regulations Relating to Online Live Streaming Services.” Since Notice 78 was only issued in November 2020 and some of the requirements in Notice 78 contain ambiguities, we are still in the process of getting further guidance from regulatory authorities and evaluating the applicability and effect of the various requirements under Notice 78 on our business. Any further rulemaking under Notice 78 or other intensified regulation with respect to live streaming may increase our compliance burden in the live streaming business, and may have an adverse impact on our business and results of operations.

As the short video, live streaming and e-commerce sectors in China are still evolving rapidly, new laws and regulations may be adopted from time to time to address new issues that come to the regulatory authorities’ attention and additional licenses and permits other than those we currently have may be required. In the interpretation and implementation of existing and future laws and regulations governing our business activities, considerable uncertainties still exist. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities’ interpretation of these laws and regulations. As there remains uncertainty in the interpretation and implementation of the relevant laws and regulations such as the ones outlined above, our users may be discouraged from using our platform, and our business operations may be materially and adversely affected.

**We may be subject to intellectual property infringement claims or other allegations by third parties for information or content displayed on, retrieved from or linked to, our platform, or distributed to our users, or for proprietary information appropriated by former employees, which could be time-consuming and costly and may result in the removal of relevant content from our platform.**

We have been and may in the future be subject to intellectual property infringement claims or other allegations by third parties for services we provide or for information or content displayed on, retrieved from or linked to, recorded, stored or made accessible on, our platform, or otherwise distributed to our users, including in connection with the music, images, videos and games played, recorded, stored or made accessible on our platform, which may materially and adversely affect our business, financial condition, results of operations, prospects and reputation. We have entered into agreements with multiple music copyright owners and operators in China, which allow us to legally use their music content on our platform. There is no guarantee that we will enter into license agreements on terms that are satisfactory to us. Even when we are able to enter into license agreements, we cannot guarantee that such agreements will continue to be renewed timely or indefinitely. Additionally, under our agreements with content creators, we have the rights to use the intellectual properties produced by them during their live streams and in their short videos on

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our platform. We allow users to upload text, graphics, audio, videos and other content to our platform and users to access, download and share content on our platform. Despite our standard procedures, including licensing, monitoring and uploading procedures, from time to time, we may still be involved in infringement disputes with third parties. We have also implemented technological measures to respond to incidents or users' complaints regarding intellectual property infringements on our platform, such as infringements on patents and copyrights, held by third parties. However, we cannot fully eliminate the risk that unauthorized content remains on our platform for a period of time.

Companies in the internet, technology and media industries are, from time to time, involved in disputes or litigations based on allegations of infringement of intellectual property rights and invasion of privacy. In China, the laws and regulations in relation to the validity, enforceability and scope of protection of intellectual property rights in internet-related industries, especially for short video and live streaming-based social platforms, are evolving and involve uncertainties. We face, from time to time, and expect to face in the future, allegations that we have featured pirated or illegally downloaded music, images, and videos on our platform, and that we have infringed upon, or our users have infringed upon, the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors, or allegations that we are involved in unfair trade practices. Some of the games content, whether in the form of short videos or live streaming, on our platform may be alleged to infringe on copyrights of game producers, which may also constitute the basis of an unfair competition claim. As we face increasing competition from other internet companies in China, there may be a higher risk for us to be subject to intellectual property infringement claims or other legal proceedings. For example, during the Track Record Period, certain third parties have initiated or threatened us with lawsuits alleging copyright infringement claims. While we intend to defend these lawsuits vigorously and believe that we have valid defenses to these claims, there can be no assurance that a favorable outcome will be obtained. During the Track Record Period, the total liability we have incurred as a result of these lawsuits was immaterial.

If our content creators play music using their own devices in their short videos or during live streams, such use of music would not be covered under the agreements we have entered into with these music platforms. Under relevant PRC laws and regulations, internet information online service providers which provide storage space for users to upload works or links to content provided by third parties, could be held liable for copyright infringement under various circumstances, including situations where such service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes upon the copyright of others and such service provider fails to take necessary actions to prevent such infringement. We have implemented procedures to reduce the likelihood that content might be used without proper licenses or third-party consents and to ensure prompt responses and actions to notices from copyright holders requesting removal of infringing content. However, these procedures may not be effective in preventing the unauthorized posting or distribution of copyrighted content and we may be deemed to have failed to take necessary actions against such infringement. Therefore, we may face liability for copyright or trademark infringement, defamation, unfair competition, libel, negligence, and other claims based on the nature and content of the materials that are delivered,



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shared or otherwise accessed through our platform. In particular, from time to time we may face allegations of unauthorized use of music on our platform due to the large amount of videos that are uploaded to our platform, many of which include music. While we have internal control procedures to ensure compliance with the relevant copyright laws and to enforce a copyright protection and takedown policy that complies with applicable laws, we may still be subject to allegations of copyright violations, whether or not such allegations are legitimate.

Additionally, some of our employees were previously employed at other companies, including our current and potential competitors. To the extent that these employees were involved in the development of content or technology similar to ours at their former employers, we may become subject to claims that we or such employees have appropriated proprietary information or intellectual property of the former employers of our employees. If we fail to successfully defend such claims, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may incur additional costs in monitoring and detecting content infringement. Further, defending claims is costly and can impose a significant burden on us, and there can be no assurance that favorable final outcomes will be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation and force us to remove relevant content from our platform and enter into licensing agreements, which may not be available on commercially reasonable terms or at all. Any resulting liability or expenses, or changes to our platform required to reduce the risk of future liability, may have a material and adverse effect on our business, financial condition, results of operations and prospects.

**Concerns about collection and use of users' personal data and other privacy-related and data security matters could damage our reputation and deter current and potential users from using our products and services.**

Concerns about collection, use or disclosure of personal information or other privacy-related and data security matters, even if unfounded, could damage our reputation and business operations. The PRC Constitution, the PRC Criminal Law, the General Principles of the PRC Civil Law and the PRC Cyber Security Law protect individual privacy and personal data security in general by requiring the consent of internet users prior to the collection, use or disclosure of their personal data. In particular, the Ninth Amendment to the Criminal Law of the PRC prohibits the selling or otherwise illegally disclosing a citizen's personal information, and if such information is obtained during the course of performing duties or providing services, additional penalties could be imposed. We strictly protect information provided by users and, under our privacy policy, we will not provide any of our users' personal information to any unrelated third party without our users' prior consent. While we strive to comply with our data and privacy policies as well as all applicable data protection laws and regulations in the PRC and overseas, we may not be able to successfully protect our users' privacy and data for reasons beyond our control. Any failure or perceived failure to do so may result in proceedings or actions against us by government entities, users or others, which could damage our reputation. A loss of confidence in us by our users and business partners could adversely affect our business, financial condition, results of operations and

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prospects. In addition, user and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is used or shared with advertisers or others may adversely affect our ability to use data to accurately direct advertisements to target audience, as we presently do with our users' consent, which may limit certain methods of targeted advertising. Concerns about the security of personal data could also lead to a decline in general internet usage, which could lead to a lower number of registered, active or paying users on our platform.

We have operations in China and certain overseas regions and are subject to the laws and regulations in China and such overseas regions. Our business may also be adversely impacted by actions taken by governments in China and overseas in response to alleged data privacy and data security threats. Such government actions and future unfavorable restrictions on the operations of Chinese video content, social media or technology companies may limit our opportunities to expand into overseas markets and materially and adversely affect our business.

**The markets in which we operate are highly competitive, and we face significant competition from internet companies that operate content-based social platforms, online marketing businesses and e-commerce platforms in China. If we fail to compete effectively, our business, financial condition, results of operations and prospects may be materially and adversely affected.**

We face intense competition from other internet companies in China in several major aspects of our business, particularly in live streaming, online marketing services, e-commerce and other sectors. Some of our competitors may have longer operating histories and greater financial, technical and marketing resources than we do or have an advantage in attracting and retaining users and business partners. In addition, our competitors may have larger user bases or more established brand names than we do and therefore would be able to more effectively leverage their user bases and brand names to provide live streaming, online marketing services, e-commerce and other products and services. Furthermore, industry consolidation through mergers and acquisitions may arise from time to time as platforms seek to grow their users, business scale and capabilities in different content formats, which may give rise to greater competition.

In connection with our live streaming business, we compete for user time spent as well as for quality content. As viewers are unlikely to view live streams on two different platforms simultaneously, and given that many streamers may enter into exclusive contracts with certain platforms, competition for user traffic and streamers is intense and our competitors may poach successful streamers from our platform. We believe diversity and quality of content play a key role in capturing user attention and time spent, which indirectly affects the revenue generated from virtual gifting during live streams.

In connection with online marketing services, our ability to effectively compete for advertising customers depends on the size of our user base and user engagement, diversity of content, effectiveness of ad targeting, as well as quality and innovation in marketing solutions offered. We compete with various types of internet companies that provide online marketing



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services, including traditional social media companies, short video or live streaming platforms, and other content-based platforms. If we are unable to offer effective online marketing solutions, we may lose key advertising customers to other internet companies and revenue from our online marketing services may be negatively impacted.

We also compete in the highly-competitive e-commerce industry primarily for customers, orders, products and third-party merchants. Some of our current or future competitors in the e-commerce industry may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases, higher penetration in certain regions or greater financial, technical or marketing resources than we do. Some of our e-commerce competitors may also be able to secure more favorable terms from suppliers, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing and devote more resources to their websites, mobile apps and systems development than we do. Increased competition in the e-commerce industry may negatively impact our e-commerce monetization strategy and financial results.

Finally, we compete in connection with various other monetization opportunities that we currently pursue or may pursue in the future, which generally depend on our ability to attract and retain users and business partners onto our ecosystem. If we are unable to compete effectively, our ability to successfully monetize our platform may be materially affected. We may have to spend additional resources in order to compete effectively, which may adversely affect our profitability. Furthermore, if we are involved in disputes with any of our competitors that result in negative publicity, such disputes, regardless of their veracity or outcome, may harm our reputation or brand image and in turn may lead to loss of users and business partners. Any legal proceedings or measures we take in response to competition and disputes with our competitors may be expensive, time-consuming and disruptive to our operations and may divert our management's attention from our business operations.

**We may experience negative publicity involving us, our users, our content, our platform, our management, our business model or our industry in general.**

Negative publicity involving us, our users, our content, our platform, our management, our business model or our industry in general may materially and adversely harm our brand and our business. We cannot assure you that we will be able to effectively manage negative publicity about us, our management and/or our services to the satisfaction of our investors, users, customers and business partners. During the Track Record Period, there have been negative news in relation to us as well as our users and content on our platform. The dissemination of these news to the public has had an adverse effect on and may continue to adversely affect our reputation or brand image, which could negatively impact our business, results of operations and growth prospects. We may have to incur significant expenses in order to remedy the effects of these negative reports, which may materially and adversely affect our results of operations.

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**We may be subject to allegations, harassment or other detrimental conduct by third parties, which could harm our reputation and cause us to lose market share, users and customers.**

We may be subject to allegations by third parties or purported former employees, negative internet postings and other adverse public exposure relating to our business, operations and staff compensation. We may also become the target of harassment or other detrimental conduct by third parties or disgruntled former or current employees. Such conduct may include complaints, anonymous or otherwise, to regulatory agencies, media or other organizations. We may be subject to government or regulatory investigations or other proceedings as a result of such third-party conduct and may be required to spend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, if at all. Additionally, direct or indirect allegations against us may be posted on the internet, including social media platforms, by anyone on an anonymous basis, regardless of whether they are related to us. Any negative publicity relating to us or our management can be quickly and widely disseminated. Social media platforms immediately publish the content to their users, often without filters or checks on the accuracy of the content. Information posted may be inaccurate and adverse to us, and it may harm our reputation, business operations and/or prospects. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of negative and potentially false information about our business, operations and management, which in turn may cause us to lose market share, users or customers.

**Our business depends substantially on our ability to attract, train and retain qualified personnel, as well as the continuing efforts of our management and other key personnel that support our existing operations and future growth. If we lose their services, our operations and growth prospects may be materially and adversely affected.**

Our future success heavily depends upon the continuing services of our management and other key personnel. In particular, we rely on the expertise, experience and vision of our co-founders, Mr. Su Hua and Mr. Cheng Yixiao, who have served as our executive Directors since the Company's inception, as well as other members of our senior management team. We also rely on the technical know-how and skills of other key personnel. If any of our senior management or key personnel becomes unavailable to continue to contribute their services to us, we may not be able to replace them easily or at all. As a result, our business may be severely disrupted, our business, financial condition, results of operations and prospects may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain key personnel.

Our existing operations and future growth require a sizeable and competent workforce. Our future success depends, to a significant extent, on our ability to attract, train and retain qualified personnel, particularly management, technical and marketing personnel with expertise in the internet industry. However, our industry is characterized by high demand and intense competition for talent. In order to attract and retain talent, we may need to offer higher compensation, better training and more attractive career opportunities and other benefits to our employees, which may be costly. We cannot assure you that we will be able to attract or retain a qualified workforce

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necessary to support our future growth. We may also fail to manage our relationship with our employees, and any disputes between us and our employees, or any labor-related regulatory or legal proceedings may divert management attention and financial resources, negatively impact staff morale, reduce our productivity, or harm our reputation and future recruiting efforts. In addition, as our business has grown rapidly, our ability to train and integrate new employees into our operations may not meet the increasing demands of our business. Any of the above issues related to our workforce may materially and adversely affect our operations and future growth.

Moreover, if any of our management or key personnel joins a competitor or forms a competing company that compete against ours, we may lose know-how, trade secrets, key employees and business partners, user base and market share. While each of our executive officers and key employees has entered into an employment agreement with confidentiality, intellectual property and non-competition provisions with us, such non-competition provisions may not be enforceable under certain circumstances.

**We cooperate with various MCNs to manage our content creators. If we are not able to maintain our relationship with MCNs, our operations may be materially and adversely affected.**

We cooperate with MCNs to manage and organize certain content creators on our platform. As we are an open platform that welcomes all content creators to our platform, cooperation with MCNs increases our operational efficiency by discovering, supporting, managing and developing content creators in a more organized and structured manner. We pay some of our content creators or their MCNs fees based on a percentage of the total value of virtual items gifted to the content creators during their live streams. If we cannot balance the interests among us, the content creators and their MCNs and maintain a holistic system that is satisfactory to us and the content creators, we may not be able to retain or attract content creators or MCNs, or both.

In addition, certain MCNs do not have exclusive cooperation relationships with us. If other platforms offer better incentives to such MCNs, the MCNs may choose to devote more of their resources to streamers who stream on those other platforms, or they may encourage their content creators to use or even enter into an exclusive agreement with those other platforms, any of which could materially and adversely affect our business, financial condition, results of operations and prospects.

**Contractual disputes with our business partners and content creators may harm our reputation and subject us to contractual liabilities, and may be costly or time-consuming to resolve.**

We enter into contracts with certain content creators and business partners including advertisers, merchants and game developers. Although during the Track Record Period we have not had any material contractual disputes with our business partners or content creators, we cannot guarantee that there will not be any such disputes in the future. Any such disputes may not only be costly and time-consuming to resolve, but may also be detrimental to the quality of the content

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produced by our content creators or products and services provided by us or our business partners, cause our business partners or content creators to leave our platform, decrease user engagement on our platform or otherwise adversely affect our business, financial condition, results of operations and prospects.

**We partially rely on a third party to conduct real name certification for our users, in particular, to protect users who are minors. However, we cannot guarantee the effectiveness of such process.**

To use our products, a user must complete real name certification processes, which may involve certifications conducted by a third party that we work with. We rely on the real name certification results to identify users on our platform that are minors and to protect their rights and interests. However, regardless of the relevant efforts we have made, as we have limited access to the user's information if he or she completes the real name certification through the third party, we cannot guarantee the effectiveness of such real name certification. If there are incidents of ineffective real name certification that result in our failures to identify and properly protect minors, we may be ordered to rectify such incidents, and if we fail to make such rectifications, we may be subject to penalties imposed by competent regulatory authorities. We also rely on real name certification results to pay revenue sharing to certain streamers on our platform and to withhold and remit related taxes for them. Ineffective real name certification incidents may cause us to make payments or withhold taxes by mistake, which may adversely affect our relationships with streamers and our compliance with the relevant PRC laws and regulations. We may also incur additional costs in order to remediate such mistakes, which may adversely affect our financial condition. Therefore, any ineffectiveness in the real name certification processes for our users may have an adverse effect on our business, financial condition and results of operations.

**We rely on certain key operating metrics to evaluate the performance of our business, and perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.**

We rely on certain key operating metrics, such as DAUs, MAUs and other user engagement metrics, to evaluate the performance of our business. We calculate these operating metrics using our internal data that have not been independently verified by third parties. Our operating metrics may differ from estimates published by third parties or from similarly titled metrics used by other companies due to differences in calculation methodology and assumptions. If the operating metrics we use are perceived to be inaccurate by others, our reputation may be harmed and our evaluation methods and results may be impaired, which could negatively affect our business.

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**We use third-party online payment platforms to process user payments on our platform. Any failures by these platforms to process payments effectively and securely may have material and adverse effects on our business.**

We depend on the billing and payment systems of third-party online payment platforms such as Weixin Pay, Alipay and Apple Pay to maintain accurate records of payments of sales proceeds by paying users and collect such payments. We receive periodic statements from these payment platforms which indicate the aggregate amount of fees that were charged to our users. Our business and results of operations could be adversely affected if these payment platforms fail to accurately account for or calculate the revenues generated from the payments made to us by our users. If there are security breaches or failure or errors in the payment process of these platforms, user experience may be adversely affected and our results of operations may be negatively impacted. We do not have control over the security measures of our third-party online payment vendors, and security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential customer information, which could, among other things, damage our reputation and the perceived security of all the online payment systems we use. If a well-publicized internet or mobile network security breach were to occur, users concerned about the security of their online financial transactions may become reluctant to virtually gift and purchase on our platform even if the publicized breach did not involve payment systems or methods used by us. In addition, billing software errors could damage customer confidence in these online payment systems. If any of the above were to occur and damage our reputation or the perceived security of the online payment systems we use, we may lose paying users and users may be discouraged from virtually gifting or purchasing on our platform which may have an adverse effect on our business.

Further, our third-party online payment vendors may from time to time experience cash flow difficulties. Consequently, they may delay their payments to us or fail to pay us at all. Failure to timely collect our receivables from these payment platforms may adversely affect our cash flows.

Moreover, if any of the payment platforms we use decides to significantly increase the percentage they charge us for using their systems for processing the payments made on our platform, our results of operations may be materially and adversely affected. Disputes with third-party online payment platforms, such as disputes relating to intellectual property rights, distribution fee arrangements and billing issues, may also arise from time to time and we cannot assure you that we will be able to resolve such disputes in a timely manner or at all.

**Non-compliance on the part of our employees, business partners or other third parties involved in our business could adversely affect our business.**

Our compliance controls, policies and procedures may not protect us from acts committed by our employees, agents, contractors, or business partners who violate the laws or regulations of the jurisdictions in which we operate, and this may adversely affect our business. In addition, our business partners or other third parties involved in our business through our business partners may be subject to regulatory penalties as a result of their regulatory compliance failures, which may,

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directly or indirectly, disrupt our business. Although we conduct reviews of legal formalities and certifications before entering into contractual relationship with third party businesses, and take measures to mitigate risks that we may be exposed to in case of any regulatory non-compliance by third parties, we cannot be certain whether such third parties have infringed or will infringe upon any other third parties' legal rights or have violated or will violate any regulatory requirements or rule out the likelihood of our incurring any liabilities due to any regulatory compliance failures by such third parties. We may not identify irregularities or instances of non-compliance in the business practices of third parties with whom we pursue existing or future cooperation and we cannot assure you that any such irregularities will be corrected in a prompt and proper manner. The legal liabilities and regulatory actions that may be imposed as a result of the actions of our business partners or other third parties involved in our business may adversely affect our business activities and reputation and in turn, our results of operations.

**Major mobile application distribution channels may interpret or change their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us.**

We rely on third-party mobile application distribution channels to distribute our mobile applications to users. We expect a substantial number of downloads of our mobile applications will continue to be derived from these distribution channels. As a result, the promotion, distribution and operation of our applications are subject to such distribution platforms' standard terms and policies for application developers, which are subject to the interpretation of, and frequent changes made by, these distribution channels.

Mobile application distribution channels typically have strong bargaining power. Their terms and policies for application developers, which may be impacted by potential geopolitics, favor themselves in general, and they have broad discretion in interpreting their terms and policies, and in dealing with deemed instances of non-compliance or violations by application developers. If any major distribution channel interprets or changes its standard terms and conditions in a manner that is detrimental to us, or terminates its relationship with us, we may not be able to find a replacement in a timely manner or at all and the distribution of our platform may be adversely affected. In addition, changes to the credit period or the settlement cycle of these distribution channels may materially and adversely affect our cash flow. Disputes with distribution channels, such as disputes relating to intellectual property rights, distribution fee arrangements and billing issues, may also arise from time to time and we cannot assure you that we will be able to resolve such disputes in a timely manner or at all. Any failure on our part to maintain good relationships with a sufficient number of popular platforms for the distribution of our platform could cause the number of our platform downloads and activations to decrease, which will have a material and adverse effect on our business, financial condition, results of operations and prospects.

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**Our patents may expire and may not be extended, our patent applications may not be granted and our patent rights may be contested, circumvented, invalidated or limited in scope. As a result, our patent rights may not protect us effectively. In particular, we may not be able to prevent others from developing and deploying competing technologies, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.**

In China, invention patent rights are valid for twenty years, and utility model patent rights and design patent rights are valid for ten years, all of which cannot be extended. However, although design patent rights are currently valid for ten years, according to amendments to the PRC Patent Law which were published on October 17, 2020, design patent rights will be valid for 15 years, effective from June 1, 2021. As of the Latest Practicable Date, we have registered 1,178 patents and had 3,162 pending patent applications in China. We cannot assure you pending applications will be granted patents. Even if our patent applications succeed, it remains uncertain whether such patents will be contested, circumvented or invalidated in the future. In addition, the rights granted under any issued patents may not provide us with sufficient protection or competitive advantages. The claims under any patents that are issued may not be broad enough to prevent others from developing technologies that are similar to, or achieve results similar to, ours. It is also possible that the intellectual property rights of others will bar us from licensing and exploiting any patents that would have been issued from our pending applications. Numerous foreign-issued patents and pending patent applications owned by others exist in the fields in which we have developed and are developing our technology. These patents and patent applications may have priority over our patent applications and could subject our patent applications to invalidation. Finally, third parties may challenge the validity or enforceability of our existing or pending patents.

**Unauthorized use of our intellectual property, unfair competition, defamation or other violations of our rights by our users, employees and/or third parties may harm our brand and reputation, and the expenses incurred in protecting our intellectual property rights may materially and adversely affect our business.**

We regard our patents, copyrights, trademarks and other intellectual property as critical to our success, and rely on a combination of patent, trademark and copyright laws, trade secrets protection, restrictions on disclosure and other agreements that restrict the use of our intellectual property to protect these rights. Although our contracts with users typically prohibit the unauthorized use of our brands, images, characters and other intellectual property rights, we cannot assure you that users will always comply with these terms. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Although we enter into confidentiality agreements and intellectual property ownership agreements with our employees, these confidentiality agreements could be breached, and our proprietary technology, know-how or other intellectual property could otherwise become known to third parties. In addition, third parties may independently discover trade secrets and proprietary information, limiting our ability to assert



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any trade secret rights against such parties. Further, others may engage in conduct that constitutes unfair competition, defamation or other violations of our rights, which could harm our business, reputation and competitive position.

While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. In addition, we cannot assure you that any of our trademark applications will ultimately proceed to registration or will result in registration with adequate scope for our business. Some of our pending applications or registrations may be successfully challenged or invalidated by others. If our trademark applications are not successful, we may have to use different marks for affected products or services, or seek to enter into arrangements with any third parties who may have prior registrations, applications or rights, which might not be available on commercially reasonable terms, if at all.

We face regulatory uncertainties and practical difficulties in enforcing our intellectual property rights. Policing unauthorized use of all of our proprietary technology, trademarks and other intellectual properties in real time is difficult and expensive, and litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs, diversion of our resources and could disrupt our business, as well as materially and adversely affect our business, financial condition, results of operations and prospects.

**Trademarks registered, internet search engine keywords purchased and domain names registered by third parties that are similar to our trademarks, brands or websites and third-party misappropriation of our data and copying of our platform could cause confusion for our users, divert users from our products and services, and/or harm our reputation and brand image.**

Competitors and other third parties may register trademarks or purchase internet search engine keywords or domain names that are similar to ours in order to divert potential users from our platform to theirs. Preventing such unauthorized use is inherently difficult. If we are unable to prevent such unauthorized use, competitors and other third parties may continue to drive potential online customers away from our platform to competing, irrelevant or potentially offensive platforms, which could harm our reputation and cause us to lose revenues.

From time to time, third parties have misappropriated our data through scraping our platform, or other means and aggregated this data on their platforms with data from other companies. In addition, “copycat” platforms or apps may misappropriate data on our platform and attempt to imitate our brand or the functionality of our platform. Whenever we become aware of such platforms, we employed technological and legal measures in an attempt to halt their operations. However, we may not be able to detect all such actions in a timely manner and, even if we could, technological and legal measures may be insufficient to stop their operations. In those cases, our available remedies may not be adequate to protect us against such platforms. Regardless of whether we can successfully enforce our rights against these platforms, any measures that we may



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take could require significant financial or other resources from us. Those platforms may also lure away some of our users or advertisers or reduce our market share, causing material and adverse effects to our business, financial condition, results of operations and prospects.

**Advertisements shown on our platform may subject us to penalties and other administrative actions. Our certain other online marketing services may be deemed as online advertising services as well and may subject us to online advertisement laws and regulations.**

We derive an increasing portion of our revenues from online marketing services we provide on our platform. PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they prepare or distribute is fair and accurate and is in full compliance with the relevant laws and regulations. In addition, for advertising content related to specific types of products and services such as pharmaceuticals and medical instruments, advertisers, advertising operators and advertising distributors must confirm that the advertisers have obtained the requisite government approvals, including the advertiser's operating qualifications, proof of quality inspection of the advertised products and services, and, with respect to certain industries, government approvals of the content of the advertisement and filings with the local authorities. Pursuant to the relevant PRC advertising laws and regulations, we are required to take steps to monitor the content of advertisements displayed on our platform. Complying with the relevant laws and regulations requires considerable resources and time, and could significantly affect our business operations. While we have made significant efforts to ensure that the advertisements shown on our platform are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements or offers therein are true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the interpretation of such laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish corrective information. In circumstances involving serious violations, the PRC governmental authorities may force us to terminate our online marketing services operations or revoke our licenses. If we become subject to any of the above penalties, our reputation may be harmed and our business, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, pursuant to the Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) (the “**Internet Advertisement Measures**”), certain of our other online marketing services may be deemed to constitute internet advertisement. See “Regulatory Overview — Regulations on Internet Advertisement.” Any further change in the classification of advertising-related services by the relevant regulatory authorities may also significantly disrupt our operations and materially and adversely affect our business and prospects.

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**The determination of the fair value changes, such as fair value change of our convertible redeemable preferred shares, among other things, and impairment of certain of our assets requires the use of estimates that are based on unobservable inputs, and therefore inherently involves a certain degree of uncertainty.**

We use significant unobservable inputs, such as expected volatility, discount for lack of marketability, risk-free interest rate, expected rate of return and discount rate, in valuing certain of our assets and liabilities, including convertible redeemable preferred shares, financial assets at fair value through profit or loss and short-term investments. The fair value change of convertible redeemable preferred shares, financial assets at fair value through profit or loss and short-term investments may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. For instance, we had fair value changes on convertible redeemable preferred shares of RMB20.5 billion, RMB11.9 billion, RMB19.9 billion and RMB89.2 billion in 2017, 2018 and 2019 and nine months ended September 30, 2020, respectively. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such assets and liabilities. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operation and financial condition. In addition, the process for determining whether an impairment of financial asset is other-than-temporary usually requires complex and subjective judgments, which could subsequently prove to have been wrong.

### **We face risks associated with our investments.**

We currently invest a portion of our capital in investments. As of September 30, 2020, our investments mainly consisted of financial assets at fair value through profit or loss including listed equity securities, unlisted equity securities and wealth management products. These investments may earn yields substantially lower than anticipated, and the fair values of our investments may fluctuate significantly, which contribute to the uncertainties in valuation. Any failure to realize the benefits we expected from these investments may materially and adversely affect our business and financial results.

We had aggregated net fair value gains on financial assets at fair value through profit or loss, including wealth management products and investments in listed and unlisted entities, of RMB49.7 million, RMB133.5 million and RMB465.7 million for the years ended December 31, 2017 and 2018 and for the nine months ended September 30, 2020, respectively. We had net fair value losses on financial assets at fair value through profit or loss of RMB14.0 million for the year ended December 31, 2019. Any change in securities prices and market conditions could lead to volatility in the fair values of our financial assets at fair value through profit or loss, which could further impact our financial condition and results of operations and may also impact our ability to dispose of these financial instruments at favorable prices.

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## RISK FACTORS

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**Acquisitions, investments or strategic alliances may fail and have a material and adverse effect on our business, reputation and results of operations.**

From time to time, we may acquire or invest in businesses, assets or technologies that are complementary to our existing business. Future acquisitions and investments and the subsequent integration of new businesses and assets into our own would require significant attention from our management and could divert resources from our existing business, which in turn could have an adverse effect on business operations. Acquired businesses or assets may not generate the financial or operating results we expect. In addition, acquisitions and investments could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the incurrence of debt, the incurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired businesses and investments. Moreover, the costs of identifying and consummating acquisitions or investments may be significant. In addition to potential Shareholder approval, we may also have to obtain approvals and licenses from governmental authorities in China and comply with applicable PRC laws and regulations, which could result in increased costs and delays.

The process of integrating with another company or integrating an acquired company, business, asset or technology may create unforeseen operating difficulties and expenditures. The areas where we face risks include:

- significant costs of identifying and consummating acquisitions;
- difficulties in integrating the management, technologies and employees of the acquired businesses;
- implementation or remediation of controls, procedures and policies at the acquired company;
- coordination of products and services, engineering and sales and marketing functions;
- retention of employees from the businesses we acquire;
- liability for activities of the acquired company before the acquisition;
- litigation or other claims in connection with the acquired company;
- in the case of overseas acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries; and
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities.

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## RISK FACTORS

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Our failure to address these risks or other problems encountered in connection with our future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and expenses and harm our business generally. If we use our equity securities to pay for acquisitions or investments, we may dilute the value of our Shares. If we borrow funds to finance acquisitions or investments, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Such acquisitions and investments may also lead to significant amortization expenses related to intangible assets, impairment charges or write-offs.

We may also enter into strategic alliances with various third parties. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counter-party and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor such third parties' actions and to the extent that they suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

**We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all. Furthermore, our future capital needs may require us to sell additional equity or debt securities that may dilute our Shareholders or introduce covenants that may restrict our operations or our ability to pay dividends.**

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

- our market position and competitiveness;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital raising activities; and
- economic, political and other conditions in China and internationally.

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

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## RISK FACTORS

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In addition, although we generated net operating cash inflows of RMB2.1 billion, RMB1.8 billion and RMB8.0 billion in 2017, 2018 and 2019, respectively, we had net operating cash outflows of RMB768.4 million in the nine months ended September 30, 2020, primarily due to our loss before income tax of RMB98.1 billion, adjusted by (i) the add-back of non-cash items primarily comprising fair value changes of convertible redeemable preferred shares of RMB89.2 billion, depreciation of property and equipment of RMB2.2 billion, depreciation of right-of-use assets of RMB1.2 billion and share-based compensation expenses of RMB977.1 million, and (ii) the changes in working capital primarily comprising an increase in accounts payables of RMB3.0 billion, an increase in advances from customers of RMB1.5 billion and an increase in other payables and accruals of RMB1.1 billion. For more details, see “Financial information — Liquidity and Capital Resources — Net Cash Generated from/(Used in) Operating Activities.” There can be no assurance that we will not experience net operating cash outflow in the future. If we fail to generate sufficient cash flow from our operations, or if we fail to maintain sufficient cash or obtain additional external financing, our liquidity position may be adversely affected. If we do not have sufficient cash flows to fund our business, operations and capital expenditure, our business and financial position will be materially and adversely affected.

**If we are unable to honor our obligations with respect to advances from customers, our liquidity position and cash position may be adversely affected.**

Our advances from customers, which we record as current liabilities, primarily comprise of (i) advances from live streaming customers and (ii) advances from online marketing services. Advances from live streaming customers are advances for purchase of virtual items before they are gifted, and advances from online marketing services customers are contractual liabilities in connection with the advanced cash receipt from customers for online marketing services.

Advances from live streaming customers would be utilized and recognized as revenue when the virtual items are consumed through gifting during live streams. Advances from online marketing services customers primarily relate to performance-based advertising and Kuaishou fans headline services, and are utilized and recognized as revenue when the Company renders services to the customers.

As of September 30, 2020, our advances from live streaming customers was RMB1.6 billion and advances from online marketing services customers was RMB1.4 billion. If we fail to honor our obligations with respect to a significant portion of the advances from customers, we may need to refund such advances to customers, and our liquidity position and cash position may be adversely affected.

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## RISK FACTORS

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**We recorded net current liabilities as of September 30, 2020 and net liabilities as of December 31, 2017, 2018 and 2019 and September 30, 2020 and we had net operating cash outflows in the nine months ended September 30, 2020.**

Although we recorded net current assets of RMB3.1 billion, RMB6.7 billion and RMB1.9 billion as of December 31, 2017, 2018 and 2019, respectively, we recorded net current liabilities of RMB112.6 billion as of September 30, 2020 primarily due to the redemption rights of our convertible redeemable preferred shares. We also had net liabilities of RMB22.2 billion, RMB35.7 billion, RMB55.7 billion and RMB148.3 billion as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively, primarily due to the significant amounts of convertible redeemable preferred shares and accounts payable recorded as liabilities.

Our convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing, after which we do not expect to recognize any further loss or gain on fair value changes from convertible redeemable preferred shares and will return to a net assets position from a net liabilities position. However, there can be no assurance that we will not experience liquidity problems in the future. In the nine months ended September 30, 2020, we had net operating cash outflows of RMB768.4 million. If we fail to generate sufficient cash flow from our operations, or if we fail to maintain sufficient cash and financing, our liquidity position may be adversely affected. If we do not have sufficient cash flows to fund our business, operations and capital expenditure, our business and financial position will be materially and adversely affected.

**We do not currently have business interruption insurance and our limited insurance coverage could expose us to significant costs and business disruption. Any uninsured occurrence of business disruption, material litigation or natural disaster could expose us to significant costs, which could have an adverse effect on our results of operations.**

While we believe our insurance practice is in line with industry standards, our insurance coverage is limited. For example, we do not maintain business interruption insurance or litigation insurance. Any uninsured occurrence of business disruption, material litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material and adverse effect on our results of operations. As the insurance industry in China is still evolving, there are currently limited offerings of business-related insurance products. As a result, we may not be able to insure against certain risks related to our assets or business. If we were to incur substantial losses or liabilities due to fire, explosions, floods or other natural disasters, disruption in our network infrastructure or business operations, or any material litigation, our results of operations could be materially and adversely affected. Our current insurance coverage may not be sufficient to prevent us from any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or if the compensated amount is significantly less than our actual loss, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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## RISK FACTORS

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**Our technology and infrastructure depend on the performance of the internet infrastructure and fixed telecommunications networks in China and may experience unexpected system failures, interruptions, inadequacies or security breaches. Our business and operating results may be harmed by service disruptions, or by our failure to timely and effectively scale and adapt our existing technology and infrastructure.**

Our technology and infrastructure depend on the performance and reliability of the internet and fixed telecommunications infrastructure in China. Access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. We rely on this infrastructure to provide data communications primarily through local telecommunication lines and wireless telecommunication networks. In addition, the national networks in China are connected to the internet through international gateways. These international gateways are the only channels through which a domestic user can connect to the internet and may not sufficiently support the continually growing demand for internet usage. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China can support the demands associated with the continued growth in internet usage. If we cannot increase our capacity to deliver our online services, we may not be able to accommodate the increases in traffic we anticipate from our expanding user base and the adoption of our services may be hindered, which could adversely impact our business and profitability. In the event of disruptions, failures or other problems with internet infrastructure, we or our users may not have access to alternative networks on a timely basis, if at all. Additionally, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decelerate. Such deceleration may adversely affect our ability to continue expanding our user base.

Our technology infrastructure may encounter disruptions or other outages caused by problems or defects in our technologies and systems, such as malfunctions in software or network overload. Incidents of serious network overload may cause laggings for some of our users for a period of several hours each time, and may negatively affect our user experience. Our growing operations will place increasing pressure on our server and bandwidth capacities as we further expand our user base and develop more features and functions. We may encounter problems when upgrading our systems or services and there may be undetected programming errors, which could adversely affect the performance of our operating systems and user experience. Furthermore, our infrastructure is also vulnerable to damages from fires, floods, earthquakes, power loss and telecommunication failures. Any network interruption or inadequacy that causes interruptions to our platform, or failure to maintain the network and server or solve such problems in a timely manner, could reduce our user satisfaction, which in turn, could adversely affect our reputation, user base and our business, financial condition, results of operations and prospects.



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## RISK FACTORS

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**Any compromise to the cyber security of, and spam and other malicious messages on, our platform could materially and adversely affect our business, reputation and results of operations.**

We may suffer from targeted and untargeted cyberattacks. While we have not suffered from any cyberattacks or data security breaches during the Track Record Period, any security breach of our platform caused by hackings, which involve efforts to gain unauthorized access to our information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, the intentional or inadvertent transmission of computer viruses and similar events or third-party actions, could have a material and adverse effect on our business, financial condition, results of operations and prospects.

On November 7, 2016, the SCNPC released the PRC Cyber Security Law, which took effect on June 1, 2017. The PRC Cyber Security Law requires network operators to fulfill certain obligations to safeguard security in the cyberspace and enhance network information management. Our products and services are generally provided through the internet and involve the storage and transmission of users' information. Any security breach would expose us to a risk of loss of information and potentially result in litigation and liability. As the techniques used to obtain unauthorized access, disable or degrade internet services or sabotage operating systems change frequently and often are not recognized until launched against a target, we may not be able to anticipate such techniques or implement adequate preventative measures. Despite the security measures we have implemented, our facilities, systems and procedures and those of our third-party providers, may be vulnerable to security breaches, act of vandalism, software viruses, misplaced or lost data, programming or human errors or other similar events which may disrupt our delivery of services or expose the confidential information of our users and others. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we may lose current and potential users and may be exposed to legal and financial risks, including legal claims, regulatory fines and penalties, which in turn could adversely affect our business, reputation and results of operations.

In addition, spammers may use our platform to send targeted and/or untargeted spam messages to other users, which may affect our user experience. As a result, our users may use our products and services less or stop using them altogether. In spamming activities, spammers typically create multiple user accounts for the purpose of sending spam messages. Although we attempt to identify and delete accounts created for spamming purposes, we may not be able to effectively eliminate all spam messages from our platform in a timely fashion. Any spamming activities could have a material and adverse effect on our business, financial condition, results of operations and prospects.



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## RISK FACTORS

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**Undetected programming errors or flaws or failure to maintain effective operations could harm our reputation or decrease market acceptance of our products and services, which would materially and adversely affect our results of operations.**

Our apps may contain programming errors that only become apparent after their release. We generally have been able to resolve such flaws and errors and optimize our apps. However, we cannot assure you that we can always detect and resolve all such programming errors effectively and timely. Undetected programming errors could adversely affect our operations, user experience and market acceptance. Any errors, bugs or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of users, loss of content providers, loss of revenues or liability for damages, any of which could adversely affect our business and operating results.

**User growth and engagement depend upon effective interoperation with operating systems, networks and mobile devices and standards that we do not control. We may not be successful in maintaining and developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, devices and standards.**

We make our products and services available across a variety of operating systems on mobile devices and PCs. We conduct our business and generate revenues primarily through mobile devices. If we are unable to successfully capture and retain the growing number of users that access internet services through mobile devices, or if we are slower than our competitors in developing attractive products and services adaptable for mobile devices, we may fail to capture a significant share or an increasingly important portion of the market or may lose existing users. In addition, even if we are able to retain the increasing number of mobile users, we may not be able to successfully monetize our user base in the future. We are dependent on the interoperability of our services with popular mobile devices and mobile operating systems that we do not control, such as Windows, Android, and iOS. Any changes in such operating systems or devices that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect the usage of our services. We may not be successful in maintaining and developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, devices and standards. Further, if the number of platforms for which we develop our services increases, which is typically seen in a dynamic and fragmented mobile services market such as China, it will result in an increase in our costs and expenses. In order to deliver high quality services, it is important that our services work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. In the event that it is difficult for our users to access and use our services, particularly on their mobile devices, our user growth and user engagement could be harmed, and our business, financial condition, results of operations and prospects could be adversely affected.

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## RISK FACTORS

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**Some of our products and services contain open source software, which may pose a particular risk to our proprietary software products and services and may adversely affect our business.**

We use open source software in some of our products and services and will continue to use open source software in the future. There is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our products or services. Additionally, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we have developed using such software. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license, or cease offering the implicated products or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully.

**Our leased property interests may be defective and our right to lease the properties affected by such defects may be challenged, which could cause significant disruption to our business.**

As of the Latest Practicable Date, with respect to ten of our leased properties, the relevant lessors had not provided us with valid property ownership certificates or relevant authorization documents evidencing their rights to lease the properties to us. All such leased properties were used as offices. The absence of the property ownership certificates limited our ability to determine whether the lessors have the right to lease the properties to us, and if any of the lessors is not the legal owner and has not been duly authorized by the legal owner, the relevant lease agreement may be deemed invalid, and as a result, we may face challenges from the legal owners of the properties or other third parties, and may be forced to vacate the relevant properties and relocate our offices. We may incur additional expenses during the process, and our business, financial condition and results of operations may be negatively affected.

Pursuant to applicable PRC laws and regulations, property lease agreements must be filed with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. The filing of such leases will require the cooperation of the lessors. As of the Latest Practicable Date, we had not filed leases for 67 properties we leased in China, primarily due to the difficulty of procuring our lessors' cooperation to file such leases. As advised by our PRC Legal Advisor, the lack of filing will not affect the validity and enforceability of the lease agreements, but a fine ranging from RMB1,000 to RMB10,000 may be imposed on us for each non-filed lease. The estimated total maximum penalty is RMB670,000.

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## RISK FACTORS

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**Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the relevant PRC laws and regulations may have an adverse impact on our financial conditions and results of operation.**

According to applicable PRC laws and regulations, employers must open social insurance registration accounts and housing provident fund accounts regardless of whether they have hired employees or not, and pay social insurance premium and housing provident funds for each employee to the relevant local authorities directly. During the Track Record Period and up to the Latest Practicable Date, certain of our PRC operating entities did not have any employees and could not open housing provident fund accounts as the relevant regulatory authorities only allow companies to open housing provident fund accounts after they have hired employees pursuant to the local practice. Nevertheless, these PRC operating entities are required to open housing provident fund accounts according to the relevant PRC laws and regulations, though they did not have any employees during the Track Record Period and up to the Latest Practicable Date. In addition, during the Track Record Period, a few of our PRC operating entities engaged third-party human resources agencies to pay social insurance premium and housing provident funds for some of their employees, who accounted for less than 1.0% of the total number of our employees. This is because such employees worked outside of the cities where the operating entities are registered and third-party human resources agencies were engaged to pay social insurance premium and housing provident funds for such employees in cities where they worked. If the relevant competent government authority is of the view that this third-party agency arrangement does not satisfy the requirements under the relevant PRC laws and regulations, in respect of housing provident fund, we may be ordered to pay the outstanding balance to the relevant local authority within a prescribed period of time, failing which the government authority can apply to the People's Court for compulsory enforcement, but no penalties are provided under the relevant PRC laws and regulations; and in respect of social insurance, we might be ordered to pay the outstanding balance within a certain period of time and a late fee that equals to 0.05% of the total outstanding balance per day from the date of the failure to make payment, failing which we may be subject to a fine ranging from one to three times of the total outstanding balance. As advised by our PRC Legal Advisor, if we can pay the outstanding balance to the relevant authorities within a certain period of time when we are required to do so, the likelihood of us being subject to fines by the relevant government authorities is low. As of the Latest Practicable Date, none of these entities had received any administrative penalty or labor arbitration application from employees for its agency arrangement with third-party human resources agencies or for having not opened housing provident fund accounts.

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## RISK FACTORS

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Under the agreements between the third-party human resources agencies and our relevant operating entities, the third-party human resources agencies have the obligations to pay social insurance premium and housing provident funds for our relevant employees. However, if the human resource agencies fail to pay the social insurance premium or housing provident fund contributions for and behalf of our employees as required under applicable PRC laws and regulations, we may be ordered to rectify such failure or be subject to penalties. As of the Latest Practicable Date, none of the third-party human resources agencies that we cooperate with had failed to pay, or delayed in paying, any social insurance premium or housing provident fund contributions for our employees.

**Our results of operations are subject to fluctuations due to seasonality.**

We experience seasonality in our business, reflecting seasonal fluctuations in mobile and internet usage. As a result, comparing our operating results on a period-to-period basis may not be meaningful. For example, the number of active users tend to be higher during holidays and school breaks. As a result, our results of operations and the trading price of our Class B Shares may fluctuate from time to time due to seasonality.

**We may increasingly become a target for public scrutiny, including complaints to regulatory agencies, negative media coverage, and malicious allegations, all of which could severely damage our reputation and materially and adversely affect our business and prospects.**

We have a huge amount of users, and an extremely large number of transactions take place on our platform on a daily basis. The huge volume of activities taking place on our platform as well as publicity about our business create the possibility of heightened attention from the public, regulators and the media. Heightened regulatory and public concerns over consumer protection and consumer safety issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues, due to the large number of transactions that take place on our platform and the increasing scope of our overall business operations. In addition, changes in our services or policies have resulted and could result in objections by members of the public, the traditional, new and social media, social network operators, merchants on our platform or others. From time to time, these objections or allegations, regardless of their veracity, may result in consumer dissatisfaction, public protests or negative publicity, which could result in government inquiry or substantial harm to our brand, reputation and operations. Moreover, as our business expands and grows, both organically and through acquisitions of and investments in other businesses, domestically and internationally, we may be exposed to heightened public scrutiny in jurisdictions where we already operate as well as in new jurisdictions where we may operate. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects. We may not realize the benefits we expect from our strategic cooperation with our strategic partners, which may materially and adversely affect our business and results of operations.

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## RISK FACTORS

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**We are subject to anti-corruption, anti-bribery and other laws and regulations, and third party payment channels we cooperate with are subject to anti-money laundering laws.**

We are subject to anti-corruption, anti-bribery and other relevant laws and regulations in China and certain overseas jurisdictions. Although we perform compliance processes and maintain internal control systems, we may be subject to investigations and proceedings by governmental authorities for alleged infringements of these laws and regulations if our processes or systems are not conducted or are not operating properly. These proceedings may result in fines or other liabilities and could have a material and adverse effect on our reputation, business, financial condition, results of operations and prospects. If any of our subsidiaries, operating entities, employees or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal controls, we could become subject to one or more enforcement actions or otherwise be found to be in violation of such laws and regulations, which may result in penalties, fines and sanctions and in turn adversely affect our reputation, business, financial condition, results of operations and prospects.

In addition, we currently cooperate with third party payment channels such as Weixin Pay, Alipay and Apple Pay to process payments for us. These third party payment channels are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations in China, which require them to comply with certain anti-money laundering requirements, including the establishment of a customer identification procedure, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. If a third-party payment channel fails to perform its anti-money laundering obligations, it may be subject to fines or other proceedings in accordance with the relevant regulations. If any of our third-party payment channel fails to comply with applicable anti-money laundering laws and regulations, our reputation could suffer and we could become subject to regulatory intervention, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**We are subject to governmental economic sanctions laws that could subject us to liability.**

We are subject to various economic and trade sanctions laws in different jurisdictions. For example, U.S. economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by U.S. sanctions. United Kingdom financial sanctions and European Union sanctions also have similar regime to prohibit the provision of products and services to countries, governments and persons on their respective target list.

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## RISK FACTORS

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In the past, we have not identified any users on our platform that appeared to have been located in countries that are targets of any governmental economic sanctions. While we believe that we have been, and that we continue to be, in compliance with applicable governmental economic sanctions laws, our failure to employ appropriate safeguards with respect to users located in countries that are targets of governmental economic sanctions may result in a violation of such laws and regulations. Non-compliance with applicable governmental economic sanctions laws could subject us to adverse media coverage, investigations, severe administrative, civil and possibly criminal sanctions, and expenses related to remedial measures and legal expenses, which could materially and adversely affect our reputation, business, financial condition, results of operations and prospects.

**Our users may suffer from third-party fraud when purchasing our KwaiCoins and we may suffer fraud when selling KwaiCoins to users.**

We offer our users multiple official payment channels to purchase KwaiCoins. However, from time to time, certain third parties fraudulently claim that users can purchase KwaiCoins through them. If our users choose to purchase KwaiCoins from such third parties, they may suffer losses from such fraudulent activities by third parties. Although we are not directly responsible for such fraudulent activities conducted by third parties, are not obligated to compensate and in the past have not compensated users for any such losses, our user experience may be adversely affected and they may choose to leave our platform as a result. Such fraudulent activities by third parties may also generate negative publicity, disputes or even legal claims. The measures we take in response to such negative publicity, disputes or legal claims may be expensive, time-consuming and disruptive to our operations and divert our management's attention.

In the past, we have experienced incidents in which users may have paid for our KwaiCoins through fraudulent methods, including the exploitation of the settlement policies of third-party online payment channels. The frequency of such incidents has been low during the Track Record Period and we have identified one confirmed incident resulting in approximately RMB140,000 in lost revenue. Although we have implemented authentication mechanisms that help us detect such fraudulent paying methods, we cannot guarantee that our mechanisms will identify and prevent all fraudulent KwaiCoin purchases in the future. These fraudulent transactions may cause harm to our financial results and business operations.

**We are exposed to credit risks in relation to our trade receivables, and such risks may be heightened during periods of uncertain economic conditions.**

As of December 31, 2017, 2018, 2019 and September 30, 2020, our trade receivables amounted to RMB136.6 million, RMB129.0 million, RMB1.1 billion and RMB1.8 billion, respectively. These trade receivables were related to receivables due from contracts with customers. We may not be able to collect all such trade receivables due to a variety of factors that are outside of our control. For example, if the strategic relationship between us and any of the online payment channels is terminated or deteriorated, or if any of the online payment channels experience financial difficulties in settling the trade receivables, our corresponding trade

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## RISK FACTORS

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receivables may be adversely affected in terms of recoverability. As the amount of provisions made on our trade receivables are recorded as loss allowance provision, if we are not able to manage the credit risk associated with our trade receivables, our results of operations may be materially and adversely affected.

We enter into contracts with business partners on our platform including merchants, advertisers and third-party e-commerce platforms, and the financial soundness of these customers may affect our collection of accounts receivable. We make a credit assessment of each customer to evaluate the collectability of service fees before entering into a contract. However, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each customer, and any inability of a customer to pay us in a timely manner may adversely affect our liquidity and cash flows.

**We may incur impairment charges for our intangible assets.**

Our intangible assets consist of goodwill, which relates to our business acquisitions, and other intangible assets, including licenses and copyrights, trademarks and domain names, software and others. As of December 31, 2017, 2018 and 2019 and September 30, 2020, we recorded goodwill of nil, RMB816.1 million, RMB837.0 million and RMB837.0 million, respectively, and other intangible assets of RMB34.9 million, RMB229.7 million, RMB283.3 million and RMB416.7 million, respectively. Based on the result of goodwill impairment testing, which we conduct at least annually, no impairment was identified in respect of goodwill as of December 31, 2018 and 2019 and September 30, 2020, respectively. Due to frequent changes and development in technology, technological advancements may render our existing technologies less effective or even obsolete, or may cause our services to be less attractive to our customers. As a result, the assumptions we used in estimating the cash flow generated from our intangible assets may change, and the estimated useful life of our intangible assets may also be subject to significant estimate uncertainty. If any significant changes were to occur, we may incur impairment charges for our intangible assets, and if any significant impairment charges were made, our results of operation may be negatively affected.

**We may incur higher income tax expenses if our deferred income tax assets are not utilized as expected.**

In the application of our accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on historical experience and other relevant factors. As a result, actual results may differ from these accounting estimates. As at December 31, 2017, 2018 and 2019 and September 30, 2020, our deferred income tax assets amounted to RMB7.8 million, RMB161.9 million, RMB860.2 million and RMB2.2 billion, respectively. For details of our deferred income tax assets during the Track Record Period, please refer to Note 31 to the Accountant's Report in Appendix I to this prospectus. Deferred tax assets are recognized only if it



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## RISK FACTORS

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is probable that future taxable amounts will be available to utilize those temporary differences and losses according to our assessment. If sufficient future taxable profits are not generated eventually or are less than what is expected, a material reversal of deferred tax assets may arise.

**Our business operations and financial performance have been affected by the COVID-19 outbreak.**

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. Since early 2020, Mainland China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak and, in response, governments have implemented, among other measures, restrictions on mobility and travel and cancellation of public activities, to contain the spread of the virus. As a result, our operations have to a certain extent been impacted by delays in business activities, commercial transactions and general uncertainties surrounding the duration of the governments' extended business and travel restrictions. In particular, the travel restrictions resulted in the reduction in size or even cancellation of our offline events, which temporarily adversely affected our marketing activities. The COVID-19 outbreak had also resulted in regulatory approval delays due to government-imposed lockdowns and workplace closures. Further, as social and work gatherings were banned, mandatory quarantine requirements were imposed and public transportation was suspended in certain cities and countries where our offices and facilities were located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent that onsite services of our employees were required.

Moreover, we took a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations. We also provided our employees with masks, hand sanitizers and other protective equipment immediately after the outbreak, which had increased and may continue to increase our operations and support costs. In addition, our business operations could be disrupted if any of our employees is suspected of contracting the COVID-19 or any other epidemic disease, since our employees could be quarantined and/or our offices may have to be shut down for disinfection.

While the lock down and various social distancing initiatives adopted by the governments during the outbreak of COVID-19 have caused people to turn to online social and entertainment activities in lieu of physical gatherings, these measures have led to reduced business activities in general. Furthermore, any increase in demand for online social and entertainment activities as a result of the lock down and various social distancing initiatives associated with the COVID-19 outbreak may be temporary and not sustainable. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.



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There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. Should there be a resurgence of the virus, China may again take emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact online businesses. As a result, the extent of the disruption to our business and the related impact on our financial results and outlook for 2020 cannot be reasonably estimated at this time. The potential downturn brought by and the duration of the COVID-19 outbreak may be difficult to assess or predict as the actual effects will depend on many factors beyond our control. While we believe the impact on our business due to the outbreak of COVID-19 was limited, it is hard for us to quantify the impact and estimate the extent to which the COVID-19 outbreak impacts our long-term results.

**Pandemics and epidemics, natural disasters, terrorist activities, political unrest, and other outbreaks may disrupt our production, delivery, and operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.**

In recent years, there have been outbreaks of epidemics globally. In addition to the impact of COVID-19 as described above, our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreak of other widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome, Ebola, or Zika or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of such a disaster or prolonged outbreak of an epidemic illness or other adverse public health developments in the countries and regions we operate in could materially disrupt our business and operations. Such events could also significantly affect our industry and cause a temporary closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition, results of operations and prospects. Our operations could be disrupted if any of our employees were suspected of having any of the epidemic illnesses, since this could require us to quarantine some or all of such employees or disinfect the facilities used for our operations. In addition, our revenues and profitability could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the Chinese or global economy in general. Our operations could also be severely disrupted if our customers, suppliers or other participants were affected by such natural disasters, health epidemics or other outbreaks.

We may be subject to social and natural catastrophic events that are beyond our control, such as natural disasters, health epidemics, riots, political and military upheavals and other outbreaks in the country or region where we have our operations or where a portion of our users are located. Such events could significantly disrupt our operations and negatively impact our business, financial condition, results of operations and prospects.

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**Changes in international trade or investment policies and barriers to trade or investment, and the ongoing conflict and emergence of a trade war between the United States and China and the ongoing conflict between India and China may have an adverse effect on our business and expansion plans.**

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition, and results of operations. There have been political matters which resulted in increased tensions between U.S. and China. In addition, China has implemented, and may further implement, measures in response to new trade policies, treaties and tariffs initiated by the U.S. government. Such measures may further escalate the tensions between the countries or even lead to a trade war. Any further escalation in trade tensions between China and the U.S. or a trade war, or the perception that such escalation or trade war could occur, may have negative impact on the economies of not only the two countries concerned, but the global economy as a whole. As a result, our business, financial condition, results of operations and prospects would be adversely affected. We currently carry out certain operations and research and development functions in the U.S.. While our business operations in the U.S. have not been adversely affected, if there were any further escalation of tensions between the U.S. and China or if any further restrictions on internet companies from China were imposed by the U.S., our business may be adversely affected. In addition, our potential acquisitions and investments, as well as operations, in the United States may be affected by heightened regulatory requirements or scrutiny if the current U.S.-China disputes continue to escalate. Furthermore, there is no guarantee that China will not impose any additional U.S.-specific restrictions on top of its existing restrictions.

On June 29, 2020, the Indian government banned 59 mobile apps which are either based in or linked to China including our Kwai app and UVideo app. On September 2, 2020, the Indian government banned another 188 China-related mobile apps including one of our apps. On November 24, 2020, the Indian government further banned another 43 China-related mobile apps including our Snack Video. Whilst both India and China have now expressed their efforts to ease tensions, there can be no assurance that similar events would not happen in the future, or any diplomatic efforts would continue to be successful, or our other mobile apps in India would not be banned in the future. We cannot predict how such geopolitical events will develop in the future and how they may impact our business, operations, reputation and financial condition.

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## RISK FACTORS

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**We have granted options and may continue to grant options, restricted shares and other types of awards under our share option plan, which may result in increased share-based compensation expenses.**

We adopted our Pre-IPO ESOP for the purpose of granting share-based compensation awards to employees, Directors and consultants to incentivize their performance and align their interests with ours. We recognize expenses in our consolidated financial statements in accordance with IFRS. Under our Pre-IPO ESOP, we are authorized to grant options and restricted shares. As of September 30, 2020, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards under our Pre-IPO ESOP was 523,622,725 ordinary shares, subject to adjustment and amendment. We believe the granting of share-based compensation is important to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

### **RISKS RELATED TO OUR CORPORATE STRUCTURE**

**If the PRC government determines that the agreements establishing the structure for operating our online businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.**

We are a Cayman Islands exempted company and our indirect wholly-owned PRC subsidiary, Beijing Dajia, is considered a foreign-invested enterprise. The PRC government prohibits foreign investment in internet cultural activities, internet audio-visual program services, online live streaming services and online game services and restricts foreign investment in value-added telecommunications services businesses. See “Regulations on Value-Added Telecommunications Services,” “Regulations relating to Internet Audio-Visual Program Services,” “Regulations relating to Online Live Streaming Services,” “Regulations relating to Online Games” and “Regulations relating to Foreign Investment” in “Regulatory Overview.” Due to these restrictions, we conduct our operations in China through our Consolidated Affiliated Entities. Although we do not have any equity interest in our Consolidated Affiliated Entities, we are able to exercise effective control over them and receive substantially all of the economic benefits of their operations through the Contractual Arrangements with our Consolidated Affiliated Entities and their shareholders. For a description of the Contractual Arrangements, see “Contractual Arrangements.”

Our PRC Legal Advisor is of the opinion that each of the agreements underlying the Contractual Arrangements (i) taken individually and collectively, are legal, valid and binding on the parties of each of the agreements underlying the Contractual Arrangements in accordance with their terms and provisions under applicable PRC laws and regulations, except that the dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration may not be recognized or enforced by PRC courts, or

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that the provisions regarding the liquidation committee designated by our WFOE upon the winding up of the Consolidated Affiliated Entities to manage their assets may not be recognized or enforced by PRC courts, (ii) do not violate the articles of association of Beijing Dajia and each of the PRC Holdcos, and (iii) none of the agreements underlying the Contractual Arrangements violates provisions in the Civil Code of the PRC (《中華人民共和國民法典》) (the “**Civil Code**”) including in particular provisions regarding “impairing others’ legitimate rights and interests with malicious collusion” or falls within any circumstances under which a contract may be determined invalid pursuant to the Civil Code. However, there can be no assurance that the PRC government authorities will not take a view in the future that is contrary to or otherwise different from the opinion of our PRC Legal Advisor stated above, and there is also the possibility that the PRC government authorities may adopt new laws and regulations in the future which may invalidate the Contractual Arrangements. The relevant PRC government authorities have broad discretion in dealing with deemed non-compliances or violations, including, without limitation:

- require the nullification of the Contractual Arrangements;
- revoke the business licenses and/or operating licenses of Beijing Dajia or our Consolidated Affiliated Entities;
- require us to discontinue the business operations of Beijing Dajia or our Consolidated Affiliated Entities, or place restrictions or onerous conditions on such business operations;
- restrict our right to collect revenues;
- shut down all or part of our websites, applications or services;
- levy fines on us and/or confiscate the proceeds generated from the operations under the Contractual Arrangements;
- impose additional conditions or requirements which we may not be able to comply with;
- require us to undergo costly and disruptive restructurings; and
- take other regulatory or enforcement actions that could be harmful to our business.

The imposition of any of the above-mentioned consequences could result in a material and adverse effect on our ability to conduct our business. In addition, if the imposition of any of these consequences causes us to lose the rights to direct the activities of our Consolidated Affiliated Entities or our right to receive economic benefits from our Consolidated Affiliated Entities, we would no longer be able to consolidate the financial results of our Consolidated Affiliated Entities.

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**Substantial uncertainties exist with respect to whether the control of PRC onshore VIEs by foreign investors via contractual arrangements will be recognized as “foreign investment” and how it may impact the viability of our current corporate structure and operations.**

On March 15, 2019, the National People’s Congress of the PRC adopted the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**PRC Foreign Investment Law**” or “**FIL**”), which came into force on January 1, 2020. The PRC Foreign Investment Law defines “foreign investment” as investment activity in China conducted directly or indirectly by foreign investors in any of the following manners: (i) the foreign investor, by itself or together with other investors, establishes a foreign-invested enterprise in China; (ii) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests in enterprises in China; (iii) the foreign investor, by itself or together with other investors, invests and establishes a new project in China; or (iv) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. The PRC Foreign Investment Law is silent on how to define and regulate VIEs, while adding a catch-all clause that “other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council” can fall within the concept of “foreign investment,” which leaves uncertainty as to whether a foreign investor’s control of PRC onshore VIEs via contractual arrangements will be recognized as “foreign investment.” Pursuant to the PRC Foreign Investment Law, PRC governmental authorities will regulate foreign investment by applying the principle of pre-entry national treatment together with a “negative list,” which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in industries which are listed as “prohibited” in such negative list; and, after satisfying certain additional requirements and conditions as set out in the “negative list,” are allowed to make investments in the industries which are listed as “restricted” in such negative list. With respect to any foreign investor that fails to comply with such negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance, and impose other penalties.

The internet cultural activities, internet audio-visual program services, online live streaming services, online game services and value-added telecommunications services that we conduct through our Consolidated Affiliated Entities are subject to foreign investment restrictions or prohibitions as set out in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (《外商投資准入特別管理措施(負面清單)》(2020年版)) issued by MOFCOM and the National Development and Reform Commission (the “**NDRC**”), which became effective on July 23, 2020. It is unclear whether any new “negative list” to be issued under the PRC Foreign Investment Law will be different from such existing list.

The PRC Foreign Investment Law leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangements as a form of foreign investment. It is therefore uncertain whether our corporate structure will be seen as violating foreign investment rules as we are currently using the Contractual Arrangements to operate certain businesses in which foreign investors are currently prohibited or restricted from investing. Furthermore, if future laws, administrative regulations or provisions of the State Council mandate

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further actions to be taken by companies with respect to our existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If we fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, our current corporate structure, corporate governance and business operations could be materially and adversely affected.

**We rely on our Contractual Arrangements for our operations in China, which may not be as effective in providing operational control as direct ownership. Our PRC Holdcos and/or their Registered Shareholders may fail to perform their obligations under our Contractual Arrangements, which may result in us resorting to litigation to enforce our rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation.**

Most of our revenues and cash flows are attributed to our Consolidated Affiliated Entities. Due to PRC restrictions on and prohibitions of foreign ownership of certain businesses in China, we operate our business in China through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on our Contractual Arrangements with our PRC Holdcos and their Registered Shareholders, including powers of attorney, to control and operate the businesses of our Consolidated Affiliated Entities. These Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See “History and Corporate Structure — Corporate Structure” and “Contractual Arrangements” for more details about these Contractual Arrangements. In particular, our ability to control the Consolidated Affiliated Entities is dependent on certain powers of attorney, pursuant to which Beijing Dajia (our indirect wholly-owned subsidiary in China) is entitled to vote on all matters requiring shareholder approval with respect to our PRC Holdcos.

Although we have been advised by our PRC Legal Advisor that each of the Contractual Arrangements among Beijing Dajia, our PRC Holdcos and their Registered Shareholders, including the powers of attorney, is legal, valid and binding under existing PRC laws and regulations, except that the dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration may not be recognized or enforced by PRC courts, these Contractual Arrangements may not be as effective in providing operational control over our Consolidated Affiliated Entities and their subsidiaries as direct equity ownership. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our Consolidated Affiliated Entities, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the Contractual Arrangements, as a legal matter, if our PRC Holdcos or their Registered Shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws and regulations, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation. For example, if the shareholders of our PRC Holdcos were to refuse to transfer their equity interests in our PRC Holdcos to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act



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in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. These Contractual Arrangements are governed by and interpreted in accordance with PRC law, and disputes arising from the Contractual Arrangements will be resolved through arbitration in China. However, the legal system in China, particularly as it relates to arbitration proceedings, is different from legal systems in many other jurisdictions such as the United States. There are very few precedents and little official guidance as to how contractual arrangements in the context of consolidated affiliated entities should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of arbitration, should legal action become necessary. These uncertainties could limit our ability to enforce the Contractual Arrangements. In addition, arbitration awards are final and may only be enforced in PRC courts through arbitration award recognition proceedings, which could cause additional expenses and delays. In the event we are unable to enforce the Contractual Arrangements or if we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate the financial results of such entities in our consolidated financial statements, our ability to conduct our business may be negatively affected, and our operations could be severely disrupted, which could materially and adversely affect our business, financial condition, results of operations and prospects.

**As some of our Contractual Arrangements may not have fully detailed the parties' rights and obligations, our remedies for a breach of these arrangements may not be guaranteed.**

Our current relationship with our Consolidated Affiliated Entities and their ultimate shareholders is based on a number of contracts, and the Consolidated Affiliated Entities are considered to be our VIEs for accounting purposes. Regardless of our internal control and contract management processes, certain terms of the Contractual Arrangements may be statements of general intent and may not have fully detailed the rights and obligations of the parties. Some of these contracts contain price and payment terms that are subject to quarterly adjustments. These provisions may be subject to different interpretations, particularly in relation to the details of the services to be provided and the price and payment terms. It may be difficult for us to obtain remedies or damages from these affiliated entities or their ultimate shareholders for breaching our agreements. As we rely significantly on these companies for our business, the realization of any of these risks may disrupt our operations or cause degradation in the quality and service provided on, or a temporary or permanent shutdown of our platform.

**We may not be able to conduct our operations without the services provided by certain of our Consolidated Affiliated Entities.**

Our operations are currently dependent upon our commercial relationships with our Consolidated Affiliated Entities, and we derive most of our revenues from these companies. If our PRC Holdcos are unwilling or unable to perform the agreements which we have entered into with them, we may not be able to conduct our operations in the manner in which we currently do. In addition, our PRC Holdcos may seek to renew these agreements on terms that are disadvantageous



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to us. Although we have entered into a series of agreements that provide us with substantial ability to control these companies, we may not succeed in enforcing our rights under them. If we are unable to renew these agreements on favorable terms, or to enter into similar agreements with other parties, our business may not expand, and our operating expenses may increase.

**We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.**

Our Consolidated Affiliated Entities hold assets that are material to our business operations. The Contractual Arrangements with our PRC Holdcos contain terms that specifically obligate their Registered Shareholders to ensure the valid existence of our Consolidated Affiliated Entities and that our Consolidated Affiliated Entities may not be voluntarily liquidated. However, should the shareholders breach this obligation and voluntarily liquidate our Consolidated Affiliated Entities, or should our Consolidated Affiliated Entities declare bankruptcy, all or part of their assets may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

**The Registered Shareholders of our PRC Holdcos may have conflicts of interest with us, which may materially and adversely affect our business.**

Our control over the Consolidated Affiliated Entities is based upon the Contractual Arrangements with our PRC Holdcos and the Registered Shareholders. The Registered Shareholders may potentially have conflicts of interest with us and breach their contracts or undertaking if it would further their own interest or if they otherwise act in bad faith. We cannot assure you, however, that when conflicts of interest arise, these individuals will act in the best interests of our Company or that conflicts of interest will be resolved in our favor. In the event of any such conflicts of interest, these individuals may breach or cause our PRC Holdcos to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive economic benefits from our Consolidated Affiliated Entities. If we cannot resolve such conflict of interest or dispute between us and such shareholders of our PRC Holdcos should it arise, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements with our PRC Holdcos and their Registered Shareholders. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

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**We conduct our business operations in China through the Consolidated Affiliated Entities by way of the Contractual Arrangements. However, certain terms of the Contractual Arrangements may not be enforceable under PRC laws and regulations.**

All the agreements which constitute the Contractual Arrangements are governed by PRC laws and regulations and provide for resolution of disputes through arbitration in China. Accordingly, these agreements would be interpreted in accordance with PRC laws and regulations, and disputes would be resolved in accordance with PRC legal procedures. The uncertainties as to the adoption of evidence and precedent rulings in China's legal system could limit our ability to enforce the Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over our Consolidated Affiliated Entities, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Consolidated Affiliated Entities, injunctive relief and/or winding up of Consolidated Affiliated Entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws and regulations, these terms may not be enforceable. Under PRC laws and regulations, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Consolidated Affiliated Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as courts in Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws and regulations do not allow the arbitral body to grant an award of transfer of assets of or equity interests in Consolidated Affiliated Entities in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by PRC Holdcos and/or their respective Registered Shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over the Consolidated Affiliated Entities, which could negatively affect our ability to conduct our business.

**The Contractual Arrangements between Beijing Dajia and our PRC Holdcos may be subject to scrutiny by the PRC tax authorities and may subject our Group to increased income tax due to the different income tax rates applicable to Beijing Dajia and our PRC Holdcos. A finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.**

Under the Contractual Arrangements, our PRC Holdcos are required to pay Beijing Dajia relevant service fees. Beijing Dajia may adjust the service fee payable by our PRC Holdcos at its sole discretion. Such service fee payments reduce our Consolidated Affiliated Entities' taxable income and correspondingly increase the taxable income of Beijing Dajia, which, combined with the different income tax rates applicable to our Consolidated Affiliated Entities and Beijing Dajia, have affected and may continue to affect our results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

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Additionally and pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by PRC tax authorities. We may be subject to adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements among Beijing Dajia, our PRC Holdcos and their Registered Shareholders are not on an arm's length basis and therefore constitute favorable transfer pricing. As a result, the PRC tax authorities could require that our Consolidated Affiliated Entities adjust their taxable income upward for PRC tax purposes. Such an adjustment could increase our Consolidated Affiliated Entities' tax expenses without reducing the tax expenses of Beijing Dajia, subject our Consolidated Affiliated Entities to late payment fees and other penalties for under-payment of taxes, and result in the loss of any preferential tax treatment Beijing Dajia may have. As a result, our consolidated results of operations may be adversely affected.

**If we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.**

Pursuant to the Contractual Arrangements, Beijing Dajia (or its designee) has the exclusive right to purchase all or any part of the equity interests in each of our Consolidated Affiliated Entities from their shareholders at a purchase price equal to RMB1, or at the lowest price permitted by PRC law, for the optioned interests. In the event of such transfer, the lowest price permitted by PRC law may be substantially higher than RMB1, or the competent tax authority may require Beijing Dajia to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated under the Contractual Arrangements, in which case Beijing Dajia may be subject to a substantial amount of tax and our financial condition may be materially and adversely affected.

**A transfer of shares in some of our Consolidated Affiliated Entities may trigger tax liability.**

If we need to cause the transfer of shareholdings in our Consolidated Affiliated Entities from their current respective shareholders to any other individual, we may be required to pay individual income tax in the PRC on behalf of the transferring shareholder. Such individual income tax would be based on any gain deemed to have been realized by such shareholder on such transfer, and may be calculated based on a tax rate of 20% applied to the transferring shareholder's interest in net book value of the entity whose shares are being transferred minus the original investment cost. A significant tax obligation arising from any such transfer of shares could materially and adversely affect our business and results of operations.

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## RISK FACTORS

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### RISKS RELATED TO DOING BUSINESS IN CHINA

**Uncertainties or prolonged adversity in global or China's economic, political and social conditions or government policies could adversely affect our business and prospects.**

We derive substantially all of our revenues from our operations in China. As a result, our revenues and net income are impacted to a significant extent by economic, political and social conditions in China and globally, as well as economic conditions specific to online and mobile internet usage and advertising. China's economic conditions are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The global macroeconomic environment is facing new challenges and there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies. Recent international trade disputes, including tariff actions announced by the United States, the PRC and certain other countries, and the uncertainties created by such disputes may cause disruptions in the international flow of goods and services and may adversely affect the Chinese economy as well as global markets and economic conditions. There have also been concerns about the economic effect of the military conflicts and political turmoil or social instability in the Middle East, Europe, Africa and other places. The global economy, markets and levels of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, political uncertainty, levels of employment, inflation or deflation, real disposable income, interest rates, taxation and currency exchange rates. Any severe or prolonged slowdown in the global economy may adversely affect the Chinese economy which in turn may adversely affect our business and operating results.

The rate of economic growth in the PRC has been experiencing a slowdown, primarily as a result of the COVID-19 pandemic. In addition, any future escalation of the ongoing trade war between the United States and China, regional or national instability, or ongoing impact of the COVID-19 pandemic may negatively impact the growth in both the Chinese economy and the global economy as a whole. Although the PRC government has implemented a number of measures to address the slowdown, we cannot be certain that these measures will be successful. Any continuing or worsening slowdown could significantly reduce domestic commerce in China, including through the internet generally and within our ecosystem. An economic downturn, whether actual or perceived, a further decrease in economic growth rates, or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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The economy of China has, in certain aspects, been transitioning to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the PRC government have had a positive effect on the economic development of China, we cannot predict the future direction of these economic reforms or the effects these measures may have on our business, financial position or results of operations. In addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Co-operation and Development (the “OECD”). These differences include:

- economic structure;
- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;
- inflation rates;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

**Regulation of information disseminated over the internet in China may adversely affect our business and subject us to liability for information displayed on, retrieved from or linked to our platform or website or distributed to our users.**

The PRC government has adopted certain regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements could result in the revocation of ICP License and other required licenses and the closure of the concerned websites. The website operator may also be held liable for such prohibited information displayed on, retrieved from or linked to such website. In addition, the MIIT has published regulations that subject website operators to potential liability for content included on their websites and for the actions of users and others using their websites, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any

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local internet service provider, or ISP, to block any internet website maintained outside China in accordance with the relevant PRC laws and regulations. The State Secrecy Bureau, which is directly responsible for the protection of state secrets of the PRC government, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the dissemination of online information.

As these regulations are subject to interpretation by the relevant authorities and may change over time, it may not be possible for us to determine in all cases the type of content that could result in liability for us as a website operator. In addition, we may not be able to control or restrict the content of other internet content providers linked to or accessible through our platform, or content generated or placed on our platform by our users, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of the content on our platform objectionable, they may require us to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content on our platform, which may reduce our user traffic and have a material and adverse effect on our financial condition and results of operations.

**There are uncertainties associated with PRC laws and regulations on virtual assets, and therefore it is not clear what liabilities, if any, we may have relating to the loss of virtual assets by our users.**

While participating on our platform, our users may acquire, purchase and accumulate certain virtual assets, such as gifts or certain statuses and privileges. Such virtual assets can be important to users and have monetary value and, in some cases, can be cashed to actual money. However, virtual assets may become lost for various reasons, often through unauthorized use of the account of one user by other users and occasionally through data loss caused by delays in network service, network crashes or hacking activities. Currently, there are uncertainties associated with PRC laws and regulations on virtual assets. As a result, uncertainties still exist as to who the legal owner of virtual assets is, whether and how the ownership of virtual assets is protected by law, and whether an operator of a platform such as ours would have any liability, whether in contract, tort or otherwise, to users or other interested parties, for loss of such virtual assets. Some recent PRC court judgments ordered certain online platform operators liable for losses of virtual assets by platform users, and have ordered online platform operators to restore the lost virtual items to users or pay damages and losses. In case of a loss of virtual assets, we may be sued by our users and held liable for losses, which may negatively affect our reputation, business, financial condition, results of operations and prospects. We have been involved in virtual items related lawsuits in the past, and we cannot assure you that such lawsuits will not be brought against us again in the future.

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**Restrictions on virtual currency may result in us having to obtain additional approvals or licenses or change our current business model and may adversely affect our revenues, business and reputation.**

We generate a small portion of our revenues from online games operation, which are collected through the online sale of in-game currencies. In-game currencies are considered to be “virtual currency” as such term is defined in the Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Virtual Currency Notice**”), which was jointly issued by the MOC and MOFCOM on June 4, 2009. PRC laws and regulations, including this notice, have provided various restrictions on virtual currency and imposed various requirements and obligations on online game operators with respect to the virtual currency used in their games. See “Regulatory Overview — Regulations Relating to Online Games — Virtual Currency.” Although we believe that the Virtual Currency Notice does not apply to our online games operation other than the online sale of in-game currencies, given the wide discretion in enforcement given to relevant governmental authorities and uncertainties in the regulatory environment, we cannot assure you that relevant governmental authorities will not in the future interpret the Virtual Currency Notice in a different way and subject the operation of our platform to the requirements of the Virtual Currency Notice or issue new rules to regulate virtual currency in our online games operation other than the online sale of in-game currencies. We must tailor our business model carefully in order to comply with the current PRC laws and regulations, including the Virtual Currency Notice, in a manner that in many cases can be expected to result in an adverse impact on our online games revenue.

**Fluctuations in the value of the Renminbi and other currencies may have a material and adverse impact on our results of operations and other comprehensive income or loss, as well as the value of your investment.**

In the Track Record Period, substantially all of our revenues and expenditures were denominated in Renminbi, while the net proceeds from the Global Offering will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar will affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our Consolidated Affiliated Entities. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations. During the Track Record Period, we recorded currency translation gains of RMB881.9 million and RMB3.9 billion in 2017 and the nine months ended September 30, 2020, respectively; and recognized currency translation losses of RMB1.8 billion, RMB911.0 million and RMB1.3 billion in 2018, 2019 and the nine months ended September 30, 2019, respectively, which were recognized as other comprehensive income/(loss) in our consolidated statements of comprehensive loss.



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Market forces or PRC or Hong Kong or U.S. government policy may adversely impact the exchange rate between the Renminbi, Hong Kong dollar and the U.S. dollar in the future. Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. The Renminbi has been unpegged from the U.S. dollar since July 2005 and, although the measures adopted by People's Bank of China in the foreign exchange market may impact Renminbi exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long-term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market in the future.

There remains significant international pressure on the PRC government to adopt a flexible currency policy to allow the Renminbi to appreciate against the U.S. dollar. Significant revaluation of the Renminbi may have a material and adverse effect on your investment. Substantially all of our revenues and costs are denominated in Renminbi and any significant revaluation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares in Hong Kong dollars. To the extent that we need to convert Hong Kong dollars into Renminbi for capital expenditures and working capital and other business purposes, appreciation of the Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, a significant depreciation of the Renminbi against the Hong Kong dollar may significantly reduce the Hong Kong dollar equivalent of our earnings, which in turn could adversely affect the price of our Class B Shares, and if we decide to convert Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares, strategic acquisitions or investments or other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

**Restrictions on the remittance of Renminbi into and out of the PRC and governmental control of currency conversion may limit our ability to utilize our revenues effectively and effect foreign exchange transactions, including our ability to pay dividends and perform other obligations, and may affect the value of your investment.**

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of

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dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

**PRC regulation of loans to and direct investments in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to Beijing Dajia and/or our Consolidated Affiliated Entities.**

Any funds we transfer to Beijing Dajia, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, the information of capital contributions to Beijing Dajia should be reported to the MOFCOM or its local branches and filed with other governmental authorities in China. Additionally, any foreign loan procured by Beijing Dajia is required to be registered with the SAFE or its local branches, and Beijing Dajia may not procure loans which exceed the difference between its registered capital and its total investment amount as approved by the MOFCOM or its local branches. Any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities for a term of over one year must be approved by the NDRC and the SAFE or its local branches. We may not obtain these governmental approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our Consolidated Affiliated Entities. If we fail to receive such approvals or complete such registrations, our ability to use the proceeds of the Global Offering and to capitalize our PRC operations may be negatively affected, which could adversely affect Beijing Dajia's liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE issued the Circular on Performing the Administration Approach regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises ("SAFE Circular 19"). SAFE Circular 19 allows foreign-invested enterprises in China to convert foreign currencies into Renminbi in order to pay their registered capital and make equity investments in Renminbi. However, it still prohibits foreign-invested enterprises from making

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security market investments, offering entrustment loans and purchasing any investment properties, unless otherwise permitted by other relevant PRC laws and regulations. As a result, SAFE Circular 19 may restrict our ability to convert, transfer and use the net proceeds from the Global Offering.

**Complexity, uncertainties and changes with respect to the PRC legal system, in particular those in relation to the internet industry and companies, could adversely affect us.**

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet industry-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve uncertainties and are subject to changes. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

**Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.**

Substantially all of our business is conducted in China and is governed by PRC laws and regulations. Beijing Dajia and our Consolidated Affiliated Entities are located in China and subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by relevant enforcement bodies to further apply and enforce such laws and regulations. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to online game development and operation. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by whom an application or case is presented to such agency, we may receive less favorable interpretation of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

**The M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth opportunities through acquisitions in China.**

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM and other government authorities jointly issued the Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) which was effective as of September 8, 2006 and amended on June 22, 2009 (the “M&A Rules”). The M&A Rules and other regulations and rules concerning mergers and acquisitions established procedures and

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requirements that could make merger and acquisition activities by foreign investors time consuming and complex. For example, the M&A Rules requires that MOFCOM be notified in advance of any change-of control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the SCNPC on August 30, 2007 and effective as of August 1, 2008 requires transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be notified and cleared by MOFCOM before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“**Circular No. 6**”), which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular No. 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns, and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. In August 2011, MOFCOM promulgated the Rules on Implementation of Security Review System (“**MOFCOM Security Review Rules**”), to replace the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM effective from March 2011 and expired by the end of August 2011, for implementing Circular No. 6. The MOFCOM Security Review Rules, which became effective on September 1, 2011, explicitly provide that MOFCOM will look into the substance and actual impact of the transaction and further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, and obtaining control through contractual arrangements or offshore transactions.

In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

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**Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional costs.**

Operating in the high-technology industry, Beijing Dajia, our WFOE, enjoys various types of preferential tax treatment according to relevant PRC tax laws. Beijing Dajia may, if it meets the relevant requirements, qualify for certain preferential tax treatment.

Beijing Dajia, became accredited as a high and new technology enterprise which enabled it to enjoy a preferential tax rate of 15% commencing from 2017. The high and new technology enterprise qualification is re-assessed by the relevant authorities every three years. In addition, Beijing Dajia was granted as “software enterprise,” which entitled it to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years from 2017. In 2020, Beijing Dajia was also qualified as “key national software enterprise” which entitled it to a further reduced preferential income tax rate of 10% starting from 2019, subject to annual assessment by relevant authorities. See “Financial Information — Taxation — PRC.” In 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, effects of preferential income tax benefits to Beijing Dajia were RMB45.1 million, RMB17.5 million, RMB113.9 million, RMB175.9 million and negative RMB973.6 million, respectively. Further, according to the relevant laws and regulations, Beijing Dajia is entitled to claim 175% of its research and development expenses as Super Deduction from January 1, 2018 as it engages in research and development activities. Before January 1, 2018, Beijing Dajia was entitled to claim 150% of its research and development as Super Deduction. In 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, we recorded income tax credits of RMB5.8 million, RMB11.8 million, RMB85.5 million, RMB60.0 million and RMB62.9 million, respectively, for Super Deduction of research and development expenses. See Note 13 to the Accountant’s Report set forth in Appendix I to this prospectus.

If Beijing Dajia fails to maintain its qualifications under the relevant PRC laws and regulations, its applicable enterprise income tax rates may increase to up to 25% or it may not be able to claim tax deductible expense, any of which could cause our income tax expenses to increase and have a material adverse effect on our results of operations. See “Risk Factors — Our business currently benefits from certain PRC government incentives. Failure to obtain government grants or preferential tax treatments that may be available to us, or the discontinuation, reduction or delay of any of the government grants or preferential tax treatments currently enjoyed by us in the future could materially and adversely affect our business, financial condition, results of operations and prospects.”

**Under the PRC enterprise income tax law, we may be deemed a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our Shareholders and have a material and adverse effect on our results of operations and the value of your investment.**

Under the PRC enterprise income tax law that became effective on January 1, 2008, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject

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to a uniform EIT tax rate of 25% on its worldwide income. On April 22, 2009, the SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People's Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the “**Circular 82**”), which sets out certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Further to the Circular 82, on July 27, 2011, the SAT issued the Administrative Measures of Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (“**SAT Bulletin 45**”), which became effective on September 1, 2011, to provide more guidance on the implementation of the Circular 82. According to the Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered a PRC tax resident enterprise by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (d) not less than half of the enterprise's directors or senior management with voting rights habitually reside in the PRC. SAT Bulletin 45 provides further rules on residence status determination, post-determination administration as well as competent tax authorities procedures.

Although the Circular 82 and SAT Bulletin 45 apply only to offshore-incorporated enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, our PRC Legal Advisor has advised us that the determination criteria set out therein may reflect the SAT's general position on how the term “de facto management body” could be applied in determining the tax resident status of offshore enterprises regardless of whether they are controlled by PRC enterprises, individuals or foreigners. We do not meet all of the conditions set out in the Circular 82. Therefore, we believe that we should not be treated as a “resident enterprise” for PRC tax purposes even if the standards for “de facto management body” prescribed in the Circular 82 applied to us. For example, our minutes and files of the resolutions of our Board of Directors and the resolutions of our Shareholders are maintained outside the PRC. However, the PRC tax authorities may take a different view. If the PRC tax authorities determine that our Cayman Islands holding company or any Hong Kong or BVI subsidiary is a PRC resident enterprise for PRC enterprise income tax purposes, its worldwide income could be subject to PRC tax at a rate of 25%, which could reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Although dividends paid by one PRC tax resident to another PRC tax resident should qualify as “tax-exempt income” under the enterprise income tax law, dividends paid by our PRC subsidiary to us or any of our Hong Kong or BVI subsidiaries could be subject to a 10% withholding tax if we or any of our Hong Kong or BVI subsidiaries were treated as a PRC resident enterprise. The PRC foreign exchange control authorities, which enforce the withholding tax on dividends, and the PRC tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes.



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If we are treated as a resident enterprise, non-PRC resident holders of Shares may also be subject to PRC withholding tax on dividends paid by us and PRC tax on gains realized on the sale or other disposition of Shares, if such income is sourced from within the PRC. The tax would be imposed at the rate of 10% in the case of non-PRC resident enterprise holders and 20% in the case of non-PRC resident individual holders. In the case of dividends, we would be required to withhold the tax at source. Any PRC tax liability may be reduced under applicable tax treaties or similar arrangements, but it is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Although our holding company is incorporated in the Cayman Islands, it remains unclear whether dividends received and gains realized by our non-PRC resident holders of Shares will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax will reduce the returns on your investment in our Class B Shares.

**We are subject to consumer protection laws and regulations that could require us to modify our current business practices and incur increased costs.**

Our e-commerce business is subject to numerous PRC laws and regulations that regulate retailers generally or govern online retailers specifically, such as the Law on Protection of Consumers' Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》) (the “**PRC Consumer Protection Law**”). If these regulations were to change or if we or our suppliers were to violate them, the costs of certain products or services could increase, or we could be subject to fines or penalties or suffer reputational harm, which could reduce demand for the products or services offered on our e-commerce platform and hurt our business and results of operations. For example, the amended PRC Consumer Protection Law, which became effective in March 2014, strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, with a particular focus on businesses that operate via the internet. Pursuant to the PRC Consumer Protection Law, consumers are generally entitled to return goods purchased within seven days upon receipt without giving any reasons if the purchases are made through the internet. Consumers whose interests have been harmed due to their purchase of goods or acceptance of services on e-commerce platforms may claim damages from sellers or service providers. Laws and regulations regarding consumer protection, particularly those involving transactions conducted over the internet, frequently change and are subject to interpretation. We are therefore unable to predict the ultimate cost of compliance with the relevant laws or regulations or their effect on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.



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**Our business currently benefits from certain PRC government incentives. Failure to obtain government grants or preferential tax treatments that may be available to us, or the discontinuation, reduction or delay of any of the government grants or preferential tax treatments currently enjoyed by us in the future could materially and adversely affect our business, financial condition, results of operations and prospects.**

During the Track Record Period, we received various government grants from local government authorities, including government grants and certain VAT subsidies, to reward our support for the development of local economies. Such government grants and VAT subsidies amounted to RMB19.3 million, RMB107.6 million, RMB292.6 million and RMB396.2 million in 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively. During the Track Record Period, we also received certain preferential tax treatment. Nevertheless, such government grants and preferential tax treatment are non-recurring in nature, and the governmental authorities may decide to reduce or cancel such government grants or preferential tax treatment at any time. The discontinuation, reduction or delay of these government grants or preferential tax treatment could adversely affect our business, financial condition, results of operations and prospects. In addition, we may not be able to successfully or timely obtain the government grants or preferential tax treatment that may become available to us in the future, and such failure could adversely affect our business, financial condition, results of operations and prospects.

**There are uncertainties with respect to indirect transfers of PRC taxable properties outside a public stock exchange.**

We face uncertainties regarding the reporting and consequences of private equity financing transactions, private share transfers, and share exchanges involving the transfer of shares in our Company by non-resident investors. According to the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), issued by the SAT on February 3, 2015 (“**Bulletin 7**”), an “indirect transfer” of assets of a PRC resident enterprise, including a transfer of equity interests in a non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises (“**Indirect Transfer**”), may be re-characterized and treated as a direct transfer of PRC taxable properties, if such transaction lacks reasonable commercial purpose and was undertaken for the purpose of reducing, avoiding or deferring PRC enterprise income tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and tax filing or withholding obligations may be triggered, depending on the nature of the PRC taxable properties being transferred. According to Bulletin 7, “PRC taxable properties” include assets of a PRC establishment or place of business, real properties in the PRC, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income tax. When determining if there is a “reasonable commercial purpose” for the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable properties; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC

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taxable properties have a real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable properties; and the tax situation of such Indirect Transfer outside China and its applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business of a foreign enterprise, the resulting gain is to be included with the annual enterprise filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to PRC real properties or to equity investments in a PRC resident enterprise, which are not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the competent tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest.

Currently, Bulletin 7 does not apply to the sale of shares by investors through a public stock exchange where such shares were acquired in a transaction on a public stock exchange. The PRC tax authorities could, at their discretion, adjust any capital gains and impose tax return filing and withholding or tax payment obligations and associated penalties with respect to any internal restructuring, and our PRC subsidiary may be requested to assist in the filing. Any PRC tax imposed on a transfer of our Shares not through a public stock exchange, or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in our Company.

**We may rely on dividends paid by our WFOE to fund cash and financing requirements and our Consolidated Affiliated Entities are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.**

We are a holding company, and we may rely on dividends to be paid to us by our WFOE, Beijing Dajia, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our Shares and to service any debt we may incur. If Beijing Dajia incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, a wholly foreign-owned enterprise in China, such as Beijing Dajia, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of Beijing Dajia to pay dividends or

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make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

Furthermore, the ability of Beijing Dajia to pay dividends in turn depends on service fees paid by our Consolidated Affiliated Entities pursuant to the Contractual Arrangements. Each of our Consolidated Affiliated Entities is required to set aside at least 10% of its accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. As of September 30, 2020, we had made appropriations of such statutory reserves. Although Beijing Dajia, our Consolidated Affiliated Entities and their subsidiaries have no plan to pay any dividends in the foreseeable future, if they incur debt on their own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

In addition, the PRC enterprise income tax law and its implementation rules provide that a withholding tax rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC and governments of other jurisdictions in which the non-PRC-resident enterprises are incorporated. As of September 30, 2020, Beijing Dajia and our Consolidated Affiliated Entities (including their subsidiaries) had not paid any dividends and had no plan to pay any dividends in the foreseeable future.

**It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.**

All of our executive Directors and executive officers reside within China, and substantially all of our assets are located within China. Therefore, it may be difficult for investors to effect service of process upon us or our executive Directors and officers inside China or to enforce against us or them in China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts of the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

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

Pursuant to the Notice on Strengthening the Administration on Enterprise Income Tax for Non-Resident Enterprise Equity Transfer (the “**SAT Circular 698**”) issued by the SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, and such overseas holding company is

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located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority of the PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

On February 3, 2015, the SAT issued the Bulletin 7. Bulletin 7 supersedes the rules with respect to the Indirect Transfer under SAT Circular 698, but does not touch upon the other provisions of SAT Circular 698, which remain in force. Bulletin 7 has introduced a new tax regime that is significantly different from the previous one under SAT Circular 698. Bulletin 7 extends its tax jurisdiction to not only Indirect Transfers set out under SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, Bulletin 7 provides clearer criteria than SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Bulletin 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10%, for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws and regulations if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, SAT issued the Announcement on Issues Concerning the Withholding of Enterprise Income Tax at Source on Non-PRC Resident Enterprises (《關於非居民企業所得稅源泉扣繳有關問題的公告》) (the “**Bulletin 37**”), which, among others, repeals the SAT Circular 698 on December 1, 2017. Bulletin 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises under SAT Circular 698, and certain rules stipulated in Bulletin 7 are replaced by Bulletin 37. Where the non-resident enterprise fails to declare the tax payable pursuant to Article 39 of the Enterprise Income Tax, the tax authority may order it to pay the tax due within required time limits, and the non-resident enterprise shall declare and pay the

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tax payable within such time limits specified by the tax authority; however, if the non-resident enterprise voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

There are uncertainties as to the application of Bulletin 7 and Bulletin 37. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Bulletin 7 and Bulletin 37 may be determined by the tax authorities to be applicable to previous investments by non-resident investors in our Company, if any, if such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing non-resident investors may become at risk of being taxed under Bulletin 7 and Bulletin 37 and may be required to expend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we should not be taxed under Bulletin 7 and Bulletin 37, which may have a material and adverse effect on our financial condition and results of operations or such non-resident investors’ investments in us. We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

**PRC regulations relating to offshore investment activities by PRC residents may limit our Consolidated Affiliated Entities’ ability to increase their registered capital or distribute profits to us and our ability to reinvest in our Consolidated Affiliated Entities and may otherwise expose us to liability and penalties under PRC law.**

In July 2014, the SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by the SAFE, local banks will

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examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015. If our Shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiary may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws and regulations for evasion of applicable foreign exchange restrictions. However, we may not at all times be fully aware or informed of the identities of all our Shareholders or beneficial owners that are required to make such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such Shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, and limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

**The PRC Labor Contract Law, any labor shortages, increased labor costs or other factors affecting our labor force may adversely affect our business, profitability and reputation.**

During the Track Record Period, we engaged third-party employment agencies to dispatch or outsource contract workers. On December 28, 2012, the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**PRC Labor Contract Law**”) was amended to impose more stringent requirements on labor dispatch and such amendments became effective on July 1, 2013. For example, the number of dispatched contract workers that an employer hires may not exceed a certain percentage of our total number of employees, to be decided by the Ministry of Human Resources and Social Security and the dispatched contract workers may only engage in temporary, auxiliary or substitute work. According to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched contract workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched contract workers). The Interim Provisions on Labor Dispatch further requires the employer that is not in compliance with the above provisions to formulate a plan to reduce the number of its dispatched contract workers to below 10% of the total number of its employees before March 1, 2016. In addition, an employer is not permitted to hire any new dispatched contract worker until the number of its dispatched contract workers has been reduced to below 10% of the total number of its employees. In the Track Record Period, our total dispatched contract workers have not exceeded 10% of our total number of employees. However, the application and interpretation of these requirements under the amended PRC Labor Contract Law are limited and uncertain. If we decide to increase our number of dispatched workers in the future and were found to be in violation of the rules regulating dispatched contract workers, we may be subject to fines and penalties. Such penalties, and any labor shortages, increased labor costs or



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other factors affecting our labor force in relation thereto, may adversely affect our business, profitability and reputation. Further, labor disputes, work stoppages or slowdowns at our Company or any of our third-party service providers could significantly disrupt our daily operation or our expansion plans and have a material and adverse effect on our business.

**Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.**

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies must submit applications to SAFE or its local branches for foreign exchange registration with respect to offshore special purpose companies. In the meantime, our Directors, executive officers and other employees who are PRC citizens or who are non-PRC residents residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, and who have been granted incentive share awards by us, must follow the Circular on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Companies (“SAFE Circular 7”), promulgated by the SAFE in 2012. Pursuant to the SAFE Circular 7, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted options will be subject to these regulations when our Company becomes an overseas listed company upon the completion of the Global Offering. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital towards our PRC Holdcos and limit our PRC Holdcos’ ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our Directors, executive officers and employees under PRC law.

The SAT has issued certain circulars concerning equity incentive awards. Under these circulars, our employees working in China who exercise share options or are granted restricted shares or restricted share units will be subject to PRC individual income tax. Our PRC Holdcos have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities.



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### RISKS RELATED TO THE WVR STRUCTURE

**Our proposed dual-class structure with voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Shares may view as beneficial.**

Our authorized share capital will be divided into Class A Shares and Class B Shares immediately prior to the completion of the Global Offering. In respect of matters requiring the votes of Shareholders, holders of Class A Shares will be entitled to ten votes per share, while holders of Class B Shares will be entitled to one vote per share based on our proposed dual-class share structure, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote. We will issue Class B Shares in the Global Offering. Each Class A Share is convertible into one Class B Share at any time by the holder thereof, while Class B Shares are not convertible into Class A Shares under any circumstances. Upon any transfer of any Class A Shares by a holder hereof to any person who is not any of Mr. Su Hua and Mr. Cheng Yixiao or their respective affiliates, such Class A Shares shall be automatically and immediately converted into an equal number of Class B Shares.

Immediately after the completion of the Global Offering, Mr. Su Hua and Mr. Cheng Yixiao, being the co-founders and executive Directors of our Company, will beneficially own all of our issued Class A Shares, representing 69.63% of the aggregate voting power of our total issued and outstanding share capital immediately after the completion of the Global Offering due to the disparate voting powers associated with our dual-class share structure, assuming the Underwriters do not exercise their Over-Allotment Option. For further details about our shareholding structure, see “Share Capital — Weighted Voting Rights Structure.”

After completion of the Global Offering, Mr. Su Hua and Mr. Cheng Yixiao will have considerable influence over matters requiring Shareholder approval, such as electing Directors and approving material mergers, acquisitions, or other business combination transactions. This concentration of voting power may discourage, delay, or prevent a change of control of our Company, which could have the effect of depriving our other Shareholders of the opportunity to receive a premium for their Shares as part of a sale of our Company and may reduce the price of our Shares. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover, or other change of control transactions that holders of Class B Shares may view as beneficial.

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### RISKS RELATED TO THE GLOBAL OFFERING

**There has been no prior public market for our Class B Shares and the liquidity and market price of our Class B Shares may be volatile.**

Prior to the completion of the Global Offering, there has been no public market for our Class B Shares. There can be no guarantee that an active trading market for our Class B Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Joint Representatives (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Class B Shares will be traded following the completion of the Global Offering. The market price of our Class B Shares may drop below the Offer Price at any time after completion of the Global Offering.

**The trading price of our Class B Shares may be volatile, which could result in substantial losses to you.**

The trading price of our Class B Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performances of and fluctuations in the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatilities in the price and trading volumes of our Class B Shares. A number of China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based companies listed in Hong Kong and consequently may impact the trading performance of our Class B Shares. These broad market and industry factors may significantly affect the market price and volatility of our Class B Shares, regardless of our actual operating performance.

**The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and substantial shareholders, could adversely affect the market price of our Class B Shares.**

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and substantial shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Class B Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

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The Shares held by our substantial shareholders are subject to certain lock-up periods beginning on the date on which trading in our Class B Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Class B Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Class B Shares they may own now or in the future. In addition, certain existing Shareholders of our Class B Shares are not subject to lock-up agreements. Market sale of Class B Shares by such Shareholders and the availability of these Class B Shares for future sale may have negative impact on the market price of our Class B Shares. See “History and Corporate Structure — Corporate Structure — Corporate structure immediately following the Global Offering” for more details of the existing Shareholders not subject to lock-up agreements.

**You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Class B Shares is higher than the net tangible book value per Class B Share immediately prior to the Global Offering, purchasers of our Class B Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Class B Shares in the Global Offering may experience further dilution in their shareholding percentage.

**There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this prospectus.**

This prospectus, particularly “Industry Overview,” contains information and statistics relating to our industry. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

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**If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our Class B Shares and trading volume could decline.**

The trading market for our Class B Shares may be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our Class B Shares, the market price for our Class B Shares would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume of our Class B Shares to decline.

**As we do not expect to pay dividends in the foreseeable future after the Global Offering, you must rely on price appreciation of our Class B Shares for return on your investment.**

We currently intend to retain most, if not all, of our available funds and any future earnings after the Global Offering to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Class B Shares as a source for any future dividend income.

Our Board of Directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Board of Directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our Board of Directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions, and other factors deemed relevant by our Board of Directors. Accordingly, the return on your investment in our Class B Shares will likely depend entirely upon any future price appreciation of our Class B Shares. There is no guarantee that our Class B Shares will appreciate in value after the Global Offering or even maintain the price at which you purchased the Class B Shares. You may not realize a return on your investment in our Class B Shares and you may even lose your entire investment in our Class B Shares.

**Certain judgments obtained against us by our Shareholders may not be enforceable.**

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our Directors and executive officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon these individuals, or to bring an action against us or against these individuals in Hong Kong in the event

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that you believe your rights have been infringed under the Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

**Since we are incorporated under the Cayman Islands law, you may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong courts may be limited.**

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Memorandum of Association and Articles of Association, the Cayman Companies Act (2021 Revision) and the common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, actions by minority Shareholders and the fiduciary duties of our Directors to us under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England and Wales, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary duties of our Directors under the Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions. In particular, the Cayman Islands has a less developed body of securities laws than Hong Kong. Hong Kong has more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, the Cayman Islands companies may not have standing to initiate a shareholder derivative action in Hong Kong courts.

Shareholders of Cayman Islands exempted companies like us have no general rights under the Cayman Islands law to inspect corporate records (other than the memorandum and articles of association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies) or to obtain copies of lists of shareholders of these companies. Under the Cayman Islands law, the names of our current Directors can be obtained from a search conducted at the Registrar of Companies. Our Directors will have discretion under the Memorandum of Association and Articles of Association we expect to adopt, to determine whether or not, and under what conditions, our corporate records may be inspected by our Shareholders, but are not obliged to make them available to our Shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a Shareholder resolution or to solicit proxies from other Shareholders in connection with a proxy contest.

As a result of all of the above, our public Shareholders of Class B Shares may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board of Directors or Controlling Shareholders than they would as public shareholders of a company incorporated in Hong Kong. For a discussion of significant differences between the provisions of the Cayman Companies Act (2021 Revision) and the laws applicable to companies incorporated in Hong Kong and their shareholders, see “Summary of the Constitution of our Company and Cayman Companies Act” in Appendix IV to this prospectus.

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**You must rely on the judgment of our management as to the use of the net proceeds from the Global Offering, and such use may not produce income or increase the price of our Class B Shares.**

Our management will have considerable discretion in the application of the net proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not improve our efforts to achieve or maintain profitability or increase the price of Class B Shares. The net proceeds from the Global Offering may be placed in investments that do not produce income or that lose value.

**Waivers have been granted from compliance with certain requirements of the Listing Rules. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.**

We have applied for, and the Hong Kong Stock Exchange and SFC has granted to us, a number of waivers from strict compliance with the Listing Rules. See “Waivers from Strict Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (Winding up and Miscellaneous Provisions) Ordinance.” There is no assurance that the Hong Kong Stock Exchange or SFC will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multijurisdictional compliance, all of which could materially and adversely affect us and our Shareholders.

**You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.