

## RISK FACTORS

*You should carefully consider all of the information set out in this document before making an [REDACTED] in the Shares, including the risks and uncertainties described below in respect of our business, our industry and the [REDACTED]. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such an event, the market price of our Shares could decline, and you may lose all or part of your [REDACTED]. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.*

### RISKS RELATED TO OUR BUSINESS AND INDUSTRY

**A small number of games have generated a substantial majority of our revenues and the growth of our revenue in 2020 and the first six months of 2021 compared with prior periods relied heavily on one of these games. Failure to maintain the success and extend the lifecycle of these games and competition from other games of the same genre with similar content may materially and adversely affect our business and results of operations.**

During the Track Record Period, we derived a substantial majority of our revenues from a small number of landmark games, including *The Marvelous Snail* (最強蝸牛), *Gumballs & Dungeons* (不思議迷宮), *Lantern and Dungeon* (提燈與地下城), *Ares Virus* (阿瑞斯病毒) and *Eternal Adventure* (無盡大冒險). These landmark games in aggregate contributed over 90% of our total revenues during the Track Record Period. In particular, *The Marvelous Snail* (最強蝸牛) generated revenues of RMB1,170.0 million and RMB516.5 million in 2020 and the six months ended June 30, 2021, respectively, accounting for 95.3% and 67.7% of our total revenues in these respective periods, and therefore it was the main driver for our net profit growth in these periods. As *The Marvelous Snail* entered the maturity stage, its revenue growth has slowed down, and its ranking decreased to No. 6 on the iOS Bestseller Games List in China in the first eight months of 2021 compared to No. 2 in 2020. In addition, its average MAUs and average MPUs decreased during the eight months ended August 31, 2021 compared to the year of 2020. Therefore, we cannot assure you that our revenue and net profit will continue to grow at a rate comparable to that during the Track Record Period. We expect that our existing and future landmark games will continue to generate the majority of our revenues. Should there be (i) any decline in the number of game players of these games, (ii) any failure by us to upgrade, enhance or optimize these games in a timely manner or at all, (iii) any lasting or prolonged server interruption due to network failures or other reasons, or (iv) any other unfavorable changes made to these games, our business, financial condition and results of operations could be materially and adversely affected.

While we plan to launch a number of new games, game editions or updates, we cannot ensure that these games will be popular among players and commercially successful. Additionally, our games are subject to limited lifecycles. Despite our efforts to extend their lifecycles by issuing new editions or updates, we cannot assure you that our landmark games can remain attractive to game players as long as we expect, given that game players change their preferences all the time. Furthermore, the genre, presentation, content and core gameplay of our landmark games are possible to be adopted, imitated or replicated by other game developers. They may leverage better game development technologies, more abundant capital resources and more extensive distribution networks to develop and publish similar games that compete directly with our landmark games. As a result, our player base may be eroded and the level of player engagement with our landmark games may decrease. If our limited number of landmark games become less attractive or if the revenue generated from these games declines in any short or extended period of time for any reason, our business, financial condition and results of operations could be materially and adversely affected.

**The PRC government and regulatory authorities in other jurisdictions may promulgate new laws and regulations affecting our business, and considerable uncertainties exist with respect to their interpretation and implementation. Our failure to comply with laws and regulations as they change from time to time could materially and adversely affect our business, financial condition and results of operations.**

Our business operations are subject to a variety of laws and regulations in China and other jurisdictions, affecting various aspects of our operations, including ownership structure, requisite licenses, marketing strategy,

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game stories, customer relationships and intellectual property. Local laws or regulations in overseas markets where we distribute our games may also be applicable to us. See “Regulatory Overview” for more information on relevant laws and regulations. In the event that we fail to comply with these laws and regulations and material fines and/or proceedings are made against us by regulatory authorities and/or affected parties, our business, financial condition and results of operations may be materially and adversely affected.

In addition, the regulatory environments applicable to our business in the PRC and overseas are complex, and many laws and regulations are still developing and new laws and regulations may be adopted or amended from time to time. The promulgation of new laws and regulations that restrict or otherwise unfavorably affect the ability or manner in which we operate would require us to adopt certain changes to ensure compliance, and could reduce demand for our services, reduce our revenue, increase our costs, adversely affect our profitability and/or subject us to additional liabilities, such as the Notice on Further Strict Administration to Prevent Minors from Indulging in Online Games (《國家新聞出版署關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》) issued by the GAPP on August 30, 2021. See “—Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of game player information by us or third parties, could damage our reputation, adversely affect our game player base or engagement, or subject us to governmental regulation and other legal obligations” and “—The PRC laws and regulations governing the playing time and players’ age of online games may materially and adversely affect our business and operations” for more information related to the recent development regarding cybersecurity laws and regulations in China. Even if no new law or regulation on the online game industry will be implemented in the PRC, the regulatory environment would still be difficult to predict and it is uncertain how the existing laws and regulations in the PRC will be enforced.

**We may not be successful in developing new games, and if we are unable to effectively control our research and development costs, our results of operations may be materially and adversely affected.**

During the Track Record Period, we primarily developed games in-house. As of the Latest Practicable Date, our game portfolio consisted of six games, four of which were developed in-house. At of the same date, our game pipeline included 10 games, four of which were developed in-house, and we own the IP for these self-developed games. The rest of these existing and pipeline games were in-licensed from third-party game developers, mostly companies we invested in to which we provided advice for their game development. We publish and operate the in-licensed games. The continued success of our business will depend on our research and development capabilities. Our ability to develop successful new games will largely depend on our ability to:

- generate ideas that can translate into engaging and commercially successful games;
- interweave our publishing and operation team’s input in our game development process;
- track and adapt to rapidly changing technologies and game industry trends;
- continuously innovate and capture evolving preferences and demands of game players;
- attract, retain and motivate talented game development personnel;
- organize efficient game testing and minimize launch delays and cost overruns in the development of new games, game editions or updates;
- design effective monetization strategies without degrading the gameplay experience for our players; and
- effectively execute our game development plans.

In addition, in-house development requires a substantial initial investment prior to the launch of a game, as well as a significant commitment of future resources to produce updates and expansion packs. In 2018, 2019,

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2020 and the six months ended June 30, 2021, we incurred research and development expenses of RMB25.3 million, RMB25.6 million, RMB146.1 million and RMB18.0 million, respectively. We expect a significant portion of our revenue to continue being derived from games developed in-house in the foreseeable future. However, we cannot assure you that we will be able to continuously develop and roll out new games that are well accepted by the market and that we will be able to effectively control our research and development expenses. Any failure to do so will negatively impact our game portfolio and pipeline and our cost structure, and consequently our results of operations.

**Our new games may not be commercially successful if we fail to adapt our games to new trends and attract new game players.**

We cannot assure you that the new games we develop or license in will be commercially successful. We operate in a market characterized by rapidly developing technologies, evolving industry standards, frequent new game launches and updates and changing player preferences and demands. The good market reception of our games and our ability to effectively monetize depend in significant part on our ability to adapt to these rapidly changing new trends as well as our ability to continually innovate in response to evolving game player preferences and demands and intense market competition. Any failure on our part to act effectively in any of these areas may materially and adversely affect our business, financial condition and results of operations, and you should not use the success of our existing games as an indication of the future commercial success of any of the games in our pipeline.

Many factors could adversely affect the market reception of our new games, including:

- our ability to anticipate and adapt to future technological developments, evolving industry standards, new business models and evolving player preferences and demands;
- our ability to efficiently operate our games and resolve technical difficulties and player complaints;
- our ability to publish our games efficiently and effectively in compliance with laws and regulations across multiple jurisdictions;
- our ability to plan and organize online and offline marketing and promotion activities; and
- our ability to improve our existing games and differentiate our new games from those offered by our competitors.

Moreover, after the launch of a new game, it may take time for us to assess whether the game will eventually become commercially successful. The length of the growth stage for building up player base and achieving market coverage can be uncertain, and the rise in popularity of new games during the growth stage can be slow, if it happens at all. If a game fails to be as commercially successful as we expected, we may not be able to realize the failure until several months or even longer after the launch of the game, and we may not be able to come up with solutions to mitigate our loss in a timely and effective manner. The situation may worsen when the growth stage of a new game coincides with the inevitable recession stage of our old games. All of the above situations may result in a significant loss of game players, and our business, financial condition or results of operations may be materially and adversely affected.

**We may not be able to maintain existing players and attract new players or keep our players engaged in our games, and new games may attract players away from our existing games, which could adversely affect our results of operations.**

Our business growth depends on our ability to attract new players and retain existing players and keep them engaged with our games. To maintain and expand our player base, we must continue to invest significant resources in research and development to enhance our existing games and timely launch new, high-quality

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games, game editions or updates. Our game development capability largely depends on our ability to anticipate and effectively respond to changing player interests and preferences and changes in the competitive landscape. Failure to timely launch popular games and keep enhancing our existing games to meet the demands of the players may lead to slower-than-expected increases or even decreases in our player base and the player’s engagement with our games. In addition, we cannot guarantee that our games will continue to maintain their current level of popularity or that rapidly changing industry trends and player preferences will not make our games obsolete over time. Moreover, to attract, retain and engage players, we must also devote significant resources to enhancing our player experience on an on-going basis—including by enhancing the functions and technical and artistic features of our games in a manner that appeals to our demographically diverse players and ensuring the reliability of our game operating systems. In addition, player support, including player service and technical support, is critical to retaining current players and attracting potential players. For example, if we otherwise fail to provide effective player service, our players may be less inclined to play our games or recommend our games to other potential players, and may decide to play games offered by our competitors. Some China-based internet companies have experienced group complaints, sometimes organized by their competitors or people attempting to profit from these complaints. If we face similar group complaints in a short time frame, we may be unable to effectively handle customer service requests from our players. Failure to maintain effective player support could harm our reputation and our ability to grow our play base, which may materially and adversely affect our results of operations.

In addition, our new games may lure players away from our existing games, and erode the player base for those games. This could in turn make the relevant existing games less attractive to other players, who may look at the rankings to decide which games to play, which could result in a decline in revenue from our existing games. Players of our existing games may also spend less purchasing virtual items in our new games than they would have done had they continued playing the existing games.

If we are unable to maintain existing players and attract new players or keep players engaged in our games as a result of the foregoing or otherwise, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Our profitability depends largely on the lifecycle of each game, and we cannot guarantee a game’s duration at each lifecycle stage or its revenue-generating capability at each stage.**

Our mobile games generally experience several stages in their lifecycles, including (i) the growth stage, during which we build up a player base and achieve market coverage; (ii) the maturity stage, during which the game tends to continuously and steadily generate revenue and the number of game players generally remains stable; and (iii) the recession stage, during which the number of game players and revenue generated by the game decline. Our games generate a significant portion of their revenues from either the growth stage or the maturity stage. However, the lifecycle stages vary from game to game and may not be indicative of a game’s rate of growth and revenue-generating capability. In addition, we cannot assure you for how long a game would stay at each lifecycle stage, or that a game with a shorter maturity stage may generate more revenue than a game with a longer maturity stage.

**If we fail to keep up with technological developments or anticipate or successfully adapt our games to new trends, our business prospects and results of operations could be materially and adversely affected.**

China’s mobile game industry is evolving rapidly. We need to keep up with new technologies and new standards set by governmental regulations and constantly adapt to new industry trends. We evaluate these changes as they emerge and strive to adapt our business and operations to maintain and strengthen our position in the industry. Any failure to do so may adversely affect our business prospects and results of operations.

The mobile game industry is subject to rapid changes in technologies and standards. We need to anticipate the emergence of new technologies and assess their market acceptance. In addition, some major industry players are creating games that incorporate virtual and/or augmented realities to deliver an immersive gameplay experience. Furthermore, government authorities or industry organizations may adopt new standards that apply to

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game development. We will need to continue to invest significant financial resources in product and infrastructure development to keep up with the pace of technological advancements and hence strengthen our player base. However, game development is inherently uncertain, and our significant investment in technology may not generate expected benefits. If we fall behind in adopting new technologies or standards, our existing games may lose popularity and our newly developed games may not be well received by our players. In addition, we may incur significant cost overruns in game testing, optimization and publication, which would have an adverse impact on our results of operations and profitability.

Moreover, our ability to plan for game development, distribution and promotional activities will be significantly affected by our ability to anticipate and adapt to industry trends, including rapid changes in demographics, tastes and preferences of our existing and prospective players, game content trends and distribution models. In addition, although mobile games are becoming increasingly popular in China, there is no assurance that they will continue to sustain their popularity. Other forms of entertainment may emerge and become popular at the expense of mobile games. Any decline in the growth of the mobile game industry in China or in the popularity of mobile games in general, or our games in particular, would harm our business and prospects.

**A vast majority of our revenue is derived from sales of in-game virtual items, and failure to monetize effectively through this virtual item-based revenue model may adversely affect our business.**

Our games are currently in the mobile application form and are primarily free to download and play. We believe that this freemium model helps to attract a wide audience of players and increase the potential paying users because they feel less burdened when no fee is required to start a game and they have discretion regarding in-game purchases.

In 2018, 2019 and 2020 and the six months ended June 30, 2021, our average MPUs were 163 thousand, 114 thousand, 495 thousand and 575 thousand, respectively, representing 9.6%, 9.2%, 14.4% and 18.8%, respectively, of the average MAUs for the same periods. As a result, the numbers of our cumulative registered players and active players do not necessarily indicate our actual and potential revenue-generating capabilities. Our sustainable revenue growth depends in part on our ability to effectively encourage more gamers to make or increase their in-game virtual item purchases. However, spending in our games is discretionary, and gamers, especially the ones attracted by the freemium model, can be sensitive to the price of the virtual items. Consequently, we have made great efforts in marketing in-game virtual items and carefully assess the pricing of these items to optimize user monetization, but these efforts may not be as effective as we anticipate. We might also fail to identify and introduce new and popular virtual items and price them appropriately.

In addition, while ARPPU of our mobile games increased from RMB49 in 2018 to RMB62 in 2019 and further to RMB206 in 2020 and RMB221 in the six months ended June 30, 2021, we cannot assure you that this virtual item-based revenue model will continue to be commercially viable. There can be no assurance that gamers will continue to accept this model. New revenue models may emerge given the rapidly evolving game industry and competitive landscape, which may force our transition into the new models and cause us to experience difficulties in effectively adjusting to these new models, or at all. As a result, our business, results of operations and prospects may be materially and adversely affected.

We also need to provide easy, fast and safe payment solutions to our game players to facilitate in-game purchases and prevent our game players from being discouraged or inconvenienced by complicated online payment processing procedures. We cannot assure you that our third-party payment service providers will operate consistently in an efficient way, and any interruption of their payment services could affect the monetization of our game player base, which in turn could adversely affect our revenue and profitability. See “—We rely on third-party online payment channels for payment collection. Any interruption of their services or unintended leakage of confidential information may materially and adversely affect our reputation and business” for more information on our cooperation with third-party online payment channels.

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**The mobile games industry in which we operate is rapidly changing, and our growth prospects could suffer if the industry does not develop as anticipated.**

We derive a substantial majority of our revenue in China. Therefore, our business operation is mainly subject to the overall prosperity of China’s mobile game industry, which may fluctuate significantly from time to time. In recent years, we have witnessed rapid industry evolution driven by the increasing popularity and constant technological upgrades of smartphones, the introduction of new business models, the development of player preferences, market entry by new competitors and the adoption of new strategies by existing competitors. We expect these trends to continue, and we must continue to adapt our strategy to successfully compete in the industry. Numerous technologies and business models at varying stages of development, such as tablets and other mobile internet handsets involving new mobile technologies, could render certain current technologies or applications that we are using obsolete. Accordingly, it is difficult to accurately predict player acceptance of new technologies and business models and their demand for our various existing and future games and the future size, composition and growth of this industry.

According to Frost & Sullivan, China’s mobile game market grew from RMB97.2 billion in 2016 to RMB239.6 billion in 2020, representing a CAGR of 25.3%. Given the limited history and rapidly evolving nature of this market in China, the historical growth rate may not be sustained and is subject to various factors beyond our control, including the general economic conditions, people’s leisure time and spending, and changes and uncertainties of relevant laws, rules and regulations, none of which can be predicted with certainty. See “Industry Overview” for more information on the development of China’s mobile game industry. Any fluctuation or downturn in the overall development of China’s mobile game industry may reduce demand for our games and thus materially and adversely affect our business and results of operations.

**The markets in which we operate are highly competitive. If we are unable to compete effectively against our competitors, our game player base, market share and profitability may be materially and adversely affected.**

China’s mobile game industry is, and is expected to remain, highly competitive. According to Frost & Sullivan, in China’s mobile game market, the top five market players collectively held a market share of 72.5%, and the top two market players dominated the market with their aggregate market share of 60.4%, as measured by revenue in 2020. The mobile game markets outside mainland China that we are expanding into, such as the markets in Hong Kong, Macau, Taiwan, Japan, South Korea, Southeast Asia, Europe and the U.S., may also be highly competitive. Our competitors may have more diversified game portfolios, greater brand recognition, stronger relationships with third-party publishers or distributors, larger game player bases, longer operating histories or greater financial, technological or marketing resources. As a result, they may be able to respond more quickly and effectively to new or changing opportunities, technologies, regulatory requirements or game player demands than we do. As competition intensifies, we may need to devote more research and development as well as marketing resources and incur higher operating expenses. We may also have to offer more incentives to our game players and third-party game developers, publishers, studios and distributors, which could adversely affect our profitability. All of these make it difficult to evaluate our business prospects. If we fail to compete cost-effectively or at all, our market share could decline and our results of operations could be materially and adversely affected.

**We in-license games from certain third-party developers. Any loss or deterioration of our relationships with these third-party developers may materially and adversely affect our business and results of operations.**

We have in-licensed games from certain third-party game developers which we have made minority equity investments in, and in-licensed Project B from the G-bits Group. Two of our six existing games and six of our 10 pipeline games as of the Latest Practicable Date were in-licensed from these third-party developers. Under our game licensing agreements, we have been granted exclusive licenses to publish and operate the licensed games, which has been a significant revenue source for us. See “Business—Our Business Processes—Game Developing—Game Licensing” for a summary of the terms of the game licensing agreements. We cannot assure

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you, however, that we will be able to maintain stable business relationships with all of the third-party game developers or that we would be able to continue licensing in games from them. For example, our competitors may offer them more favorable conditions in exchange for exclusive licenses, and the third-party developers may decide or be forced to discontinue their game development business. Additionally, any failure on our part, including failing to properly operate and monetize their games and safeguard their intellectual properties, may adversely affect our business relationship with them.

**We use third parties to publish, distribute, promote or operate certain of our games in designated markets, and any termination or deterioration of our relationships with, or under-performance of, these third parties may result in a loss of players and revenue.**

We work with third-party publishers to publish, promote and operate certain of our games in designated markets. In addition, we cooperate with major game distribution channels such as iOS App Store, Google Play, TapTap, Bilibili, Huawei AppGallery, OPPO App Market, VIVO App Store, and Xiaomi App Store to distribute certain of our games. We also engage KOLs to promote our games. Our amicable and stable relationships with, and the competency and performance of, these third parties are crucial to our business. In particular, given that we are expanding into overseas markets, including Hong Kong, Macau, Taiwan, Japan, South Korea, Southeast Asia, Europe and the U.S., we value our relationships with local publishing, distribution or operating partners and their capabilities and resources. Our largest publisher accounted for 44.8%, 35.6%, 4.7% and 2.5% of our total revenues in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. Our business may be materially and adversely affected if our third-party game publishers, distributors (such as the widely used app stores) or operators discontinue or limit our access to their platforms, establish more favorable relationships with one or more of our competitors, fail to effectively promote our games or otherwise fulfill their contractual obligations, experience deterioration in operations or underperformance, or fail to obtain or maintain the licenses required to publish or distribute our games.

Disputes with our game publishers, distributors or operators or KOLs who help to promote our games, such as disputes relating to game intellectual property, liability limitations, risk allocation or revenue sharing arrangements, may also arise from time to time. We cannot guarantee that we will be able to resolve these disputes amicably or at all. Besides, some publishers may also develop and publish their own games. We are therefore subject to direct competition and potential conflicts of interest with these publishers. If our collaboration with a major game publisher, distributor or operator or influential KOLs fails or deteriorates for any reason, we may be unable to find a replacement in a timely manner or at all, and the distribution of our games may be adversely affected. Any failure to maintain a stable business relationship with a sufficient number of popular platforms could cause a decrease in downloads of our games, which would have a material adverse effect on our business and results of operations.

In addition, we have benefited from certain of our game publishing and distribution channels. If any of them experience deterioration in operations or underperformance, such as losing their market position or otherwise falling out of favor with game players, or encountering any other factors that cause their game player base to stagnate or even shrink, we may need to identify alternatives for publishing, promoting and distributing our games, which, if available at all, would consume considerable resources and could adversely affect our business.

**Any restriction on access to the Internet or major distribution channels, such as iOS App Store and Google Play, or failure to maintain relationships with the distribution channels, could lead to a loss or slow the growth of our game players.**

Our game players need to access the Internet and major game distribution channels such as iOS App Store, Google Play, TapTap, Bilibili, Huawei AppGallery, OPPO App Market, VIVO App Store, and Xiaomi App Store, to download our games. Laws and regulations or government authorities may block or limit the access to the Internet generally or these platforms for reasons of security, confidentiality, data privacy or other concerns, and there is no assurance that we will be able to maintain stable relationships with these platforms. For example, Google Play has become inaccessible in China. If the distribution channels operate in a way that contravenes applicable laws and regulations or if government authorities identify potential issues raising concerns of negative

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social impact, these platforms may face temporary or prolonged suspension of operations, and we may be unable to continue our relationships with these channels. Any restriction on access to the Internet in general or these distribution channels or the failure to maintain relationship with these distribution channels could lead to a loss or slower the growth of our game players. In case an important distribution channel (such as iOS App Store) is inaccessible in China, we will resort to other distribution channels available to us, same as other game companies in the industry. That said, our business, results of operations and prospects may be materially and adversely affected by limited access to distribution channels.

**Any failure or significant interruption in our technology infrastructure or any flaws in our games, including programming errors or defects in our games, undetected by us and other game developers, could harm our reputation or decrease market acceptance of our games.**

We may experience technology infrastructure disruptions, outages and other large-scale performance problems due to a variety of factors, including technology infrastructure changes, human or software errors, hardware failure, capacity constraints due to an unusually large number of game players accessing our games simultaneously, computer viruses and denial of service, fraud and security attacks, whether these disruptions, outages or other problems are caused by ourselves or by third-party service providers. In addition, we may fail to timely monitor and report these disruptions. As our game players increase and our player-generated data continues to grow, we may be required to expand and adapt our technology infrastructure to support our game players and maintain reliable storing, processing and analysis of the data. It may become increasingly difficult and costly to maintain and improve the performance of our services to game players, especially during peak usage times, as game traffic increases. The disruptions, outages or other problems might make some or all of our systems or data unavailable or prevent us from efficiently providing services to our game players. If game players are unable to access our services in a timely manner, or at all, gameplay experience of our game players may be compromised, and the game players may seek games from our competitors to meet their needs and may not play our games as often in the future, or at all. This may materially and adversely affect our ability to retain or grow our game player base or maintain the level of game player engagement and/or perception of our games.

In addition, our games are subject to frequent updates, and may contain bugs or flaws that can only become apparent when the updates are accessed by a number of game players, especially when we launch updates under a tight schedule. If the programming bugs affect the gameplay experience of our game players severely, or we cannot resolve the bugs in a timely manner for any reason, we may lose some of our game players, and the reputation of our games may be harmed. Any of the above factors could may adversely affect our business and results of operations.

**We rely in significant part upon effective interoperation with mobile operating systems, networks and mobile devices whose standards we do not control.**

We make our games available across a variety of mobile operating systems and devices. We are dependent on the interoperability of our games with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in these mobile operating systems or devices that reduce the functionality of our games or give preferential treatment to competing games may negatively affect the gameplay experience of our game players or divert our game players to our competitors. In addition, to deliver high-quality games, it is important that our games work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. If it becomes difficult for our game players to access and play our games, our game player growth and game player engagement could be harmed. Furthermore, if the number of platforms for which we develop or adjust our games increases, which is typically seen in the dynamic and fragmented mobile internet market in China, it will result in an increase in our costs and expenses. Any of the above factors could adversely affect our business and results of operations.

**The successful operation of our business depends on the performance and reliability of the Internet infrastructure and telecommunications networks in China.**

With a substantial majority of our operations (including the development and operations of our games) based in China, we rely on wireless and landline telecommunications networks in China to manage game player



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accounts and player-generated data, facilitate data transmission and communications, and monitor the overall operational status of our games. The national networks in China are connected to the Internet through international gateways controlled by the PRC government, which are the only channels through which a game player in China can connect to the Internet. These international gateways may not match with the continued growth in Internet traffic and game players’ evolving demand in China. We cannot assure you that the development of information infrastructure and telecommunications networks in China will be adequate to support our operations and growth, especially when our games may need to accommodate more game players as we grow our business. In addition, in the event of any infrastructure disruption or failure, we may not be able to access alternative networks and services timely, or at all, which could have a material adverse effect on our business, results of operations and prospects.

### **Our exploration of additional revenue sources may not be successful.**

Although we anticipate that our revenues generated from the sales of in-game virtual items will continue to constitute a substantial majority of our future revenues, we are exploring additional revenue sources as well, which may not be successful. For example, we commenced our information service business in 2018. In 2018, 2019, 2020 and the six months ended June 30, 2021, we derived 0.0%, 2.0%, 6.1% and 1.9%, respectively, of our total revenues from our information services, representing our performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers’ products and services in our games to players. Our ability to generate and maintain significant advertising revenue will depend on a number of factors, including:

- the development of a large player base possessing demographic characteristics attractive to advertisers;
- competition in online advertising prices in similar and alternative channels;
- ability to optimize advertising strategies in our games without significantly affecting gameplay experience; and
- relationship with advertising distribution, delivery and tracking platforms.

In addition, changes in government regulations and policies could restrict or curtail our online advertising services. The acceptance of the Internet as a medium for advertising also depends on the development of a measurement standard. No standards have been widely accepted for the measurement of the effectiveness of online advertising. Industry-wide standards may not develop sufficiently to support the Internet as an effective advertising medium. If these standards do not develop, advertisers may choose not to advertise on the Internet in general or through our media platforms.

Competition in the online advertising industry in China is intense with numerous competitors. We have undertaken various measures to grow our advertising business and cater to changes in the needs of our advertising service customers. However, we cannot assure you that any of these strategies will be successful in improving the financial results of our advertising business.

We are also exploring the possibility of commercializing our game IPs into game peripheral products to diversify our revenue sources and enhance our market recognition. Revenue from these products was immaterial during the Track Record Period.

Despite our best efforts, our diversification initiatives may not succeed and may divert our management’s attention, subject us to additional costs and liabilities or result in diversion of our resources. As a result, our business, results of operations and prospects may be materially and adversely affected.

### **We may fail to expand into new genres or types of games to keep up with industry trends or increase our profitability, which could adversely affect growth prospects.**

Although our existing game portfolio comprises mostly idle games (a type of casual games) or rogue-like RPGs, we are expanding to include other genres and types of games, such as parkour, SLG (including tower

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defense and others), ACT, STG and ACT RPG. To operate games in a new genre or type, we must either develop the games by ourselves, or identify and obtain licenses for games with high monetization potential from third-party game developers. Because new genres of games tend to require technologies we are less familiar with, our game development may encounter technical difficulties, budget overruns and delays. If and when the games are licensed in, we will also depend on these developers to provide technical support and develop updates and expansion packs to sustain players’ interest and attract new players. We may not be able to successfully establish relationships with high-quality game developers and obtain licenses to their games, and we cannot guarantee that the games will eventually become commercially successful. Expansion into new genres or types of mobile games may also present operating and marketing challenges that are different from those for our existing games. In addition, we face competition from existing players within these markets who may have more experience and resources.

**Players’ violations of our game policies, such as sales and purchases of virtual items used in our games through unauthorized third parties, unauthorized character enhancements and other hacking or dishonest activities may degrade our players’ gameplay experience and adversely affect our business growth.**

We have established game policies against unauthorized and inappropriate game player behavior. Under these policies, we disallow and disable sale of in-game virtual items among players, and we discourage our players’ gifting, lease, sale or transfer of game accounts to other players. However, from time to time, unauthorized transactions are arranged through third-party channels or platforms which we are not able to monitor or control. Any of these unauthorized purchase and sale could impede our revenue and profit growth by (i) creating downward pressure on the prices we charge game players for our virtual items, (ii) increasing costs we incur to develop technological measures to curtail unauthorized transactions, (iii) increasing game player service costs to comfort dissatisfied game players and (iv) increase our administrative costs related to resolving user disputes and complaints related to the virtual items and accounts. In addition, transactions through unauthorized third-party channels may involve fraud that is beyond our control, and we may face potential claims from our game players in connection with their losses resulting from third parties’ fraudulent activities. These claims, regardless of merit, may harm our reputation, divert our management’s attention and cause additional expenses in defending against these claims.

Furthermore, third parties may develop cheating systems that enable game players to exploit vulnerabilities in our games or obtain unfair advantages over other game players, such as by enabling unauthorized character enhancements and other hacking or dishonest activities. These cheating systems may harm the experience of players who play fairly and may disrupt the virtual economies of our games. In addition, unrelated third parties may attempt to scam our players with fake offers for virtual goods or other game benefits. We have taken measures to discover and prevent these practices and activities. However, if we fail to discover or prevent these cheating and scamming activities timely and effectively, our operations may be disrupted, our reputation may be damaged and our game players may quit our games. These consequences in turn may cause losses of our revenue from paying players, increase our cost of developing technological measures to combat these cheating activities, result in legal claims against us relating to the decrease in value of our virtual items, and increase our cost of game player services to comfort dissatisfied game players.

**We rely on our data analysis capabilities. Any inability to access and capture accurate data may materially and adversely affect our ability to develop and implement appropriate business strategies.**

We process large volumes of data related to our games. We have developed a proprietary technology program with strong data analysis capabilities that integrate and track our mobile game business operations, including payment channel management, player research and game services.

By utilizing sophisticated algorithms, we are able to analyze player preference of a particular kind of games so that we can adjust our game development and operation strategies accordingly. For example, while purchasing user traffic by means of advertisement placements, we are able to identify and focus on the particular groups of viewers who tend to be more interested in our game at issue. This allows us to maximize our cost efficiency and enhance the attractiveness of our games, design virtual items that are desirable to mobile users in China and other

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locations where we operate, and properly deploy and price the virtual items to enhance our monetization. Moreover, our servers and the SDK modules embedded in our mobile game applications jointly support various functions within our games, including analysis of player and game data, central management of player accounts, account security, payment gateway connectivity, player communication and cross-promotion functions.

Any systems failure or compromise of our ability to process and analyze large volumes of player data could significantly limit our ability to optimize player experience of our games and develop appropriate business strategies, which may materially and adversely affect our business prospects and results of operations.

**We rely on assumptions and estimates to calculate certain operating metrics, and inaccuracies in such metrics may harm our reputation and adversely affect our business.**

Certain operating metrics, such as MAU, MPU, ARPPU, cumulative registered users, number of followers on social media platforms and other player community related metrics, in this document are calculated using our internal data that have not been independently verified by third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are inherent challenges in measuring usage and user engagement across our large user base. In addition, our operating metrics are derived and calculated based on different assumptions and estimates, and you should be cautious of such assumptions and estimates when assessing our operating performance.

We cannot assure you about the indicative value of our operating metrics. They are derived and calculated based on various assumptions and estimates, which may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in data availability, sources and methodology. Any material inaccurate data analytics may lead to inappropriate operational and strategic decisions. If third parties do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and third parties may be less willing to allocate their resources or spending to us, which could adversely affect our business and operating results.

**Our global expansion, including distribution of our games to the overseas markets, could subject us to additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs and hinder such growth.**

While a substantial majority of our operations are in China, we have been expanding into overseas markets. We have limited experience in, and only generated insignificant revenue from, the overseas markets during the Track Record Period. As such, we may not be able to properly use the approximately [REDACTED] of the [REDACTED] from the [REDACTED] as we planned to expand our business in the overseas markets. Expanding our business overseas exposes us to a number of risks, including:

- our ability to localize games and adapt them to local preferences without compromising their content;
- our ability to protect our intellectual property rights overseas and manage the related costs;
- our ability to prudently implement our business strategies and manage the expansion;
- our ability to effectively control our costs associated with doing and expanding business in foreign jurisdictions; and
- difficulty in identifying appropriate partners, such as distribution and publishing partners, and establishing and maintaining good cooperation relationships with them.

These and other risks associated with international activities could also significantly affect our financial condition and operating results. We cannot assure you that our employees, contractors, or agents will not violate our policies or the laws and regulations in jurisdictions where we operate or our games are distributed. Any these violations could materially and adversely affect our financial condition or operating results.

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### **Changes in international trade policies and barriers to trade or the emergence of a trade war may have an adverse effect on our business and expansion plans.**

In recent years, international market conditions and the international regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. Changes in international trade policies, barriers to trade or the emergence of a trade war could adversely affect the financial and economic conditions in China and other jurisdictions in which we operate, as well as our international and cross-border operations, our financial condition and results of operations.

A trade war has persisted between the United States and the PRC. The government of the United States has sought to blacklist certain PRC technology companies, which would make it difficult for those companies to conduct business with enterprises in the United States. Among the blacklisted PRC technology companies, some are PRC mobile phone manufacturers which utilize major game distribution channels such as Google Play. To comply with the government directives of the United States, some of the U.S. distribution channels have suspended certain software and technical services to relevant PRC mobile phone manufacturers, which would prevent the users of those mobile phones from accessing those distribution channels. If the trade war continues to intensify, further restriction of access to the distribution channels on those PRC mobile phone manufacturers may result in a loss or slower the growth of our game players; accordingly our business and expansion plans could be adversely affected.

### **Unsanctioned use of our services in specific jurisdictions may give rise to regulatory risks.**

Internet-based business is generally not bounded, which means game players from all over the world can access our games and we do not restrict access from any specific jurisdiction unless the local regulators so require. Generally, a game player in mainland China is required to provide proof of identity such as an identification number when applying for a player account, or represent that he/she is not barred from receiving our services under PRC laws and local regulations. Depending on the distribution channel through which the player acquires the game, either the third-party distribution channel or we ourselves will perform identity checks. To date, we are not aware of any regulatory regime, nor have we received any notice from any local regulators or major distribution channels, which requires us to restrict access to, or take down, our games in any specific jurisdiction. Although we do not believe that the mere fact that our games are accessible in a particular jurisdiction necessarily subjects us to the local laws and regulations, we cannot assure you that the local regulators share the same understanding. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services by local players may subject us to regulatory risk, including monetary penalties or injunctions, which may adversely affect our business operations. For example, we have implemented measures to prevent the game players from using fake identity for our games in China, including by matching the ID number with the documented legal name of the purported player. However, we do not perform identity checks in overseas markets that are served by third-party publishers we engage. We cannot assure you that all game players have provided genuine identification information or that we will not be subject to fines or legal or administrative proceedings.

In addition, the United States and other jurisdictions or organizations, including the European Union and the United Nations, have, through executive orders, passing of legislation or other governmental means, implemented measures that impose economic sanctions against certain countries or jurisdictions, or against targeted industry sectors, groups of companies or persons, and/or organizations within these countries or jurisdictions. Currently, we do not and also do not plan to operate in jurisdictions that are subject to comprehensive international sanctions, and we do not have third-party game publishers in comprehensively sanctioned jurisdictions. However, it is possible that our games could be accessed in such comprehensively sanctioned jurisdictions or by sanctioned persons. We cannot predict the interpretation or implementation of government policies in the United States at the federal, state or local levels or any policy of the European Union, the United Nations and other applicable jurisdictions with respect to any current or future activities by us, our affiliates or third-party publishers in countries subject to international sanctions and with sanctioned persons. As a result, we cannot assure you that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the authorities of the

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U.S. or any other government or organization that, with or without jurisdiction over our business, assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provide a basis for a sanctions designation of us. In addition, as many sanction programs are constantly evolving, new requirements or restrictions could come into effect, which might increase scrutiny of our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

**Any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, including privacy concerns relating to unauthorized use of game player information by us or third parties, could damage our reputation, adversely affect our game player base or engagement, or subject us to governmental regulation and other legal obligations.**

We collect, store, transmit and process a large volume of personally identifiable information and other player-generated data, and almost all of our player-generated-content is stored on servers maintained by third parties. Therefore, we face risks inherent in handling and transferring a large volume of data and in protecting the security of these data. We may be exposed to risks of security breaches or unauthorized access to or cyber-attacks on our systems or the data we store, software bugs, system errors or other technical deficiencies, mistakes or malfeasance of our employees or contractors, vulnerabilities of our vendors and service providers, or other cybersecurity-related vulnerabilities. We have adopted rigorous measures to reduce the cross-border transfer of player data, established stringent guidelines and deployed corresponding software to protect the security of, and against unauthorized access to, our systems, as well as the security of personal data and proprietary information. However, it is possible that our security controls and other security practices may not prevent the improper access to or disclosure of personal data or proprietary information. For example, a party who is able to circumvent these security measures could misappropriate proprietary information or cause interruptions in our operations, and our information systems may become unavailable or fail to perform as anticipated for other various reasons, including viruses, loss of power or human error. Any system failure or security breach that results in the release of, or unauthorized access to, personal data, could result in loss or misuse of these data, impairment of our technological infrastructure, interruptions to the services we provide, diminished players’ gameplay experience, loss of player confidence and trust in our products, harm to our reputation, significant legal and financial exposure and potential lawsuits brought by private individuals or enforcement actions by regulators, increased costs and loss of revenue. Consequently, we may be required to expend significant capital and other resources to prevent these security breaches or to alleviate problems caused by these breaches. The perception that we cannot adequately protect our players’ privacy may also cause us to lose our current players or deter potential players from playing our mobile games that require the collection of player data.

Additionally, since we conduct our business primarily on mobile devices, our business operation may be harmed by players’ concerns over playing games on their mobile devices. For instance, malware has been disguised as popular mobile games on Android devices. Some malware will subscribe to paid services without player consent, resulting in fraudulent charges to players. We cannot assure you that our security measures will prevent security breaches or that players’ interest in playing mobile games would continue if we experienced problems with malware. Failure to prevent security breaches or players’ concerns over mobile device malware may have a material adverse effect on our business, prospects, financial condition and results of operations.

We are subject to laws and regulations of China and other countries and regions relating to the collection, use, retention, disclosure and transfer of personally identifiable information and player-generated data. The intent of these laws and regulations is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. Given that we are expanding the distribution of our games to overseas markets, including Hong Kong, Macau, Taiwan, Southeast Asia, Japan, South Korea, Europe and the U.S., we are or will be subject to corresponding legislation and regulation in these jurisdictions. Data protection laws and regulations or privacy policies in China and in these overseas markets continue to develop and may vary from jurisdiction to jurisdiction and we need to comply with emerging and changing international requirements. For example, the Cyber Security Law of the PRC (中華人民共和國網絡安全法), which came into effect on June 1, 2017, requires certain authorization or consent from internet users prior to collection, use or disclosure of their personal data as well as protection of the security of the personal data of such users. The

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Regulation on Cyber Protection of Children’s Personal Information (兒童個人信息網絡保護規定) issued by the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) (the “CAC”), which took effect on October 1, 2019, requires that internet operators who collect, store, use, transfer and disclose personal information of children under the age of 14 must establish special rules and user agreements for the protection of children’s personal information, inform the children’s guardians in a noticeable and clear manner and obtain the consent of the children’s guardians. Our games published in the United States make us subject to the Children’s Online Privacy Protection Act, or COPPA, which regulates the collection of information online from children under the age of 13, and the Federal Trade Commission Act, which prohibits unfair or deceptive actions both online and offline and has been applied to data security and online privacy regulation. In addition, the California Consumer Privacy Act that became effective on January 1, 2020, or the CCPA, creates new data privacy rights for users and new operational requirements for businesses. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing (and sales of personal data) and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation.

In particular, the PRC laws and regulations in relation to data privacy, cybersecurity, and online games are still evolving, and it is uncertain whether new legislation, regulations or interpretations governing our business activities may be promulgated or adopted in the future. We cannot rule out the possibility that our business operations may be interpreted as non-compliance under the applicable laws and regulations in the future.

Cybersecurity and data privacy and security issues are subject to increasing legislative and regulatory focus in China. The Data Security Law of the People’s Republic of China (中華人民共和國數據安全法), which took effect on September 1, 2021, requires that data collection must be conducted in a legitimate and proper manner, and in order to safeguard data, data processing activities must be conducted to comply with respective graded protection systems for cybersecurity. On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law (中華人民共和國個人信息保護法) (the “PIPL”), which took effect on November 1, 2021. The PIPL further emphasizes processors’ obligations and responsibilities for personal information protection and sets out the basic rules for processing personal information and the rules for cross-border transfer of personal information. See “Regulatory Overview—Regulations relating to Personal Privacy and Data Protection” for more details. On July 10, 2021, the Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室) (the “CAC”) released the Measures for Cybersecurity Review (Revised Draft for Comments) (網絡安全審查辦法 (修訂草案徵求意見稿)) (the “**Draft Cybersecurity Review Measures**”). The Draft Cybersecurity Review Measures expand the scope of cybersecurity review to include (i) critical information infrastructure operators (the “CIIOs”) who purchase network products and services, which affects or may affect national security; (ii) operators who engage in data processing activities, which affects or may affect national security; and (iii) operators that are in possession of more than 1 million users’ personal information seeking a listing in a foreign country. The contents of the Draft Cybersecurity Review Measures are still under discussion and have certain ambiguities, for example, whether the term “listing in a foreign country” includes all listings outside mainland China, such as in Hong Kong, will be clarified when it is promulgated.

In addition, on November 14, 2021, the CAC issued the Draft Data Security Regulations, pursuant to which, data processors carrying out the following activities must, in accordance with the relevant national regulations, apply for a cybersecurity review: (a) the merger, reorganization or spin-off of internet platform operators that possess a large number of data resources related to national security, economic development and public interests that affects or may affect national security; (b) listing in a foreign country of data processors that process the personal information of more than 1 million users; (c) listing in Hong Kong of data processors that affects or may affect national security; and (d) other data processing activities that affect or may affect national security. As advised by our PRC Legal Advisor, the scope of and threshold for determining what “affects or may affect national security” is still subject to uncertainty and further elaboration by the CAC. The term “national security” is defined as “the status of national regime, sovereignty, unity and territorial integrity, people’s well-being, sustainable economic and social development, and other major national interests that are relatively safe and free from internal and external threats, as well as the ability to ensure continuous security” in the *National Security Law of the PRC* (《中華人民共和國國家安全法》). In the absence of further explanation or interpretation, the

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PRC government authorities may have wide discretion in the interpretation of “affects or may affect national security.”

The Draft Data Security Regulations were released for public comment only as of the Latest Practicable Date and their operative provisions and the anticipated adoption or effective date may be subject to substantial uncertainty. Therefore, we cannot predict the impact of these regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the Draft Data Security Regulations are fully implemented as is, subject to further official guidance and related implementation rules, and our activities are deemed as “affect or may affect national security,” we may be subject to a cybersecurity review and failure to conduct such review could result in warnings and fines; and if we refuse to rectify or have caused severe consequences such as endangering data security, we may be further subject to suspension of our non-compliant operations, revocation of relevant approvals or business licenses or other sanctions, which could materially and adversely affect our business and results of operations.

These and other similar legal and regulatory developments could lead to legal and economic uncertainty, affect how we operate our business and how we process and transfer data. We may also incur substantial costs to comply with such laws and regulations and to establish and maintain internal compliance policies.

See “Regulatory Overview—Regulations Relating to Information Security and Censorship” for more details.

In addition, on July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council promulgated Opinions on Rigorously Cracking Down on Illegal Securities Activities (關於依法從嚴打擊證券違法活動的意見) (the “**Opinions on Illegal Securities Activities**”). Pursuant to the Opinions on Illegal Securities Activities, the supervision on Chinese companies which get listed overseas shall be strengthened, laws and regulations in relation to data security, cross-border data flow, and confidential information management shall be improved, and the extraterritorial application of capital market laws shall be established and improved. See “Regulatory Overview—Regulations relating to Information Security and Censorship.” Although the implementation and enforcement of the Opinions on Illegal Securities Activities are still subject to the promulgation of specific implementation rules, such opinions might mark a trend toward more stringent supervision of Chinese companies listed overseas and data security, which could increase our potential liability and adversely affect our operation.

These laws and regulations are continuously evolving and can be subject to significant change. New laws, regulations and governmental policies may be adopted from time to time by the PRC government to address new issues that come to the authorities’ attention. We would strive to comply with all obligations under applicable laws, regulations policies, and industry codes of conduct. However, given that the scope, interpretation, and application of these rules are often uncertain, it is possible that these obligations may be interpreted and applied in a manner that may not be consistent with other rules or our practices. Any failure by us to comply with relevant obligations, could have a materially adverse effect on our business operations, cause us to incur substantial costs or require us to change our business practices in a manner which may be materially adverse to our business.

In addition, as we have players based in Europe and we plan to also distribute our games to Europe in the future, the European General Data Protection Regulation, or GDPR, which took effect in May 2018, may also apply to us. The GDPR imposes stringent obligations and operational requirements on companies that receive or process personal data of residents of the European Union (the “EU”), including, for example, requiring expanded disclosures to data subjects about how their personal data is to be used, limitations on retention of information, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained either valid consent or have another legal basis in place to justify their data processing activities. The GDPR also places restrictions on transfers of personal data outside of the European Economic Area to countries which have not been deemed “adequate” by the European Commission (including the United States and the PRC, among others). Moreover, the GDPR enhances the rights of data subjects, who may, for example, request access to their personal data, the deletion and amendment of their personal data, or to have their

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personal data transferred to another service provider. The GDPR has resulted, and will continue to result, in significantly greater compliance burdens and costs for companies with users or operations in the EU. Under the GDPR, data protection supervisory authorities are given various enforcement powers, including levying fines of up to 20 million Euros or up to 4% of an organization’s annual worldwide turnover, whichever is greater, for the preceding financial year, for non-compliance. Data subjects also have the right to be compensated for damages suffered as a result of a controller or processor’s non-compliance with the GDPR. While the GDPR provides a more harmonized approach to data protection regulation across the EU member states, it also gives EU member states certain areas of discretion and therefore laws and regulations in relation to certain data processing activities may differ for each member state, which could further limit our ability to use and share personal data and could require localized changes to our game operations.

Furthermore, we may need to comply with regulations in other territories that may impose further onerous compliance requirements, such as data localization, which prohibits companies from storing data relating to resident individuals in data centers outside the jurisdiction. The proliferation of these laws within jurisdictions and countries in which we operate may result in conflicting and contradictory requirements. To ensure our compliance with all these requirements, we may need to put in place additional mechanisms and incur substantial costs. Any failure or perceived failure by us to comply with or to accurately anticipate the application, interpretation or legislative expansion of any privacy policies or regulatory requirements could result in proceedings or actions against us by government authorities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

**We may not be successful in enhancing our brand recognition, and any negative publicity, regardless of veracity, may harm our brand and the games we publish.**

We have built our brand in the mobile game industry, which is critical to our business operations and continuous efforts to increase our game players and enhance our recognition among our business partners. Our business and financial performance is highly dependent on the strength and the market perception of our brand and the games we publish.

Additionally, any negative publicity, regardless of their veracity, involving us, our management, employees, games, game players, business partners or our industry may harm our brand and hence the games we publish. In particular, given the nature of the mobile game industry, we are more exposed and susceptible to negative publicity. We may not be able to defuse any negative publicity about us, our employees or our games to the satisfaction of our game players and business partners. Negative publicity about our brand may also require us to engage in defensive media campaigns and legal actions, which may increase our marketing or legal expenses and divert our management’s attention and may materially and adversely affect our brand image, our business, financial condition and results of operations.

**If we are unable to conduct our sales and marketing activities in a cost-effective manner, our results of operations and financial condition may be materially and adversely affected.**

In 2018, 2019, 2020 and the six months ended June 30, 2021, our selling and marketing expenses were RMB13.9 million, RMB16.8 million, RMB559.2 million and RMB245.1 million, respectively, representing 14.1%, 18.9%, 45.6% and 32.1% of our total revenue during these respective periods. In particular, our traffic acquisition expenses represented 53.3%, 18.8%, 77.7% and 58.8% of our total selling and marketing expenses in these respective periods. The significant marketing and promotion expenses drove down our net profit margin in 2020 and adversely affected our net profit margin in the first six months of 2021. In addition, there is no assurance that our sales and marketing activities will always be well received by mobile game players or result in the levels of player retention and payment that we anticipate. Failure to properly utilize or refine our existing marketing approaches in a cost-effective manner or introduce new cost-effective marketing approaches could reduce our market share, cause our revenues to decline and negatively impact our profitability.



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

We regard our proprietary domain names, copyrights, trademarks, trade secrets and other IP rights to be critical to our business operation. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality and licensing agreements and other methods to protect our intellectual property rights. However, the protection of intellectual property rights in China may not be as effective as those in the United States or other countries. Some players may illegally modify our games so that they can obtain our in-game virtual items for free. Reverse engineering, unauthorized copying or other misappropriation of our technologies, or unauthorized access of our games could enable third parties to benefit from our technologies or games without compensating us. Moreover, unauthorized use of our technology could enable our competitors to offer products and services that are comparable to or better than ours, which could harm our business and competitive position. Monitoring unauthorized use of intellectual property is difficult and costly, and the steps we or our business partners have taken may not fully prevent the infringement or misappropriation of our intellectual property rights or unauthorized use of our brand or games. From time to time, we may have to enforce our intellectual property rights and brand through litigation, which may result in substantial costs and diversion of resources and management attention.

**We may be subject to claims by third parties for intellectual property rights infringements, which could cause us to incur significant legal expenses and prevent us from promoting our products and services.**

Due to the nature of our business as a game developer, we are subject to legal proceedings and claims relating to the intellectual property rights from time to time in the ordinary course of our business. There are inherent uncertainties associated with legal proceedings. If the court rules against us, we may be obliged to cease operation of certain of our games, which may in turn have a material adverse effect on our financial condition and results of operations.

Any these proceedings or actions or claims, with or without merit, could be costly and distract our management from day-to-day operations. If we fail to successfully defend against these claims or do not prevail in such proceedings, we may be prohibited from using the relevant intellectual property rights, subject to fines and penalties, or be required to modify, optimize or cease operating the games, or satisfy indemnification obligations that we have with some of our game players, or enter into royalty or licensing arrangements with license fees or be forced to develop alternatives. Any royalty or licensing arrangements that we seek in these circumstances may not be available to us on commercially reasonable terms or at all. Moreover, we may incur substantial legal expenses in defending against these third-party infringement claims, regardless of their merits. Our exposure to infringement actions may increase when we rely on third-party intellectual property providers as our only source of verifying the origin and ownership of the intellectual property. This exposure to liability could result in disruptions in our business that could materially and adversely affect our results of operations.

In addition, some of our employees were previously employed by other companies, including our current and potential competitors. We also intend to hire additional personnel to enrich our talent pool. If these employees are involved in our research and development of technologies similar to work products at their former employers, we may become subject to claims that these employees or we have appropriated proprietary information or intellectual property of these employees’ former employers. If we fail to successfully defend such claims against us, we may be exposed to liabilities which could have a material adverse effect on our business and reputation.

For further details regarding risks relating to legal proceedings, see “—Risks Relating to Our Business and Industry—We may become a party to legal or administrative proceedings or regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operations and cash flows.”

**We may be held liable for inappropriate online communications or content made by our players.**

Our game players are encouraged to communicate with each other through our in-game platforms. While most game players share their gameplay experience or information about promotional activities on these

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platforms, some may engage in illegal, obscene or incendiary conversations that may result in a negative impact among other players. Although we screen certain words according to lists maintained by ourselves or provided by the relevant government authorities, we cannot assure you that all the sensitive information contained in our game players’ conversations can be identified. This information or content may be deemed unlawful under applicable laws and regulations, and government authorities may require us to discontinue or restrict certain features, services or games that would have led, or may lead, to these events or terminate contracts with responsible service providers. We may incur significant costs in investigating and defending ourselves for claims or penalties caused by the improperly-disseminated information, and our business, financial condition, results of operation and prospects may be materially and adversely affected.

**We may become a party to legal or administrative proceedings or regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operations and cash flows.**

We may be subject to various legal and administrative proceedings, regulatory inquiries and claims that arise in the ordinary course of our business. Agreements entered into by us sometimes include indemnification provisions which may subject us to costs and damages in the event of a claim against an indemnified third party. In particular, we may be subject to various intellectual property claims, including patent, copyright and trademark disputes, relating to intellectual property used in our games. We cannot assure you that we will not be involved in any such legal or administrative proceedings in the future and we may face increasing regulatory inquiries during the growth of our business. If one or more legal or administrative matters, including ongoing ones, are resolved against us, or an indemnified third party seeks certain amounts in excess of our management’s expectations, or certain injunctions are granted to prevent us from operating our games, our business and financial condition could be materially and adversely affected. As a result, we could be subject to significant compensatory or punitive monetary damages, disgorgement of revenue or profits, remedial corporate measures, cessation of business operation, injunctive relief or specific performance against us that could materially and adversely affect our financial condition and operating results.

**Our failure to obtain, renew or retain requisite licenses, permits or approvals may adversely affect our ability to conduct our business.**

Our mobile game operation and our sale of peripheral products require us to obtain and maintain applicable licenses and approvals such as the ICP License, and Internet Culture Operation License to support our lawful operation. These licenses, permits or approvals are subject to regular government review or renewal. Although we did not have incidents of material non-compliance with respect to the licenses during the Track Record Period, we cannot assure you that we can successfully obtain, update or renew all the required licenses, permits and approvals in a timely manner, which may subject us to various penalties such as imposition of fines, discontinuation or restriction of our operations, and confiscation of illegally obtained revenue. In addition, we cannot assure you that our third-party publishers or distributors have obtained and will timely renew required licenses, permits or approvals for publishing or operating our games. Any penalties arising from violations of applicable laws may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

The Internet Culture Operation License held by QC Cultural expired in March 2021 and the Internet Culture Operation License held by QC Digital expired in August 2021. However, in May 2019, the general office of the MOCT released the Notice on Adjusting the Scope of Examination and Approval regarding the Internet Culture Operation License to Further Regulate the Approval Work (關於調整《網絡文化經營許可證》審批範圍進一步規範審批工作的通知) (the “**Notice**”), which specifies that the MOCT no longer assumes the responsibility for the administration of the online game industry and no longer approves or issues the Internet Culture Operation Licenses within the business scope of “operating online games via the internet,” “operating online games via the internet (including the issuance of virtual currencies used for online games)” or “conducting trade of virtual currencies used for online games via the internet.” On July 10, 2019, the MOCT issued the Decision on the Abolition of the Interim Measures for the Administration of Online Games and the Administrative Measures for Tourism Development Plan (關於廢止《網絡遊戲管理暫行辦法》和《旅游發展規劃管理辦法》的決定) (the

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“Abolition Decision”), which specifies that the Online Game Measures were abolished by the MOCT on July 10, 2019. Since (i) the MOCT has ceased to assume the responsibility for the administration of the online game industry and no longer approves or issues the Internet Culture Operation Licenses regarding online games since May 2019 and (ii) as of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated to specify which governmental authority would undertake such supervision responsibility, whether and how our Internet Culture Operation Licenses can be renewed are subject to new laws and regulations and supervision requirements by new PRC regulatory authorities in the future. Therefore, considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. If we are not able to renew our Internet Culture Operation Licenses or to obtain any necessary licenses in a timely manner, or at all, after the promulgation of new laws and regulations that require us to do so, we may be required to suspend or cease our online game operation, which would materially and adversely affect our business, results of operations and financial condition. We will closely monitor the latest regulatory developments and make every effort to comply with any new regulations and policies.

Furthermore, we and our third-party publishers or distributors might be required to seek additional licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and our games may be subject to additional regulation and oversight, such as reporting to regulators, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the jurisdictions in which we operate regarding these activities may lessen the growth of online game services and impair our business.

**We rely on third-party online payment channels for payment collection. Any interruption of their services or unintended leakage of confidential information may materially and adversely affect our reputation and business.**

We rely on major third-party payment channels, such as Alipay and WeChat Pay, to facilitate and collect game players’ payment for in-game virtual items. We are subject to various risks and uncertainties associated with these third-party online payment channels. Any interruption in their payment services could adversely affect our payment collection, and in turn, our revenue.

In all online payment transactions through third-party payment channels, secured transmission of players’ confidential information, including credit card and bank account numbers, personal information and billing addresses, over public networks, is essential for maintaining player confidence. We do not have control over the security measures of the third-party payment channels, and their security measures may not be adequate at present or may not be adequate with the expected increased usage of online payment systems. We could be exposed to litigation and potential liabilities if we fail to safeguard players’ confidential information, which could harm our reputation and our ability to attract or retain players and may have a material adverse effect on our business.

Furthermore, our payment channels are subject to various laws and regulations regulating electronic funds transfers and virtual currencies, which could change or be reinterpreted in a way that will adversely affect their compliance. If our payment channels experience any non-compliance incidents, they may be subject to fines and higher transaction fees and even lose their ability to accept online payments from our players, which in turn would materially and adversely affect our ability to monetize our game player base.

**We are subject to credit risk associated with our trade receivables. Any payment delays or defaults from the third-party game publishers, distribution channels and advertising customers may materially and adversely affect our cash flow and results of operations.**

We receive sales proceeds collected from our game players by third-party game publishers and distribution channels through third-party payment channels, and we also have amounts due from advertising customers. We generally offer credit terms ranging from 30 to 60 days to the game publishers, distribution channels and advertising customers, and our cash flow may be materially and adversely affected by any deterioration in their credit quality. We assess the credit quality of the third-party game publishers, distribution channels and payment

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channels based on their track record and other factors. We also monitor our outstanding trade receivables regularly. However, we cannot guarantee collection of amounts due in a timely manner. If our business partners delay or default on their payments, for reasons including non-payment or requests for refund by game players, deterioration or termination of our relationship with these business partners or a general decrease in their business, we may not be able to fully recover the outstanding amounts due from them and we may have to make provision for impairment, write off the relevant receivables and/or incur legal costs to enforce our rights. As of December 31, 2018, 2019 and 2020 and June 30, 2021, our trade receivables amounted to RMB13.9 million, RMB10.2 million, RMB121.5 million and RMB72.2 million, respectively. We made allowance for impairment of trade receivables of RMB656 thousand, RMB717 thousand, RMB232 thousand and RMB126 thousand as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. See “Financial Information—Discussion of Selected Items from Our Consolidated Statements of Financial Position—Trade Receivables” for an aging analysis of our trade receivables. Our business, financial condition and results of operations may be materially and adversely affected if significant trade receivables are not settled on time, or at all.

**If we are not able to fulfill our obligation in respect of contract liabilities, our results of operations and financial condition may be adversely affected.**

We recorded contract liabilities of RMB13.0 million, RMB6.0 million, RMB227.9 million and RMB96.5 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. Our contract liabilities primarily consisted of (i) the unamortized revenue from sales of virtual items for mobile games, where there was still obligation to be provided by us to game players, and (ii) the unamortized balance of the initial license fees paid by licensees, namely, third-party game publishers. We may be required to return the corresponding portion of the payment from these game players and licensees upon the situation where we might not be able to fulfill our obligations in respect of the contract liabilities, such as the termination of any of our games’ operation, which may adversely affect our results of operations and financial condition, including our cash and liquidity position.

**Our rapid growth during the Track Record Period may not be indicative of our future growth, and our limited operating history makes it difficult to evaluate our growth prospects and future financial results.**

We started our game development, publishing and operation business in 2012. We further expand our footprint to the overseas markets beginning from 2016 by publishing games offshore ourselves and cooperating with third-party publishers. Our revenue generated from mainland China amounted to RMB67.0 million, RMB62.7 million, RMB1,178.9 million and RMB742.9 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, while our revenue generated from outside mainland China amounted to RMB31.4 million, RMB26.0 million, RMB48.0 million and RMB20.0 million in the same respective periods.

Our history of operations and track record growth, particularly in the overseas markets, is limited. Therefore, our historical growth should not be considered indicative of our future performance as the revenue contribution from our games may not be sustainable. As of the Latest Practicable Date, a majority of the mobile games in operation were idle games (a type of casual games) or rogue-like RPGs. However, we cannot guarantee that these genres and types of games will remain popular among players or that we will be able to continuously identify engaging materials as the underlying stories for our games.

Also, we face various risks and uncertainties as a mobile-centric game developer and publisher. For example, we may not be able to continuously identify, develop, license and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effectively manner, or at all. In addition, each mobile device manufacturer or mobile platform provider may establish unique technological requirements or restrictive terms and conditions on their devices or platforms for game developers. We may fail to keep pace with the evolving mobile devices and platforms, especially immediately after these new devices and platforms are launched or upgraded. We may also need to allocate significant resources to create, support and maintain our games for them to function as intended on new mobile devices and platforms.

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**We may need additional capital and may fail to raise capital in a timely manner or on commercially acceptable terms, or at all.**

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

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by companies offering internet and mobile products and services; 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 or other sources of fund. The sale of additional equity or equity-linked securities could result in dilution to 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.

**We rely on our senior management and certain other key employees for our success. If we are unable to retain or motivate them or hire additional qualified personnel, we may be unable to grow effectively.**

We have and will continue relying on the continued efforts of our senior management team and other key employees for our success. In particular, we rely on the expertise and experience of core members of our senior management team, particularly Mr. Yang Xu (our Chairman and Chief Executive Officer), who have formulated our strategies and been instrumental to our success. The loss of any of our senior management members or our other key employees could impair our ability to operate and impede the execution of our business strategy. We may not be able to replace these persons within a reasonable period of time or with another person of equivalent expertise and experience, in which case our business may be severely disrupted and our results of operations may be impaired.

In addition, our continued success will also depend on our ability to attract and retain qualified and experienced management and technical personnel to manage our existing operations and future growth. Qualified talent is scarce and in high demand and, as a result, competition for talent is intense. If any of our executive officers or key employees join a competitor or form a competing company, we may lose know-how, trade secrets, business partners and key professionals and staff. Furthermore, we may need to offer higher compensation and other benefits to attract and retain key personnel in the future, which could increase our compensation expenses. We may not be able to recruit or retain sufficient talent to support the growth of our business.

**We have limited insurance coverage, which could expose us to significant costs and business disruption.**

We maintain various insurance policies to safeguard against risks and unexpected events. However, as the insurance industry in China is still in an early stage of development, insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance, key-man life insurance, or insurance policies covering our network infrastructure or information technology systems. Any disruption in our network infrastructure or business operations, litigation or natural disaster may result in our incurring substantial costs and the diversion of our resources. Our insurance coverage may not be sufficient to compensate us for 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 the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

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**We may enter into strategic acquisitions, licensing arrangements and partnerships or make strategic investments, which may not be successful and may have a material adverse effect on our business.**

Although we did not have specific plans as of the Latest Practicable Date, we may in the future acquire or invest in other game developers, content providers or publishers that can enhance our game-related sourcing, development and operational capabilities. These acquisitions and investments may require us to develop expertise in new areas, manage new business relationships and attract new types of game players. We may also experience difficulties integrating any these investments, acquisitions or partnerships into our existing business and operations, which may require significant attention from our management and result in a diversion of resources from our existing business. Besides, acquired or invested assets or businesses may not generate financial results as expected and could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business.

**Our Controlling Shareholders have substantial influence over us, and their interests may not be aligned with the interests of our other Shareholders.**

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of Directors and other significant corporate actions. Immediately following the completion of the [REDACTED] and assuming the [REDACTED] is not exercised, our Controlling Shareholders will hold [REDACTED] of the issued share capital of our Company. Therefore, Mr. Yang, Yang Family Holding Limited and Keiskei Holding Ltd. will cease to be our Controlling Shareholders after the [REDACTED]. However, Mr. Yang, through Keiskei Holding Ltd., will remain as our single largest shareholder. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

**Our business, financial condition and results of operations may be materially and adversely affected by epidemics, natural disasters, acts of war or terrorism or any other catastrophes.**

Areas or regions where we operate may be exposed to the outbreak of epidemics, including the COVID-19, swine influenza, avian influenza, middle east respiratory syndrome (MERS-CoV) and severe acute respiratory syndrome (SARS-CoV). These epidemic outbreaks may affect us in various ways, including limiting the availability of resources essential for our business's development. Besides, government authorities may adopt certain hygienic measures, including quarantines or closures of our offices, travel and transportation restrictions, and import and export restrictions. Any of the above circumstances may materially slow down regional or national economic development and may have a material adverse effect on our business operations. In addition, peoples' willingness of and demand for entertainment consumption may be affected during epidemics and by the corresponding containment measures and potential economic slowdowns.

Since December 2019, the COVID-19 has become widespread around the world. In March 2020, the World Health Organization declared the spread of COVID-19 a pandemic after characterizing it as a public health emergency of international concern in January 2020. Since the beginning of 2020, China has taken various restrictive measures to contain the spread of COVID-19, such as quarantines, travel restrictions and home office policies. These measures delayed resumption of business operations in the first quarter of 2020. After the Chinese New Year vacation, some of our employees had to work remotely. Besides, COVID-19 is spreading throughout the world and has adversely affected overall economic development. Though the COVID-19 pandemic has generally been under control in a large part of China, there has been resurgence of the pandemic

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from time to time. Because the situation of COVID-19 is very fluid, we cannot predict whether or when the spread of COVID-19 may resurge in various parts of China or the world. Despite that China and many other countries are administering vaccines for their residents, it remains unclear whether and when the vaccines can effectively contain the spread of the pandemic over the world. Our business, results of operations, financial conditions and prospects may be materially and adversely affected if another wave of the COVID-19 pandemic or epidemic of another disease occur.

Similarly, natural disasters, acts of war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response, as well as geopolitical uncertainty and international conflict and tension, may affect regional and national economic development in areas where we operate. As a result, our business, financial condition and results of operations may be materially and adversely affected.

In addition, we may not be adequately prepared in terms of contingency planning or have recovery measures in place to deal with a major incident or crisis. As a result, our operational continuity and our reputation may be materially and adversely affected.

**Certain of our subsidiaries have not made all necessary contributions to the social insurance and housing provident fund, which could subject us to penalties, including fines and court enforcement.**

In accordance with the relevant laws and regulations on social security, employers in the PRC are required to make contributions to various social insurance (including medical, pension, unemployment, work-related injury and maternity insurance) and housing provident fund for their employees. We have in the past failed to make adequate social insurance and housing provident fund contributions for our employees. We have made provisions for potential liabilities related to this situation in our financial statements during the Track Record Period. Our PRC Legal Advisor has advised us that, pursuant to relevant PRC laws and regulations, we may be required to pay all outstanding social insurance contributions within a prescribed period, with late fees at a daily rate of 0.05% of the outstanding amount, accruing from the date when the social insurance contributions were due. If this payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount on us. In addition, pursuant to relevant PRC laws and regulations, in case of a failure to pay the full amount of housing provident fund, the housing provident fund management center may require us to pay the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. If these enforcement actions were taken by relevant authorities, our financial position and results of operation could be materially and adversely affected.

**We may acquire or invest in complementary businesses, including third-party game developers from whom we licensed certain games and other upstream or downstream industry players, and we may not be able to realize our anticipated returns on these investments.**

As part of our business strategy, we intend to see out high-quality companies for acquisition or investments, including third-party game developers and other upstream or downstream industry players. We believe that strategic investments and acquisitions can help us to more effectively consolidate our market position, respond to industry trends, and achieve our goals for growth. However, these acquisitions and investments involve uncertainties and risks, including:

- accurately evaluating potential acquisition targets and identifying acquisition targets with operations complementary to our existing operations;
- potential competition and conflicts of interest resulting from the investments and acquisitions that we make directly and those that we make indirectly through strategic partners;
- potential ongoing financial obligations and unforeseen or hidden liabilities;

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- retaining key employees and maintaining key business relationships with partners of the businesses we acquire;
- failure to achieve intended objectives, benefits or revenue enhancement;
- costs and difficulties of integrating acquired businesses and managing a larger business;
- the need to integrate an acquired company’s accounting, management information, human resources and other administrative systems to permit effective management and timely reporting;
- the possibility that, before the acquisition or investment, we will not discover important facts during due diligence that could have a material adverse impact on the value of the businesses we acquire or invest in;
- significant accounting charges resulting from the completion and integration of a sizeable acquisition and increased capital expenditures;
- the possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business; and
- diversion of resources and management attention.

Our failure to address these risks successfully may have a material adverse effect on our financial condition, results of operations, cost structure and risk profile. In addition, any such acquisition or investment may require a significant amount of capital investment, which would reduce the amount of cash available for working capital or capital expenditures. Furthermore, if we use our equity securities to pay for acquisitions, we may dilute the value of our Shares. Our Shareholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends.

### **Fluctuation of the operational results of the associates we invested in may adversely affect our financial position.**

We have strategically invested in and collaborated with a number of mobile game developers and other industry players with significant growth potential or potential to create synergies with our business. As of December 31, 2018, 2019 and 2020 and June 30, 2021, our investments accounted for using the equity method were RMB5.5 million, RMB12.1 million, RMB11.7 million and RMB28.8 million, respectively. Under the equity method, the performance of our invested companies will affect our statements of comprehensive income. We recorded share of losses of investments accounted for using equity method of RMB154 thousand and RMB404 thousand in 2019 and 2020, respectively. We recorded share of profits of investments accounted for using equity method of RMB145 thousand and RMB5.0 million in 2018 and the six months ended June 30, 2021, respectively. Even if profits or losses were reported under the equity method for our investments in associates, no cash inflow may be recognized from these investments until the associates declare dividends. In addition, investments in associates are not as liquid as other investment products and could be subject to impairment. For example, we recorded impairment of RMB2.0 million in 2019 for an associate company that was wound up. As a result of these factors, our results of operations could be negatively affected by the underperformance of our associate companies that we invested in.



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**Our financial assets/(liabilities) at fair value through profit or loss are subject to uncertainties in accounting estimates. Fluctuations in the changes in fair value of these assets and liabilities would affect our financial results.**

We have invested in, and intend to continue to selectively invest in, businesses, assets and technologies that complement our existing business and may make other financial investments. We recorded financial assets at fair value through profit or loss of RMB16.2 million, RMB32.5 million, RMB79.1 million and RMB165.8 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. These financial assets at fair value through profit or loss included: (i) short-term investments measured at fair value through profit or loss of RMB15.1 million, RMB10.8 million, RMB1.3 million and RMB31.1 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively; and (ii) long-term investments measured at fair value through profit or loss of RMB1.1 million, RMB21.6 million, RMB77.8 million and RMB134.7 million as of the same respective dates. These financial assets included (i) equity investments in unlisted companies and in private equity funds as limited partners without significant influence, (ii) investments in derivative instruments, (iii) investments in funds that invest primarily in publicly-traded companies. See Notes 8, 18 and 23 to the Accountant’s Report in Appendix I to this document for further details and (iv) wealth management products. We also recorded financial liabilities at fair value through profit or loss of RMB65 thousand as of June 30, 2021, which were short-term liabilities measured at fair value through profit or loss. The fair value changes in our financial assets/(liabilities) measured at fair value through profit or loss may negatively affect our financial performance. We recorded fair value gains on financial assets/(liability) measured at fair value through profit or loss of RMB143 thousand, RMB535 thousand and RMB594 thousand in 2018, 2019 and 2020, respectively, and fair value losses on financial assets/(liability) of RMB2.0 million in the six months ended June 30, 2021, representing changes in the fair value of our abovementioned financial assets/(liability). Furthermore, the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. The valuations of our investments require the use of unobservable inputs, judgments and estimates, such as risk-free rate, expected volatility, discount rate for lack of marketability and market multiples. Any change in the estimates and assumptions may lead to a change in the fair value of the financial assets, which in turn could negatively affect our financial conditions and results. For example, we had financial assets at fair value through profit or loss related to our wealth management products of RMB30.0 million as of June 30, 2021. Fair values of these investments were estimated based on expected return of each wealth management product—an unobservable input—and therefore were subject to uncertainty. See Note 3.3(d) (valuation inputs and relationship to fair value) to the Accountant’s Report in Appendix I to this document for volatility analysis of our investments in unlisted companies and private equity functions and our wealth management products issued by commercial banks.

**Our results of operations, financial condition and prospects may be adversely affected by fair value changes of the preferred shares we have issued.**

The convertible redeemable preferred shares we issued in May 2021 were designated as financial liabilities measured at fair value through profit or loss. They were initially recognized at fair value, and the increases in the fair value of these convertible redeemable preferred shares were recognized as fair value loss on our consolidated statements of comprehensive loss. Our convertible redeemable preferred shares will be automatically converted to Shares upon the closing of the [REDACTED]. To the extent we need to revalue the convertible redeemable preferred shares prior to the closing of the [REDACTED], any change in fair value of these preferred shares and related valuation uncertainty could materially affect our financial position and performance. As of June 30, 2021, we recorded convertible redeemable preferred shares of RMB1,770.0 million. In the six months ended June 30, 2021, we recorded fair value losses of convertible redeemable preferred shares of RMB338.4 million, which largely led to a net loss for the same period. Although the fair value loss of preferred shares is a non-cash item that will not recur in financial years after the closing of the [REDACTED], we expect that we will recognize significant losses in 2021 due to the fair value changes of the convertible redeemable preferred shares as a result of the increased valuation of our Company.

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**We incurred share-based compensation during the Track Record Period and may continue to do so in the future, which could materially and adversely affect our results of operations and dilute your interest in our Company.**

Our share-based compensation expense was RMB14.0 million, nil, RMB56.0 million, RMB2.2 million and nil for 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. We recognized the fair value of the transferred shares and share options as share-based compensation during the Track Record Period. In 2018, Mr. Yang transferred 3.5% of the total shares of QC Digital beneficially owned by him to Mr. Huang at consideration of RMB1 to reward Mr. Huang’s contribution and performance in the past years. In February 2020, the subscription right for 8% of the total shares of QC Digital were granted to two senior management members with performance conditions and the agreed exercise price. The two senior management members completed performance conditions in December 2020 and injected capital into QC Digital through their holding vehicles with the agreed exercise price. In December 2020, 2% shares of QC Digital were granted to a senior management member upon signing employment offer with agreed exercise price. The senior management member completed capital injection in the same month with the agreed exercise price. See Note 6 to the Accountant’s Report included in Appendix I to this document for more details on our share-based compensation. Currently, we do not have any share-based compensation plan. However, we may grant share-based awards in the future and incur additional share-based compensation, which could materially and adversely affect our results of operations. In addition, our granting of share-based awards could dilute your interest in our Company.

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

We recorded deferred tax assets of RMB3.8 million, RMB3.4 million, RMB2.6 million and RMB16.7 million, respectively, as of December 31, 2018, 2019, 2020 and June 30, 2021. For each reporting period, we evaluate our deferred tax assets to determine whether it is probable that they will be realized. In determining whether it is probable that the deferred tax assets will be realized, we assess the likelihood that we will be able to recover our deferred tax assets using historical levels of income, estimates of future income, future reversal of existing taxable temporary differences, taxable income in carryback years and tax planning strategies. See Note 2.19 to the Accountant’s Report in Appendix I to this document for further details on our accounting policy with respect to deferred tax assets. Such determination requires significant judgment from our management on the tax treatment of certain transactions as well as assessment on the probability, timing and adequacy of future taxable profits for the deferred tax assets to be recovered. If such judgments turn out to be incorrect or imprecise, we may need to adjust our tax provisions accordingly. Furthermore, we cannot predict any future movements in our deferred tax assets and to what extent they may affect our financial position in the future. Any of these events may have a material adverse effect on our business, financial condition and results of operation.

**Our platform contains open source software, which may pose particular risk to our proprietary software and services in a manner that negatively affects our business.**

We use open source software in our mobile games 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 impose unanticipated conditions or restrictions on our ability to provide our services. Additionally, we may face claims from third parties claiming ownership, or demanding release, of the open source software or derivative works that we 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 services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional technology and product development resources, and we may not be able to complete it successfully.

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### RISKS RELATED TO OUR CONTRACTUAL ARRANGEMENTS

**If the PRC government finds that our Contractual Arrangements are not in compliance with applicable PRC laws and regulations, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our PRC Consolidated Affiliated Entities.**

Foreign ownership of certain of our businesses is subject to restrictions or prohibitions under current PRC laws and regulations, including value-added telecommunication services, internet cultural services and other related businesses. In particular, under the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (外商投資准入特別管理措施 (負面清單) (2020年版)) and the Notice of the GAPP, the State Copyright Administration and National Anti-Pornography and Anti-Illegal Publications Working Group Office on Implementing the “Regulation on Three Provisions” of the State Council and the Interpretations Edited by the SCOPSR to Further Strengthen the Pre-Approval of Online Games and the Approval and Management of Imported Online Games (新聞出版總署、國家版權局、全國“掃黃打非”工作小組辦公室關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知), our game operation business involves provision of internet information service that constitutes value-added telecommunications services business, a foreign investment restricted business, and internet cultural services business, a foreign investment prohibited business.

We are a Cayman Islands exempted company and our WFOE, QC Interactive, is considered as a foreign-invested enterprise. Accordingly, it is not eligible to provide value-added telecommunication services, internet cultural services or provide certain other restricted services related to our businesses. As a result, we will conduct such business activities through our PRC Consolidated Affiliated Entities in the PRC, including QC Digital and QC Cultural.

QC Digital is 37.12% owned by Mr. Yang, 4.51% owned by Mr. Huang, 1.85% owned by Mr. Wei, 0.31% owned by Mr. Liu, 0.06% owned by Mr. Zeng, 9.03% owned by Mr. Ye, 0.50% owned by Mr. Lin, 23.10% owned by G-bits, 3.41% owned by Xiamen Sealand, 10.00% owned by Wofan Qihang, 3.37% owned by Guangxi Tencent, and 3.37% owned by Alibaba Lingxi and 3.37% owned by Shanghai Hode. Mr. Yang, Mr. Huang, Mr. Wei, Mr. Liu, Mr. Zeng, Mr. Ye and Mr. Lin are PRC citizens. We entered into a series of Contractual Arrangements with QC Digital and its Registered Shareholders, which enable us to:

- exercise effective control over QC Digital;
- receive substantially all of the economic benefits of QC Digital; and
- have an exclusive option to purchase all or part of the equity interests and assets in QC Digital when and to the extent permitted by PRC law.

Because of these Contractual Arrangements, we are the primary beneficiary of QC Digital and hence consolidate its financial results as our PRC Consolidated Affiliated Entity. For a detailed discussion of these Contractual Arrangements, see “Contractual Arrangements.”

In the opinion of our PRC Legal Advisor, (i) each of the agreements under the Contractual Arrangements is governed by PRC laws and has been executed properly by each party; (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto, enforceable under applicable PRC laws and regulations, except for certain clauses regarding the remedies that may be awarded by the arbitration tribunal and the power of courts of competent jurisdictions to grant interim remedies in support of the arbitration and liquidation arrangements concerning QC Digital, and clauses on the formation of liquidation committee upon the winding up of QC Digital; and (iii) none of the agreements under the Contractual Arrangements is in violation of any articles of association of our WFOE and QC Digital. However, our PRC Legal Advisor has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is

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contrary to the opinion of our PRC Legal Advisor. It is uncertain whether any other new PRC laws or regulations relating to consolidated affiliated entity structures will be adopted or if adopted, what they would provide. If we or our PRC Consolidated Affiliated Entities are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business and operating licenses of such entity;
- discontinuing or restricting the conduct of any transactions between our PRC subsidiary and PRC Consolidated Affiliated Entities;
- imposing fines, confiscating the income from our PRC Consolidated Affiliated Entities, or imposing other requirements with which we or our PRC Consolidated Affiliated Entities may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the Contractual Arrangements with our PRC Consolidated Affiliated Entities and deregistering the equity pledges of our PRC Consolidated Affiliated Entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our PRC Consolidated Affiliated Entities; or
- restricting or prohibiting our use of the proceeds of any of our financing outside China to finance the business and operations of our PRC Consolidated Affiliated Entities.

The imposition of any of these penalties would result in a material adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our PRC Consolidated Affiliated Entities in our consolidated financial statements, if the PRC government authorities were to find our legal structure and Contractual Arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of our PRC Consolidated Affiliated Entities or our right to receive substantially all the economic benefits and residual returns from our PRC Consolidated Affiliated Entities and we are unable to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our PRC Consolidated Affiliated Entities in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

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

We have relied and expect to continue to rely on Contractual Arrangements with QC Digital and its shareholders to operate part of our mobile game business. These Contractual Arrangements may not be as effective as direct ownership in providing us with control over our PRC Consolidated Affiliated Entities.

If we had direct ownership of our PRC Consolidated Affiliated Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of such entity, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current Contractual Arrangements, we rely on the performance by QC Digital and its shareholders of their obligations under the contracts to exercise control over our PRC Consolidated Affiliated Entities. However, the shareholders of QC Digital may not act in the best interests of our Company or may not perform its obligations under these contracts. These risks exist throughout the period in which we intend to operate our business through the Contractual Arrangements with QC Digital. We may replace the shareholders of QC Digital at any time pursuant to our Contractual Arrangements with QC Digital and its shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. Therefore, our

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Contractual Arrangements with QC Digital may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

**Any failure by QC Digital or its shareholders to perform their obligations under our Contractual Arrangements with them would have a material adverse effect on our business.**

If QC Digital or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if the shareholders of QC Digital were to refuse to transfer their equity interest in QC Digital to us or our designee when we exercise the purchase option pursuant to these Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated affiliated entity should be interpreted or enforced under PRC law, and as a result, it may be difficult to predict how an arbitration panel would view such contractual arrangements. Consequently, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay.

Our PRC Consolidated Affiliated Entities hold certain of our important licenses and permits, including the ICP License and Internet Culture Operation License, to operate our business. In the event we are unable to enforce our Contractual Arrangements, we may not be able to exert effective control over our PRC Consolidated Affiliated Entities, and our ability to conduct these businesses may be negatively affected, which may have a material adverse effect on our financial condition and results of operations.

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

On March 15, 2019, the NPC promulgated the Foreign Investment Law or the FIL, which has become effective on January 1, 2020 and replaced the outgoing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法), the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC (中華人民共和國中外合作經營企業法) and the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法), as well their implementation rules and ancillary regulations, or the Outgoing FIE Laws.

Meanwhile, the Implementation Rules to the PRC Foreign Investment Law (中華人民共和國外商投資法實施條例) came into effect as of January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law. However, uncertainties still exist in relation to interpretation and implementation of the FIL, especially in regard to the nature of consolidated affiliated entity contractual arrangements and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. FIL does not define contractual arrangements as a form of foreign investment explicitly, it has a catch-all provision under the definition of “foreign investment,” which includes investments made by foreign investors in the PRC through other means as provided by laws and regulations or rules issued by the State Council. However, we cannot assure you that future laws and regulations will not provide for contractual arrangements as a form of foreign

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investment. Therefore, there can be no assurance that our control over our PRC Consolidated Affiliated Entities through Contractual Arrangements will not be deemed as foreign investment in the future. In the event that any possible implementing regulations of the FIL or any other future laws or regulations deem contractual arrangements as a way of foreign investment, or if any of our operations through contractual arrangements is classified in the “restricted” or “prohibited” industry in the future “negative list” under the FIL, our Contractual Arrangements may be deemed as invalid and illegal, and we may be required to unwind the Contractual Arrangements and/or dispose of any affected business. Also, if future laws or regulations mandate further actions to be taken with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Furthermore, under the FIL, foreign investors and foreign invested enterprises may be held liable for failing to report investment information in accordance with the requirements.

**We may lose the ability to use and enjoy assets held by any of our PRC Consolidated Affiliated Entities that are material to our business operations if it goes bankrupt or becomes subject to a dissolution or liquidation proceeding.**

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

**Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.**

All the agreements which constitute the Contractual Arrangements are governed by PRC laws and provide for resolution of disputes through arbitration in China. Accordingly, these agreements would be interpreted in accordance with PRC laws, and disputes would be resolved in accordance with PRC legal procedures. The legal environment in China is not as developed as in other jurisdictions and uncertainties in China 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 PRC 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 equity interests and/or assets of QC Digital, injunctive relief and/or winding up of QC Digital. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in QC Digital in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in QC Digital in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by QC Digital and/or its registered shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over QC Digital, which could negatively affect our ability to conduct our business.

**The shareholders of QC Digital may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.**

The shareholders of QC Digital may have potential conflicts of interest with us. These shareholders may breach, or cause QC Digital to breach, or refuse to renew, the existing Contractual Arrangements we have with

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them and QC Digital, which would have a material adverse effect on our ability to effectively control our PRC Consolidated Affiliated Entities and receive substantially all the economic benefits from it. For example, the shareholders may be able to cause our agreements with QC Digital to be performed in a manner adverse to us by, among other things, failing to remit payments due under the Contractual Arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our Company. If we cannot resolve any conflict of interest or dispute between us and the shareholders of QC Digital, 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.

**If we exercise the option to acquire equity ownership and assets of QC Digital, the ownership or asset transfer may subject us to substantial costs.**

Pursuant to the Contractual Arrangements, our WFOE (or its designee) has the exclusive right to purchase all or any part of the equity interests in QC Digital from its shareholders at any time and from time to time in the absolute discretion of WFOE, at the nominal price or the lowest price as permitted under the applicable PRC laws. In addition, our WFOE (or its designee) has the exclusive right, where permitted by PRC law, to purchase from QC Digital all or any portion of its assets, and the purchase price shall be the nominal price or the lowest price as permitted under the applicable PRC laws. The transfer of equity or assets may be subject to the approvals from the State Administration for Market Regulation (“SAMR”) and report submission through the online enterprise registration system to or filings with the MOFCOM, the SAMR and/or their local competent counterparts. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authorities. The asset transfer price to be received by QC Digital under the Contractual Arrangements may also be subject to enterprise income tax, and these amounts could be substantial..

**We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.**

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries like our WFOE for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If these subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require our WFOE or any other relevant PRC subsidiary to adjust its taxable income under the contractual arrangements it currently has in place with QC Digital in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us.

Under PRC laws and regulations, our wholly foreign-owned subsidiaries in China may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a PRC enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital.

Any limitation on the ability of our PRC subsidiaries to pay dividends or 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.

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**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 making loans to our PRC subsidiaries and PRC Consolidated Affiliated Entities, or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and PRC Consolidated Affiliated Entities. We may make loans to our PRC subsidiaries and PRC Consolidated Affiliated Entities subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China.

Any loans to our wholly foreign-owned subsidiaries in China are treated as foreign-invested enterprises under PRC law and therefore are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly foreign-owned subsidiaries in China to finance their activities cannot exceed statutory limits, namely, the difference between its total amount of investment and its registered capital, or certain amount calculated based on elements including capital or net assets and the cross-border financing leverage ratio or the Macro-prudential Management Mode, under relevant PRC laws. The loans must also be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE, or filed with SAFE in its information system. We may also provide loans to our PRC Consolidated Affiliated Entities or other domestic PRC entities under the Macro-prudential Management Mode. According to the Circular of the PBOC and the State Administration of Foreign Exchange on Adjusting the Macro-prudent Adjustment Parameter for Cross-border Financing issued on March 11, 2020, the limit for the total amount of foreign debt under the Macro-prudential Management Mode is increased to two and a half times from two times of their respective net assets. Moreover, any medium or long-term loan to be provided by us to our PRC Consolidated Affiliated Entities or other domestic PRC entities must also be registered with the NDRC.

We may decide to finance our wholly foreign-owned subsidiaries in China by means of capital contributions. These capital contributions need to go through record-filing procedures with competent administration for market regulation. SAFE issued the Circular on the Management Concerning the Reform of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (關於改革外商投資企業外匯資金結匯管理方式的通知), or SAFE Circular 19, which took effect on June 1, 2015. SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC provided that this usage will fall into the scope of business of the foreign-invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment (關於進一步促進跨境貿易投資便利化的通知) on October 23, 2019, or SAFE Circular 28, pursuant to which non-investment foreign-invested enterprises can use their capital funds to make equity investments in China, provided that such investments do not violate the negative list and the target investment projects are genuine and in compliance with laws. As SAFE Circular 28 is relatively new, its interpretation and implementation in practice are still subject to substantial uncertainties. On April 10, 2020, the SAFE issued the Circular on Optimizing the Administration of Foreign Exchange to Support the Development of Foreign-related Business (國家外匯管理局關於優化外匯管理支持涉外業務發展的通知), pursuant to which eligible enterprises are allowed to make domestic payments using the income under their capital accounts, such as their capital funds, foreign debt and overseas listing, without prior provision of materials evidencing the authenticity for each transaction, provided that the capital usage is authentic and in compliance with the current administrative provisions on use of income under the capital account. The relevant bank must conduct spot checks afterwards in accordance with the relevant requirements.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make these loans to the subsidiaries of our wholly foreign-owned subsidiaries in China and our PRC Consolidated Affiliated Entities, each a PRC domestic company. Meanwhile, we are not likely to finance the activities of our PRC Consolidated Affiliated Entities by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our PRC Consolidated Affiliated Entities.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary



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government registrations or record-filings on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or any PRC Consolidated Affiliated Entity or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or PRC Consolidated Affiliated Entities when needed. If we fail to complete such registrations or record-filings, our ability to use foreign currency, including the [REDACTED] we received from our [REDACTED], and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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

Under applicable PRC laws and regulations, transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities deem the transactions among the PRC subsidiary, our PRC Consolidated Affiliated Entities and the Registered Shareholders were not entered into on an arm’s-length basis and resulted in deferral or underpayment in taxes, they may make special tax adjustments which might result in the increase of the PRC Consolidated Affiliated Entities’ tax liabilities. If the tax authorities conduct special tax adjustments, they might impose interest charges for the underpaid taxes. Our financial position could be adversely affected if our PRC Consolidated Affiliated Entities’ tax liabilities increase or if they are required to pay interest charge.

### RISKS RELATING TO DOING BUSINESS IN THE PRC

**Any regulatory changes in the approval and registration process of new online games by the PRC government may adversely affect our business.**

The official launch and monetization of mobile games in the PRC is subject to the preapproval from, registration with, and issuance of game publication numbers by the NPPA. Historically, the NPPA at the national level suspended approval of game registration and issuance of publication numbers for online games in March 2018 and resumed to issue game publication numbers by batches periodically beginning in December 2018. As the regulatory authorities have received a large number of game registration applications which are to be reviewed, it may take some time for all of the existing game registration applications to complete the process and obtain game publication numbers. Therefore, there is great uncertainty as to when we will be able to complete game registrations and obtain the game publication numbers for our pipeline games under application and other pipeline games in a timely manner, or at all. If we fail to register our games with or obtain preapprovals from the NPPA, none of them can be successfully launched and monetized in China as scheduled, or at all, and they may be ordered to be suspended or cease operation, which could materially and adversely impact our ability to introduce new games and our business growth and prospects. In addition, we may be subject to administrative penalties for any games we operated without obtaining requisite preapprovals from the NPPA.

Further, the game registration process may be suspended, amended or affected by other changes in the regulatory environment in the future, which may materially and adversely affect our results of operations and financial condition. Moreover, according to the Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game Publishing Services (國家新聞出版廣電總局辦公廳關於移動遊戲出版服務管理的通知) issued by the SAPPRFT in May 2016, which became effective in July 2016 (the “Mobile Game Notice”), the upgraded works and new expansion packs of a mobile game of which the publication has been approved (which means that the story lines, task contents, map form, personal characters, role characteristics, and interactive functions, among others, have been significantly changed, and an additional name is used, namely, a subtitle is added with the name of the game remaining unchanged, or a modifier is added before the name of the game or a digit is used after the name of the game to show the change of the version for promotion and publicity) will be deemed as new works, and in accordance with the provisions of Mobile Game Notice, undergo corresponding approval formalities in accordance with their respective categories. We cannot assure you that regulators will not take a stricter view on updates and enhancements of games in the future, which may result in extra work and costs for us to file or renew

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applications for these updates and enhancements and may delay the launch of the updates and enhancements, which may materially and adversely affect our results of operations.

**Regulation and censorship of information disseminated over the Internet and wireless telecommunication networks in the PRC may adversely affect our business, and the publishing channels with which we cooperate may be liable for information displayed on, retrieved from, or linked to their platforms.**

The PRC government has enacted laws and regulations governing Internet access and the distribution of news and other contents, as well as products and services, through the Internet. Certain types of information are not allowed to be disseminated through the Internet. For example, the MIIT and other competent government authorities have promulgated regulations that prohibit games from being distributed through the Internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise state security or secrets. If any of our games is deemed to violate any of these content restrictions, we would not be able to obtain or maintain the necessary government approval to continue our game offerings and/or could be subject to penalties, including confiscation of income, fines or suspension of business, which would materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for unlawful actions of our game players or for content we distribute that is deemed inappropriate. We may be required to delete content that violates PRC laws and report content that we suspect to be in violation of PRC laws, also we may incur significant costs in investigating and defending ourselves for claims or penalties caused by the improperly-disseminated information, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Restrictions on virtual currency and virtual items may adversely affect our current business model.**

Our revenue is mainly derived from sales of in-game virtual items, which are regulated pursuant to the PRC laws and regulations on virtual currency of online games. The Notice on Strengthening Administration of Virtual Currency of Online Games (關於加強網絡遊戲虛擬貨幣管理工作的通知), which was jointly issued by the MOC and MOFCOM in 2009, have imposed various restrictions on virtual currency, and requirements and obligations on online game operators with respect to the virtual currency used in their games, including (i) virtual currency may only be provided to users in exchange for payment in legal currency and may be only used to pay for virtual items and services of the issuer of the currency, and online game operators are required to keep transaction data records for no less than 180 days; (ii) online game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currency in exchange for game props or virtual currencies; and (iii) companies involved with virtual currency in China must be issuers or trading platforms, and may not operate simultaneously as both issuers and trading platforms. We are required to tailor our business model carefully, including designing and operating our database to maintain user information for the minimum required period, in order to comply with the PRC laws and regulations, including the foregoing notice. Failure to do so may result in an adverse impact on our business and results of operations.

**Currently there is no law or regulation specifically governing virtual asset property rights and, therefore, it is unclear what liabilities, if any, mobile game operators may have in respect of virtual assets.**

During the course of playing mobile games, some virtual assets, such as special equipment, player experience levels and other features of our players’ game characters, are acquired and accumulated. These virtual assets can be important to players and have monetary value. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the game account of one player by another player and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. On May 28, 2020, the PRC Civil Code (中華人民共和國民法典) was enacted, effective on January 1, 2021, pursuant to which, ownership of data and virtual assets are civil rights protected by laws. However, there is currently no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who is the legal owner of virtual assets, whether and how the ownership of virtual assets is protected by law, and whether an operator of mobile games such as us would have any liability to players or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. Based on judgments by PRC courts regarding the

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liabilities of game operators for loss of virtual assets by players, the courts have generally required the game operators to provide well-developed securities systems to protect such virtual assets owned by players, and have required some game operators to return the virtual items or be liable for the loss and damage incurred therefrom if the online game operators have been determined to be in default or held liable for infringement of players’ rights. In case of a loss of virtual assets, we may be sued by our players and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We had not been involved in any virtual assets related lawsuits as of the Latest Practicable Date. However, we cannot assure you that these lawsuits will not be brought against us in the future.

### **The PRC laws and regulations governing the playing time and players’ age of online games may materially and adversely affect our business and operations.**

On July 1, 2011, eight PRC government authorities, including the GAPP, the Ministry of Education, the MIIT and five others, jointly promulgated the Notice on Initializing the Verification of Real-name Registration for Anti-addiction System on Online Games (關於啟動網絡遊戲防沉迷實名驗證工作的通知), or the Real-name Registration Notice, which took effect on October 1, 2011. The Real-name Registration Notice requires relevant authorities to strengthen the implementation of the anti-addiction system and real-name registration in online games but excluding mobile games. On July 25, 2014, the SAPPRFT issued the Notice on the Further Launch of Verification of Real-name Registration for Anti-Fatigue System on Internet Games (國家新聞出版廣電總局辦公廳關於深入開展網絡遊戲防沉迷實名驗證工作的通知), which took effect on October 1, 2014, stating that, in view of some of the hardware and functionality limitations inherent in mobile devices, anti-fatigue system requirements applicable to internet games do not currently apply to mobile games. On May 24, 2016, the SAPPRFT issued the Notice on Regulation of Mobile Game Publication Services (國家新聞出版廣電總局辦公廳關於移動遊戲出版服務管理的通知), which became effective on July 1, 2016. Under this notice, mobile games are subject to the Real-name Registration Notice unless the mobile game to be published does not concern, among others, themes such as politics, military, nations and religions, belongs to the class of casual puzzle domestic mobile games without plots or with simple plots and is not authorized by overseas copyright owners. In August 2018, PRC regulators issued the Implementation Program on Comprehensive Prevention and Control of Juveniles Myopia (綜合防控兒童青少年近視實施方案), proposing to control the number of new online games, explore the age-appropriate prompting system in line with the national conditions and take measures to restrict the amount of time children spend on playing online games. On October 25, 2019, the NPPA issued the Notice on Preventing Minors from Indulging in Online Games (國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知) which became effective on November 1, 2019 and has imposed a number of restrictions on mobile games including the time and duration where minors can spend on mobile games as well as the purchase amount one can spend in these mobile games. On March 30, 2021, the General Office of MOE released the Notice on Further Strengthening the Sleep Management of Primary and Secondary School Students (關於進一步加強中小學生睡眠管理工作的通知), which further stipulates the time slot for playing online games by minors, and moreover, requires local education authorities, jointly with the competent local authorities, to effectively strengthen the administration of online games, and conduct supervision by technical means to ensure no game service is provided for minors during a specific timeframe. On August 30, 2021, the GAPP issued the Notice on Further Strict Administration to Prevent Minors from Indulging in Online Games (國家新聞出版署關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知), which provides that online game operators may only provide online game services to minors on every Friday, Saturday, Sunday or PRC statutory holiday for one hour per day from 8:00 p.m. to 9:00 p.m. In addition, the Notice further requires that all the online games must be connected to the real-name registration and game addiction prevention system of the GAPP, and online game operators may not provide game services to any users who have not registered using their real names. We cannot assure you that our anti-addiction system and real name registration system will be regarded as sufficient by PRC government authorities. Should the relevant government authorities find us not satisfying the requirements, they may order us to rectify, and our relevant licenses or approvals could be revoked, which may adversely affect our business operations and financial condition.

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

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our WFOE and PRC Consolidated Affiliated Entities are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

In particular, PRC laws and regulations concerning Internet-related industries and the mobile game industry are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC governmental authorities may promulgate new laws and regulations regulating internet-related industries and the mobile game industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to internet-related industries and the mobile game industry. Moreover, developments in internet-related industries and the mobile game industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may restrict our business operations, which could materially and adversely affect our business and results of operations.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and other legal proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. These uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in the PRC could materially and adversely affect our business and impede our ability to continue our operations.

### **PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.**

Our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in the PRC and by continued economic growth in the PRC as a whole.

The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC are still owned by the government or state-owned enterprises. In addition, the PRC government continues to play a significant role in regulating industrial development by imposing industrial policies. The PRC government also exercises significant control over the economic growth in the PRC through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various

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measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in the PRC and, since 2012, the PRC economy has slowed down. Any prolonged slowdown in the PRC economy may reduce the demand for our services and may materially and adversely affect our business and results of operations.

### **Inflation in the PRC could materially and adversely affect our profitability and growth.**

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation, including imposing various corrective measures designed to restrict the availability of credit or regulate growth. High inflation in the future may cause the PRC government to once again impose controls on credit and/or price of commodities, or to take other actions, which could inhibit economic activities in the PRC. Any action on the part of the PRC government that seeks to control credit and/or price of commodities may adversely affect our business operations, causing negative impact on our profitability and growth.

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

PRC regulations and rules concerning mergers and acquisitions including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the 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) the transaction involves factors that have or may have impact on the national economic security, or (iii) the transaction will lead to a change in control of a domestic enterprise which holds famous trademarks or PRC time-honored brands. Moreover, the Anti-Monopoly Law of the PRC (中華人民共和國反壟斷法) requires that the anti-trust governmental authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. The Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) issued by the General Office of the State Council that became effective in March 2011 specifies that a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns. Further, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定), effective in September 2011. Under the foregoing MOFCOM regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to a security review, it will submit it to the Inter-Ministerial Panel, an authority headed by the NDRC and MOFCOM, under the leadership of the State Council, to carry out security review. The foregoing regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merging or acquisition of a company engaged in the mobile games business requires security review. On December 19, 2020, the NDRC and the MOFCOM jointly promulgated the Measures on the Security Review of Foreign Investment (外商投資安全審查辦法), effective on January 18, 2021, setting forth provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others. The Office of the Working Mechanism of the Security Review of Foreign Investment (外商投資安全審查工作機制辦公室) (the “Office of the Working Mechanism”) will be established under the NDRC, who will lead the task together with the MOFCOM. Foreign investor or relevant parties in China must declare the security review to the Office of the Working Mechanism prior to the

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investments in, among other industries, important cultural products and services, important information technology and internet products and services and other important fields relating to national security, and obtain control in the target enterprise. See “Regulatory Overview—Regulations Related to Foreign Investment in the PRC. 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 or other relevant government agencies 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.

**We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.**

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise. A resident enterprise will be subject to the enterprise income tax on its global income at the rate of 25% and a withholding tax rate of 10% to dividends paid by it to a foreign enterprise, unless the jurisdiction of the foreign investor’s tax residence has a tax treaty with the PRC that provides for preferential tax treatment. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued the Circular on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知)(“Circular 82”), which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in the PRC. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. We believe none of our entities outside of the PRC is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” As all of our management members are based in the PRC, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of the PRC is a PRC resident enterprise for PRC enterprise income tax purposes, then we or this subsidiary could be subject to PRC tax at a rate of 25% on our or its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary Shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the

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case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our Company 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. Any such tax may reduce the returns on your [REDACTED] in our Shares.

Additionally, pursuant to the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, or the Double Tax Avoidance Arrangement and relevant PRC tax laws on the interpretation of the Arrangement, a preferential withholding tax rate of 5% may apply if the PRC enterprise is at least 25% held by the Hong Kong enterprise for at least 12 consecutive months prior to distribution of the dividends and certain other conditions, such as the beneficial ownership requirement, are met. Furthermore, under the Measures for Non-resident Taxpayers’ Enjoyment of Treaty Benefits (非居民納稅人享受協定待遇管理辦法), which became effective in January 2020, the applicant for the preferential withholding rate is required to maintain a record with its in-charge tax authority and submit, gather and retain all the requisite application materials. No government approval for the application is required, although the relevant tax authorities may subsequently challenge the applicability of the preferential withholding rate. There can be no assurance that our determination regarding our qualification to enjoy the preferential tax treatment will not be challenged by the relevant PRC tax authority or that we will be able to complete the necessary filings with the relevant PRC tax authority and enjoy the preferential withholding tax rate under the Double Taxation Arrangement with respect to dividends to be paid by our PRC subsidiaries to our Company.

### **Fluctuations in exchange rates could result in foreign currency exchange losses.**

The value of RMB against Hong Kong dollars, U.S. dollars and other currencies fluctuates is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between RMB and Hong Kong dollars, U.S. dollars or other currencies in the future. In addition, the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

As we expand our operations in China and overseas markets, we expect to incur more expenditures and generate more revenue denominated in RMB and U.S. dollars. Also, all of our players’ payments through Apple, including payments incurred in China, are settled in U.S. dollar even though it is not the local currency. Therefore, fluctuations in RMB against U.S. dollars could impact our results of operations. For example, we recorded net foreign exchange gains of RMB1.2 million and RMB1.7 million in 2018 and 2019, respectively, and net foreign exchange losses of RMB24.7 million and RMB4.0 million in 2020 and the six months ended June 30, 2021, respectively. Moreover, the [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of RMB against Hong Kong dollars may result in the decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost. Furthermore, we are also currently required to obtain the approval of the State Administration of Foreign Exchange, or SAFE, before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

### **The PRC government’s control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.**

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account

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items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our Company who are PRC residents. However, approval from or registration with appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of the PRC in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting processes are put in place by the SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

**We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries' ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange and other regulations.**

The SAFE has promulgated several regulations that require PRC residents and entities to register with and obtain approval from local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular 37 was promulgated by the SAFE in July 2014 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. These regulations apply to our Shareholders who are PRC residents or entities and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents or entities who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident or entity who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have requested PRC residents and entities holding direct or indirect interests in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents and, therefore, we may not be able to identify all our Shareholders or beneficial owners who are PRC residents or entities to ensure their compliance with Circular 37 or other related regulations. In addition, we cannot provide any assurance that all of our Shareholders and beneficial owners who are PRC residents or entities will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by Circular 37 or other related regulations, including applicable NDRC and MOFCOM regulations, in a timely manner. Failure by any such Shareholders to comply with Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could materially and adversely affect our business and prospects.



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### **The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.**

According to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or SAT Circular 7, promulgated by the SAT in February 2015 and further revised in October and December 2017, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly through the transfer of the equity interests of an offshore holding company without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and treat the indirect equity transfer as a direct transfer. As a result, the gain derived from such transfer, i.e., the transfer price minus the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of SAT Circular 7, a transfer that meets all of the following circumstances shall be directly deemed as having no reasonable commercial purposes: (i) over 75% of the value of the equity interests of the offshore holding company is directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company’s revenue is directly or indirectly derived from PRC territory; (iii) the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; and (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties.

We face uncertainties as to the reporting and other implications of certain future transactions where PRC taxable assets are involved, such as offshore restructuring and sale of the shares in our offshore subsidiaries. We and our non-PRC resident investors may be subject to filing obligations in such transactions, under SAT Circular 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist with the filing under SAT Circular 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 7 or to request that the relevant transferors from whom we purchase taxable assets comply with these circulars, or to establish that our Company should not be taxed under these circumstances, which may have a material adverse effect on our business, financial condition and results of operations.

### **Failure to obtain any preferential tax treatment and governmental subsidies or the discontinuation, reduction, request for return or delay of any of the preferential tax treatments that may be available to us could adversely affect our results of operations.**

We have been granted certain governmental subsidies and tax preferences. The tax effects of preferential income tax rates applicable to subsidiaries amounted to RMB4.9 million, RMB2.8 million, RMB92.1 million, RMB2.4 million and RMB83.4 million for 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. The EIT Law and its implementation regulations impose enterprise income tax at the statutory rate of 25% on Chinese enterprises. Our VIE, QC Digital, was accredited as a “software enterprise.” A software enterprise is entitled to a tax holiday consisting of a two-year tax exemption beginning from the first profitable calendar year and a 50% tax reduction for the subsequent three calendar years. Therefore, QC Digital was exempt from enterprise income tax in 2017 and 2018 and is subject to half of the enterprise income tax rate in 2019, 2020 and 2021. Similarly, our VIE, QC Cultural, was accredited as a “software enterprise” and this preferential tax treatment started in 2020 and will terminate in 2024. In addition, according to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that became effective in 2018, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (the “**Super Deduction**”). Our tax effect of the Super Deduction of research and development expenses was RMB4.2 million, RMB2.4 million, RMB17.0 million and RMB2.6 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. In addition, we received discretionary subsidies of RMB5.0 million, RMB3.8 million, RMB7.7 million and RMB2.8 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, which were provided to us by local governments to support our R&D activities and in recognition of our contribution to local economic development. Our preferential tax treatment and government subsidies are subject to review by the government and may be adjusted or revoked in the future. In addition, the timing, amount and criteria of government subsidies are determined within the discretion of the local government authorities and

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cannot be predicted with certainty. We cannot assure you of the continued availability of the preferential tax treatment or government subsidies currently enjoyed by us. The discontinuation, reduction or delay of these preferential tax treatment and government subsidies could materially and adversely affect our business, financial condition and results of operations.

### **It may be difficult to effect service of process upon us or our Directors or senior management who reside in China or to enforce non-PRC court judgments against them in China.**

A majority of the members of the board of directors and substantially all of our senior management members reside in the PRC, and a substantial part of our assets and the assets of such persons are located in the PRC. Accordingly, it may be difficult for investors to effect service of process on any of these persons or to enforce judgments obtained outside of the PRC against us or any of these persons. On July 14, 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland China and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), or the Arrangement, which came into effect on August 1, 2008. Under this Arrangement, where any designated people’s court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people’s court of the PRC or Hong Kong court for recognition and enforcement of the judgment. On January 18, 2019, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排), or the New Arrangement, which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in wider range of civil and commercial matters between Hong Kong and the PRC. The New Arrangement discontinued the requirement for a choice of court agreement for bilateral recognition and enforcement. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme Court and the completion of the relevant legislative procedures in the Hong Kong. The New Arrangement will, upon its effectiveness, supersede the Arrangement. Therefore, before the New Arrangement comes into effect it may be difficult or impossible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in many developed countries, including the Cayman Islands, the United States and the United Kingdom. Therefore, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

In addition, because there are no clear statutory and judicial interpretations or guidance on a PRC court’s jurisdiction over cases brought under foreign securities laws, it may be difficult for [REDACTED] to bring an original action in a PRC court against us or our Directors or senior management members who reside in the PRC based on the liability provisions of non-PRC securities laws. Even if any [REDACTED] is successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render this [REDACTED] unable to enforce a judgment against our assets or the assets of our directors and officers.

### **RISKS RELATING TO THE [REDACTED]**

#### **There has been no prior [REDACTED] market for the Shares, and the liquidity and [REDACTED] of our Shares may be volatile.**

Prior to the [REDACTED], there has been no [REDACTED] market for our Shares. The [REDACTED] range for our Shares was the result of negotiations between our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]) and the [REDACTED] may differ significantly from the [REDACTED]

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## RISK FACTORS

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for our Shares following the [REDACTED]. We have applied for [REDACTED] on the Stock Exchange. There is no assurance that the [REDACTED] will result in the development of an active, liquid [REDACTED] trading market for our Shares.

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

- our financial results;
- changes in securities analysts’ estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- assessments of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of [REDACTED] companies that are engaged in business activities similar to ours; general market sentiment regarding the entertainment industry and companies;
- changes in laws and regulations in China;
- our ability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

In addition, the [REDACTED] has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted [REDACTED]. As a result, [REDACTED] in our Shares may experience volatility in the [REDACTED] of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

**[REDACTED] will experience immediate dilution and may experience further dilution in the future.**

As the [REDACTED] of our Shares is higher than the [REDACTED] immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution in [REDACTED]. Our existing Shareholders will receive an increase in the [REDACTED] per share of their shares. In addition, holders of our Shares may experience further dilution of their interest if the [REDACTED] exercise the [REDACTED]. If we grant any stock options or other share-based compensation in the future, that may result in an increase in our issued share capital, which in turn may result in a dilution of our shareholders’ shareholding interest and a reduction in earnings per Share. Moreover, we may consider [REDACTED] Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Holders of our Shares may experience further dilution in terms of the net tangible asset value per share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per share.

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

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and Shareholders, or the perception or anticipation of such sales, could adversely impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate. While we currently are not aware of any intention of Shareholders to dispose of significant amounts of their Shares, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

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## RISK FACTORS

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**The [REDACTED] and [REDACTED] of our Shares may decline if securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares.**

The [REDACTED] for our Shares may be affected by research reports about us or our business published by the industry or securities analysts. The [REDACTED] of our Shares would possibly decline if one or more analysts who cover us downgrade our Shares or publish negative opinions about us regardless of the accuracy of the information. We may lose visibility in the financial markets if one or more of these analysts cease coverage of us or fail to regularly publish reports on us, which could cause the [REDACTED] or [REDACTED] of our Shares to decline.

**Since there will be a gap of several days between [REDACTED] of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before [REDACTED] of our Shares begins.**

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not [REDACTED] until they are delivered, which is expected to be several business days after [REDACTED]. As a result, [REDACTED] may not be able to [REDACTED] in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before [REDACTED] as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time [REDACTED].

**We will not declare or distribute any dividends to our Shareholders in the foreseeable future.**

We intend to permanently reinvest the remaining undistributed earnings from QC Digital and its subsidiaries to further expand our businesses in the PRC and do not plan to require our PRC subsidiaries to distribute their undistributed earnings in the foreseeable future. Therefore, we will not be able to declare any dividend in the coming years. The declaration and distribution of dividends is at the discretion of the Board, and even if we decide to declare and distribute dividends, our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including our results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that our Board deems relevant. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we cannot assure you that we can make dividend payments on our Shares in the future.

**You may experience difficulties in enforcing your Shareholder rights because we are incorporated in the Cayman Islands. Cayman Islands law is different from the law of Hong Kong and other jurisdictions and may not provide the same protections to minority shareholders.**

We are an exempted company incorporated in the Cayman Islands with limited liability, and the law of the Cayman Islands differs in some respects from that of Hong Kong, the U.S. or other jurisdictions where [REDACTED] may be located.

Our corporate affairs are governed by our Memorandum and Articles, the Cayman Companies Act and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, and actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in Hong Kong, China, the United States or other jurisdictions where [REDACTED] may be located. In particular, the Cayman Islands have a less developed body of securities laws and provide significantly less protection to [REDACTED].

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## RISK FACTORS

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As a result of all of the above, our [REDACTED] may have more difficulty in protecting their interests through actions against our management, Directors or major Shareholders than would shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 724 of the Companies Ordinance, which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company’s affairs.

**There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various publicly available official sources and various independent third-party sources, including the industry expert reports, contained in this document.**

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to the entertainment market. The information and statistics have been derived from a third-party report commissioned by us and 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 these source materials. The information has not been independently verified by us, the [REDACTED], the Sponsors, [REDACTED], [REDACTED], [REDACTED] or any other party involved in the [REDACTED], 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 included in this document 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. You should consider carefully the importance placed on such information or statistics.

**You should read the entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].**

There may be, subsequent to the date of this document but prior to the completion of the [REDACTED], press and media coverage regarding us and the [REDACTED], which contains, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective [REDACTED] are cautioned to make their [REDACTED] on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your [REDACTED] regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. By applying to [REDACTED] our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].