
RISK FACTORS

An investment in our Shares involves various risks. You should carefully consider all the information in this document and in particular the risks and uncertainties described below before making an investment in our Shares.

The following is a description of what we consider to be our material risks. The occurrence of any of the following events could materially and adversely affect our business performance, financial condition, results of operations or prospects. If any of these events occurs, the [REDACTED] price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances. These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our success depends, in a significant part, on the general prosperity and development of China’s overall video-based content market and drama series market, and factors affecting the video-based content market, especially the development of the drama series market, could have a material and adverse effect on our business, financial condition and results of operations.

Our business operations are subject to the overall prosperity of China’s video-based content market, in particular the drama series market, which may fluctuate significantly from time to time. According to Frost & Sullivan, China’s video-based content market grew from RMB215.8 billion in 2017 to RMB451.4 billion in 2021, representing a CAGR of 20.3%. Empowered by increasing demand, the total market size of video-based content is expected to reach RMB862.4 billion by 2026, representing a CAGR of 13.8% from 2021 to 2026. In China’s video-based content market, drama series are one of the most important types of content. According to Frost & Sullivan, the market size of the drama series market in the PRC grew from RMB37.3 billion in 2017 to RMB41.9 billion in 2021, representing a CAGR of 2.9%. Such growth may not continue in future periods, and is subject to various factors beyond our control, including the general economic conditions, people’s leisure time, spending power and demand for entertainment services, and changes and uncertainties of relevant laws, rules and regulations, none of which can be predicted with certainty. See “Industry Overview” for details. Any fluctuation or downturn in the overall development of the video-based content and drama series market in the PRC may reduce demand for our drama series and thus materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

Our income is generally project-based and non-recurring in nature and a failure to license the broadcasting rights of our drama series could materially affect our financial performance.

Our drama series projects are generally non-recurring in nature. In general, our engagements with customers, including online video platforms and TV channels, are on a project-by-project basis. A customer that accounts for a significant portion of our income for a particular period is not obliged to purchase the license of the broadcasting rights of our drama series again in the future for new projects. Factors including the pricing of our drama series, expected popularity of our drama series and overall market condition will affect our customers' purchasing decisions. Therefore, there is no guarantee that a customer will continue to purchase our drama series. In addition, we may generate one-off income from time to time, such as revenue from IP derivatives. As such, our revenue and profitability could fluctuate significantly from period to period. We cannot guarantee that our production will not be affected by events which are beyond our control, or that we will be able to continue to develop new drama series, continue our business relationship with our existing customers or have one-off income from time to time. Our results of operations and financial condition would be adversely affected if we are unable to develop new drama series successfully, secure new customers, or maintain reasonable or favorable key commercial terms in the new contracts, which may lead to a decrease in the number and price of our drama series in a particular year or period, and in turn, a decrease in revenue.

Our financial performance for a particular period highly depends on a limited number of drama series projects during the same period, which may result in wide fluctuations of financial performance.

Our results of operations are largely affected by the financial performance of a limited number of drama series we make. We typically produced two to four drama series each year during the Track Record Period. However, we arrange the production and distribution schedule based on our business judgement and industry experience and the broadcasting schedule is subject to adjustment of our customers and the broadcasting platforms. Therefore, our financial performance may vary depending on the number of drama series we produced and distributed during a particular period of time. The financial performance of a single drama series could have material impact on our operations. If one or more drama series incurred significant cost-overrun, our financial performance could be adversely affected. In addition, historically, our investment in and revenue generated from each of our drama series varied significantly. For example, profit margin for our drama series projects may vary depending on its genre and the general industry environment when we broadcast such drama series. Generally, considering the high contribution of revenue historically by costume drama series as compared to modern drama series, we may accept a relatively lower profit margin when we license the broadcasting rights of costume drama series to an online video platform or a TV channel. Consequently, the contribution of certain drama series to our total revenue and their profit margin could affect our results of operations in the future.

RISK FACTORS

The production and distribution of drama series are extensively regulated in the PRC. Our failure to comply with evolving laws, regulations and policies could materially and adversely affect our business, financial condition and results of operations.

Pursuant to the relevant PRC laws and regulations, drama series can only be produced and distributed by entities that hold both a Radio and Television Programs Production and Operation Permit (《廣播電視節目製作經營許可證》) and a Television Drama Production Permit (《電視劇製作許可證》). If we fail to obtain, maintain or renew licenses or permits required for our business, we could be subject to liabilities, penalties and operational disruption and our business could be materially and adversely affected.

In addition, our drama series need to be submitted for content examination prior to distribution to online video platforms and/or TV channels. For example, we, or other co-investors as specified in the relevant agreement, need to submit the Application for Content Examination (內容審查申請) to the NRTA, which will issue a Television Drama Distribution License (《國產電視劇發行許可證》) after passing its examination. The distribution license is a prerequisite requirement for the distribution and broadcast of drama series in the PRC. However, there is no assurance that the NRTA will issue such license to us. According to the Administrative Regulations on Content of Television Series (《電視劇內容管理規定》), which was promulgated by NRTA on May 14, 2010 and came into effect on July 1, 2010, and was last revised on October 31, 2018, drama series in the PRC are prohibited from certain content, such as promoting superstition, obscenity, gambling or violence, defamation as well as damaging social morality or cultural traditions. See "Regulatory Overview – Regulations in Relation to Production and Operation of Television Programs" for details. Such regulations may be amended or supplemented from time to time. In order to obtain such license, we may have to incur additional costs and expenses to revise the content of our drama series based on competent authorities' requests, and the distribution or broadcasting schedules of such drama series may be affected, which may in turn affect our results of operations and liquidity. In addition, if any of our drama series fails to obtain such license, we may have to discard it, even if already completed, resulting in a total investment loss. As confirmed by our Directors and PRC Legal Advisor, we had obtained all the relevant licences required under PRC laws and regulations during the Track Record Period. However, we cannot guarantee that we can continue to obtain all the required licenses going forward due to factors beyond our control. Any of the aforesaid circumstances may materially and adversely affect our business, financial condition and results of operations. Furthermore, even if a drama series has already been granted the Television Drama Distribution License, the NRTA may still, due to public interest concerns, require editing of or terminate the distribution or broadcast of such drama series. If any of these events occurs, our business, financial condition and results of operations would be materially and adversely affected.

Moreover, there is no assurance that the competent authorities will not impose additional or more stringent laws or regulations on the investment, development, production, distribution and broadcast of drama series in the future. For example:

RISK FACTORS

- *the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》)*

The NRTA has issued the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》) on October 31, 2018 to impose restrictions on the maximum compensation that actors can individually and collectively receive as a certain percentage of the total investment of a drama series. In particular, the NRTA requires that, among other things, the total actor’s remuneration (片酬) of a drama series shall not exceed 40% of the total production costs, and the principal actor’s remuneration shall not exceed 70% of the total actor’s remuneration. If the aforesaid allocation is violated with no justification or if there is any concealment or payments, the NRTA shall adopt punitive measures according to the regulation such as suspension and cancellation of the broadcast of the series or the production qualifications of the production entities. As confirmed by our Directors and advised by our PRC Legal Advisor, we had been in compliance with such notice since its issuance and had not been the subject of any review, enquiry or investigation by any PRC regulatory authorities in relation to such notice during the Track Record Period and up to the Latest Practicable Date. However, such notice may limit our capability of selecting suitable actors, and in turn may affect the appeal and popularity of our drama series.

As advised by our PRC Legal Advisor, the phrase “actor’s remuneration” used in the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs (《關於進一步加強廣播電視和網絡視聽文藝節目管理的通知》) and the Circular of the National Radio and Television Administration on Further Strengthening the Administration of the Creation and Production of TV Series and Web Series (《國家廣播電視總局關於進一步加強電視劇網絡劇創作生產管理有關工作的通知》) (the “2020 NRTA Notice”) issued by the NRTA should be interpreted to include only remuneration paid to actors for acting services, but not the fees paid to actors for non-acting services.

In addition, since the Notice for Further Strengthening the Administration on Radio or Television Programs and Online Audio-visual Entertainment Programs did not specify definitions for “actor’s remuneration” and “principal actors”, in the event the relevant authorities do not interpret “actor’s remuneration” and “principal actors” in the same way as we do, and if the relevant authorities deem the non-acting services fees as part of actor’s remuneration and determine that we are in violation of the afore-said requirements in respect of actor’s remuneration, the NRTA may suspend or cancel the broadcasting of the relevant TV drama series and suspend or cancel our TV drama series production license and, as a result, the Company’s business, results of operations and financial conditions could be materially and adversely affected.

RISK FACTORS

As advised by our PRC Legal Advisor, given that the 2018 NRTA Notice and the 2020 NRTA Notice explicitly restrict the remuneration of actors only (which is consistent with the understanding of the competent officer of Shanghai RTA, with whom our PRC Legal Advisor interviewed in May 2022), it is considered that the possibility of non-acting services being deemed as part of the actors’ remuneration by competent authorities to be remote. Therefore, the risk of the competent authorities suspending or cancelling the broadcast of the relevant TV drama series and suspend or cancel our Radio and TV Programs Production and Operation License is also remote.

On the basis of (i) discussions with the PRC Legal Advisor in respect of the basis for its interpretation of “actor’s remuneration” as restricted under the 2018 NRTA Notice and the 2020 NRTA Notice and (ii) the regulatory assurance provided by the officer of the Shanghai RTA, the Joint Sponsors concur with the PRC Legal Advisor’s view that it considered the possibility of non-acting services being deemed as part of actors’ remuneration by competent authorities to be remote and the risk of the competent authorities suspending or cancelling the broadcast of the relevant TV drama series and suspending or cancelling the Group’s Radio and TV Programs Production and Operation License to thereby be remote. See “Regulatory Overview – Regulations in Relation to Production and Operation of Television Programs – Content Examination and Distribution Licensing System” for details. Any such additional or more stringent laws or regulations may lead to an increase in our compliance costs, which could result in a material and adverse effect on our results of operations.

- *the Circular of the National Radio and Television Administration on Further Strengthening the Administration of the Creation and Production of TV Series and Web Series* (《國家廣播電視總局關於進一步加強電視劇網絡劇創作生產管理有關工作的通知》)

The NRTA issued the Circular of the National Radio and Television Administration on Further Strengthening the Administration of the Creation and Production of TV Series and Web Series (《國家廣播電視總局關於進一步加強電視劇網絡劇創作生產管理有關工作的通知》) on February 6, 2020 to impose restrictions on the maximum number and length of episodes of each drama series. We are required to follow the NRTA’s further directions, advices, and approval regime from time to time. This may adversely affect our revenue due to the reduction in the number of our drama series, and in turn, affect our profit margin, which may in turn adversely affect our business, financial condition and results of operations.

In addition, the laws, regulations, policies and guidance in the drama series production industry have been evolving.

For example:

- *the Sample Text of Engagement Contract of Actors (for Trial Implementation)* (《演員聘用合同示範文本(試行)》)

RISK FACTORS

On May 7, 2022, the China Federation of Radio and Television Associations and the China Netcasting Services Association jointly published the Sample Text of Engagement Contract of Actors (for Trial Implementation) (《演員聘用合同示範文本(試行)》) (the “**Engagement Contract**”). The Engagement Contract is a sample engagement contract for actors (or any agency or studio authorized by such actors) who participate drama series and web series to enter into with the producer/contractor of drama series and web series. See “Regulatory Overview – Regulations in Relation to Production and Operation of Television Programs – Content Examination and Distribution Licensing System” for details. As the Engagement Contract is formulated by the China Federation of Radio and Television Associations and the China Netcasting Services Association, as advised by our PRC Legal Advisers, the nature of such action was a self-regulatory measure by the industry and is not legally mandatory.

- *the Strengthen the Tax Management of Practitioners in the Field of Cultural and Entertainment* (《加強文娛領域從業人員稅收管理》)

On September 22, 2021, the State Taxation Administration (國家稅務總局) issued the Strengthen the Tax Management of Practitioners in the Field of Cultural and Entertainment (《加強文娛領域從業人員稅收管理》), it requires the strengthening of the tax management of actors, online anchors agency companies, artistes managers and the relevant producers, urges them to fulfill the individual income tax withholding obligations in accordance with the applicable PRC law and provide relevant information and cooperate with tax authorities to implement tax management work for actors and online anchors in accordance with the law. See “Regulatory Overview – Regulations in Relation to Production and Operation of Television Programs – Content Examination and Distribution Licensing System” for details. However, our policies and procedures may not be sufficient, and our business operations may be adversely affected if we fail to comply with the evolving regulatory updates.

In addition, the radio and television administration department issues guidance on the content of TV drama series from time to time. For example:

- *the notice on Properly Handling the Exhibition and Broadcasting of TV dramas in relation to celebrating the 70th anniversary of the founding of China* (《關於做好慶祝新中國成立70周年電視劇展播工作的通知》)

On July 29, 2019, the NRTA issued the notice on Properly Handling the Exhibition and Broadcasting of TV dramas in relation to celebrating the 70th anniversary of the founding of China (《關於做好慶祝新中國成立70周年電視劇展播工作的通知》), requiring that costume drama series and idol programs with strong entertainment shall not be broadcast during the “100 days’ exhibition and broadcasting” activity of key TV drama series since August 2019.

- *the Specification of Teleplay Mastering* (《電視劇母版製作規範》)

RISK FACTORS

The NRTA issued the Specification of Teleplay Mastering (《電視劇母版製作規範》) on December 31, 2021 which has become effective since April 1, 2022 (the “Specification”). The Specification quantifies and standardizes the technical aspects of the duration, signature, images, sound, subtitles, packaging format and production quality of teleplay mastering, and provides recommendations on the subjective evaluation methods for the sound and picture quality of teleplay mastering, ensures that TV production institutions, copyright holders and content broadcasting platforms shall adopt uniform parameters and packaging formats during the production and exchange of teleplay mastering, reduces conversion processing, improves production efficiency and guides the improvement of the standardization of drama series. See “Regulatory Overview – Regulations in Relation to Production and Operation of Television Programs – Content Examination and Distribution Licensing System” for details. Our production and distribution of drama series is required to follow such evolving opinions from time to time. If we fail to comply with the evolving laws, regulations and policies, our business, financial condition and results of operations could be materially and adversely affected.

In addition, the drama series production industry has faced an increasing level of review and scrutiny by the authorities in recent years. For example, in 2019, the Filming and Television Committee of the State Taxation Administration (“國家稅務總局影視專項工作組”), issued the tax counseling notice requiring TV series production institutions to standardize tax compliance. Under the guidance of the Filming and Television Committee of the State Taxation Administration, we conducted a tax compliance self-check on our business for the period from 2016 to 2018. See “Business – Legal Proceedings and Compliance – Past Tax Compliance Self-checks – 2019 Tax Compliance Self-check” for details. We concluded that we may need to make up certain tax payments for the period from 2016 to 2018. In 2019, we paid up all the outstanding tax payments of approximately RMB77.0 million without being subject to any legal or administrative penalties from the relevant government authorities. We cannot assure you that the tax authority will interpret our tax position in the same way as we do and if we are deemed not to be in compliance with the applicable laws and regulations, we may need to pay additional tax or be subject to administrative penalties or payments, which may materially and adversely affect our business, financial condition, reputation and results of operations.

We are subject to risks associated with drama series being taken down from the broadcasting channels.

Our original drama series may be taken down from the broadcasting channels for a variety of reasons which may be beyond our control. During the Track Record Period, in accordance with the agreements we entered in with our original drama series customers with respect to our original drama series, we are required to refund part or all of the licensing fees if our original drama series are taken down from the broadcasting channels during the licensing period. Pursuant to the paragraph 57 of HKFRS15, in assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue will occur, a number of factors indicating the likelihood and the magnitude of revenue reversal should be considered,

RISK FACTORS

including, for example, (1) the amount of consideration susceptible to factors outside the entity's influence and (2) the entity's experience with similar types of contracts. For (1), the maximum exposure amount of variable consideration in relation to price adjustments arising from risk of the drama series being taken down from broadcasting channels was RMB3,266 million, RMB4,506 million, RMB5,591 million and RMB6,016 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. See "Financial Information – Critical Accounting Policies and Estimates – Revenue Recognition – (a) Licensing of broadcasting rights of original drama series" for details. We did not refund any of the consideration for our original drama series, nor did we make any revenue reversal during the Track Record Period. We cannot assure you that our original drama series will not be taken down from the broadcasting channels in the future. In the event that our original drama series are required to be taken down from the broadcasting channels, we may be required to refund part of or all of the licensing fees to our original drama series customers. Any significant reversal of revenue recognized by us may have an adverse effect on our results of operation and financial condition.

The public reception to the drama series projects we produce and invest in are subject to uncertainties and we may not be able to respond effectively to changes in market trends.

The commercial success of our drama series depends upon acceptance by the audience, which cannot be accurately predicted. There are no objective standards to predict the success and popularity of a particular drama series, which depend on many factors, including the critical acclaim they receive, the reputation and popularity of the directors and actors involved, the appeal of the scripts, the genre and specific subject matter, the quality of content and the preference of audiences. The commercial success of a drama series also depends upon the public's or a distribution channel's acceptance of its content, general economic conditions and other tangible and intangible factors, all of which can change and cannot be controlled or predicted with certainty.

To achieve the success of a drama series, we need to develop and produce content that appeals to a broad audience, to respond effectively to changes in audience preferences and to efficiently adapt to the latest market trends. In addition, in the event of repeated failures of our drama series, our brand and reputation would be harmed and we may not be able to maintain our well-established relationships with top online video platforms and major TV channels, which may adversely and materially affect our distribution capability. The failure to achieve any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, liquidity and prospects.

In light of the increasing prevalence of short-form videos and other user-produced creative content and potential changes in consumer preferences, we are creating more short-form video and utilizing short-form platforms to match the latest viewership preferences of audiences. However, our experience in producing short-form video is limited. The commercial success of our short-form video is largely determined by our ability to develop and produce short-form video that appeals to a broad audience, to respond effectively to changes in audience preferences and to efficiently adapt to the latest market trends. The failure to

RISK FACTORS

achieve any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, liquidity and prospects. In addition, we may fail to compete with other emerging players due to changes in consumer preferences and our business, financial condition, results of operations, liquidity and prospects may be adversely affected.

We rely on a limited number of top online video platforms and major TV channels for the distribution and broadcast of our drama series, with which we have limited bargaining power, and the loss of any one of them would materially and adversely affect our business, financial conditions, results of operations and prospects.

During the Track Record Period, we derived a significant portion of our revenue from a limited number of customers, most of our top five customers are top online video platforms and major TV channels. According to Frost & Sullivan, these distribution channels collectively have the largest audience base and have the greatest demand and the most sufficient procurement budget for drama series in the PRC. Therefore, we have limited bargaining power in negotiating key terms, including payment schedules, price per episode and the broadcasting time slot, with these distribution channels. For example, top online video platforms have internally adopted strict procurement policies imposing a maximum price for each episode of a drama series. The licensing period of our broadcasting rights licensing agreements typically ranges from five to ten years. Customers are authorized to broadcast our drama series during the licensing period. Broadcasting schedules are duly negotiated between our customers and us and are typically set forth in the respective licensing agreements. During the Track Record Period, all our original drama series were broadcast in the schedule set out in the respective licensing arrangements. See “Business – Our Business – Original Drama Series – Business Model – Salient Terms of the Broadcasting Rights Licensing Agreements with Our Customers” for details. However, distribution channels may unilaterally delay or change their broadcasting schedules of our drama series, affecting the secondary sales and popularity of our drama series, which may have an adverse impact on our profitability, business, results of operations and liquidity. In 2019, 2020 and 2021 and three months ended March 31, 2022, our revenue derived from our top five customers accounted for approximately 93.2%, 88.1%, 77.6% and 85.9% of our total revenue for the same periods, respectively. In 2019, the broadcasting schedule of Novoland: Eagle Flag episodes (九州縹緲錄) was adjusted as a result of an adjustment of the number of episodes as requested by the TV channel. Although the actual broadcasting schedule was still within the stipulated broadcasting schedule as set out in the respective licensing agreements, however, our revenue from such the licensing of such drama series decreased due to the adjustment of the number of episodes.

We cannot assure you that we will be able to continue to maintain good business relationships with these top online video platforms and major TV channels or that we will not lose any of them. As our contracts with these top online video platforms and major TV channels are generally on a project-by-project basis, there can be no assurance that these top online video platforms and major TV channels will continue to cooperate with us or maintain their current procurement budget level for our future projects. If we fail to identify sufficient and

RISK FACTORS

suitable alternative distribution channels on commercially acceptable terms, or at all, we may not be able to sustain our revenue and realize economic returns from our drama series, thus materially and adversely affecting our profitability, business, results of operations and prospects.

Tencent Group was our largest customer in 2020, and our second, third and fifth largest customer in the three months ended March 31, 2022 and in 2021 and 2019. If we fail to maintain our business relationship with Tencent Group, our business, financial condition and results of operations could be materially and adversely affected.

During the Track Record Period, we licensed the broadcasting rights of our original drama series to and produced made-to-order drama series for Tencent Video, the online video platform of Tencent’s subsidiary. Tencent Group was our largest customer for 2020, and was the second, third and fifth largest customer in the three months ended March 31, 2022 and in 2021 and 2019, respectively. Our revenue derived from Tencent Group amounted to RMB79.9 million, RMB466.7 million, RMB211.4 million and RMB74.2 million in 2019, 2020 and 2021 and three months ended March 31, 2022, respectively, accounting for approximately 4.5%, 32.7%, 16.9% and 15.8% of our total revenue in the same periods, respectively. According to Frost & Sullivan, Tencent Video is a leading online video platform in terms of revenue generated from membership services, online advertising services and content distribution services in the PRC. Due to Tencent Video’s leading market position and popularity among audiences, it is in great need of, and procures a large quantity of, drama series. During the Track Record Period, we licensed the broadcasting right of one original drama series to Tencent Video in 2020, 2021 and the three months ended March 31, 2022, respectively, accounting for approximately 33.3%, 33.3% and 50.0% of the number of total original drama series that we licensed out for the same periods, respectively. In addition, we produced one made-to-order drama series for Tencent Video in each of 2019 and 2021, accounting for 100% of the total made-to-order drama series we produced for the same periods. See “Business – Our Customers” for details of our relationship with Tencent Group. As Tencent Video and our Group both engaged in the production of drama series, there may be potential competition between Tencent Video and us. As a significant portion of our revenue was derived from Tencent Group during the Track Record Period, any decrease in the number of projects with this major customer would adversely affect our business operations and financial results. We believe we have competitive edge over our competitors because we are a drama series production company possessing abundant IP reserves and comprehensive production and distribution capabilities. See “Business – Our Competitive Strengths” for details. In addition, we have built up a mutually beneficial and complementary relationship with Tencent Group. See “Business – Customer Concentration and Relationship with Tencent Group” for details. Going forward, we expect Tencent Group to continue to be one of our major customers. To the extent we fail to maintain our business relationship with Tencent Group on comparable contract terms or at all, we may have to source new online video platforms to sell the broadcasting rights of our original drama series and our production services, which could materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

We are subject to risks of piracy and intellectual property infringement.

Acts of piracy and copyright infringement are prevalent in many parts of the world including the PRC, which is primarily due to (i) technological advances allowing conversion of drama series into digital formats; (ii) the availability of digital copies of drama series; and (iii) the difficulty in enforcing intellectual property rights in the PRC. This trend facilitates the creation, transmission and sharing of high-quality unauthorized copies of drama series. For example, during the Track Record Period, some account owners on certain short video platforms copied and shared selected contents from our drama series to post on short video platforms. In addition, in the event of any leakage of our drama series before the broadcasting period, the performance of our drama series may be adversely affected. The proliferation of unauthorized copies of our products may result in the loss of audience and have a negative impact on the TV viewership ratings and online video views, and in some cases, reduce our licensing revenue, which may materially and adversely affect our business and results of operations. In order to minimize the risks of piracy and infringement, we may have to invest significant financial and human resources to implement security and anti-piracy measures. Litigation may be necessary to enforce our intellectual property rights. However, given that the Chinese courts have discretion in interpreting and implementing regulations and contractual agreements, it is difficult to predict the outcome of litigation. In addition, we may have to incur additional costs for such costs and our management attention may be diverted and there is no guarantee that we would be able to halt any unauthorized use of our intellectual property in China through litigation.

In addition, due to our business nature, we are particularly vulnerable to disputes relating to the infringement of intellectual property rights. There is no assurance that we will not face intellectual property claims relating to the creative content of our drama series or disputes over entitlements to intellectual property rights in the future. Also, we may face with accusations of infringement of others' intellectual property rights, including, for example copyrights and rights of portrait. Any such claims or disputes may result in prolonged legal proceedings, which may divert our management's attention from our business and cause us to incur substantial costs. If any claim or action is asserted against us, we may seek to settle such claim by obtaining a license from the plaintiff covering the disputed intellectual property rights. There is no assurance, however, that under such circumstances, such license, or any other form of settlement, would be available on reasonable terms or at all. In case of such event, we may be liable for damages, which may materially and adversely affect our results of operations and financial condition.

RISK FACTORS

We rely on the contribution of industry professionals participating in the development, production and promotion of our drama series. Our failure to retain the services of such professionals, unsatisfactory services provided by them or even any negative news about them in the future may materially and adversely affect our business and results of operations.

We rely on the contribution of industry professionals participating in the development, production and promotion of our drama series, including scriptwriters, producers, directors and actors, filming and production crew, and promotion agencies. Our operation with those industry professionals are on a project-by-project basis. There can be no assurance that they will continue to work with us on acceptable terms or at all, or that the costs associated with attracting alternative talents and/or third-party service providers will be reasonable. The drama series industry in the PRC also lacks sufficient numbers of quality talents, for which drama series producers compete intensively. We cannot assure you that we will be able to acquire suitable quality talents for each of our drama series. If we fail to acquire and retain highly qualified industry professionals on favorable terms or if talents with whom we work lose their current popularity, our revenue and profitability could be adversely affected. Any failure by our third-party services providers to perform their obligations under the relevant agreements, comply with the applicable laws and regulations and industry standards, or satisfy our specific requirements and expectations may have an adverse and material impact on our business, financial condition and results of operations.

In addition, any lawsuits, personal misbehaviors, rumors, scandals or negative news related to scriptwriters, directors and major cast members of our drama series could negatively affect the distribution of corresponding drama series and may even result in termination of the licensing agreements and content marketing services agreements, which will materially and adversely affect our business, financial condition and results of operations. We cannot assure you that the scriptwriters, directors and major cast members of our pipeline drama series projects will not be involved in similar incidents due to factors beyond our control. Pursuant to our agreements with scriptwriters, directors and major cast members, we are typically entitled to seek reimbursement of the amount we paid to them in the event that any such lawsuits, personal misbehaviors, rumors, scandals or negative news related to them affected our distribution of the corresponding drama series or our licensing agreements. However, any such claim may result in prolonged negotiations or legal proceedings, which may divert our management's attention from our business and cause us to incur substantial costs. We cannot assure you we will be able to retrieve the full amount of the reimbursement or compensation for the losses suffered due to the failure of distribution of relevant episodes or failure to obtain relevant licenses or suspension of broadcast during the relevant drama series' licensing period we are entitled to or at all, which may adversely and materially affect our business, financial condition and results of operations. In addition, the cost of re-filming with alternative cast members or using artificial intelligence to replace the cast members may be expensive and the process may be time-consuming, which may adversely affect our distribution plans and materially and adversely affect our profitability and financial condition.

RISK FACTORS

The production and distribution of drama series is a lengthy and capital-intensive process, and our capacity to generate cash or obtain financing on favorable terms may be insufficient to meet our anticipated cash requirements.

The production and distribution of drama series require substantial capital and may require significant time between the commencement of production and the initial broadcasting. A significant amount of time may elapse between our operating expenditure and the cash inflow after distribution of such drama series. We had two drama series project that were to be broadcast and two drama series projects that were under filming/post-production and yet to be broadcast as of the Latest Practicable Date. In addition, we typically seek to pre-sell our original drama series to our customers prior to or shortly after the commencement of filming during the Track Record Period, which contributed to our operating cash inflow position. However, we cannot assure you that we will be able to continue to pre-sell all of our original drama series or at all going forward and as a result, our cash flow position and financial condition may be adversely affected. During the Track Record Period, we utilized capital contributions from Shareholders, cash generated from our operations, bank and other borrowings to finance our drama series projects. We recorded net cash operating inflows during the Track Record Period and had no bank borrowings as of March 31, 2022. However, there is no assurance that we will have sufficient cash flow or financial resources to fund our pipeline drama series projects in the future and we may incur additional bank borrowings. Any disagreement with, or discontinuation in the cooperation with, our co-investors may result in the delay, suspension or termination of the production of our drama series, which in turn may have a material and adverse impact on our business, reputation, results of operations and financial conditions.

To the extent that we might engage debt financing in the future, the incurrence of indebtedness would result in increased finance costs and could result in operating and financing covenants that may, among other things, restrict our operational flexibility or our ability to pay dividends, which could also be burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be adversely affected.

In addition, our ability to raise additional capital may depend on our business performance, market conditions and the overall economic environment. We are unable to assure you that we will be able to obtain bank borrowings and other external financing or resources on commercially acceptable terms or in a timely manner or at all in the future. If we are unable to obtain necessary financing or if we fail to obtain such financing on favorable terms or in a timely manner due to factors beyond our control, our business, results of operations and growth prospects may be materially and adversely affected.

RISK FACTORS

Our ability to control our cost of sales and operating expenses would affect our financial condition.

In 2019, 2020 and 2021 and the three months ended March 31, 2022, our aggregate amount of cost of sales amounted to RMB1,393.3 million, RMB880.4 million, RMB689.9 million and RMB287.5 million, respectively, representing approximately 77.7%, 61.7%, 55.2% and 61.1% of our total revenue, respectively. Cost of sales for the licensing of the broadcasting rights of our original drama series is the single largest component of our cost of sales, representing 97.1%, 79.3%, 91.6% and 97.8% of our cost of sales during the Track Record Period. The NRTA has issued a policy to impose restrictions on the maximum compensation that actors can individually and collectively receive as a certain percentage of the total investment of a drama series, however, the costs of producing quality drama series may still increase in the future, which may make it more difficult for a drama series we will invest in to generate profit. Remuneration of quality scriptwriters, directors and actors and other key production crew has been increasing. Other production costs have also been increasing due to higher expenditures on filming studios and advanced filming equipment and technologies. If such increases in production costs cannot be offset by a corresponding increase in licensing revenue or production revenue, our profitability may be adversely affected, which in turn, may materially and adversely affect our results of operations. Moreover, during the Track Record Period, our gross profit margin of content marketing business decreased from 73.6% in 2020 to 56.9% in 2021, primarily attributable to integrated marketing campaigns business which incurred comparatively higher costs and entailed comparatively lower gross margin. The cost of such content marketing business may still increase in the future. We cannot assure you that we will maintain such profitability and margin level in the future.

In addition, our results of operations are affected by our operating expenses, which mainly consist of our selling and distribution expenses and administrative expenses. In 2019, 2020 and 2021 and the three months ended March 31, 2022, our aggregate amount of selling and distribution expenses and administrative expenses were RMB213.8 million, RMB225.1 million, RMB265.4 million and RMB96.3 million, respectively, representing approximately 11.9%, 15.8%, 21.3% and 20.4% of our total revenue, respectively. Our operating expenses may increase with the expansion of our business or due to other factors, but we typically charge fixed fees for the licensing of broadcasting rights of our original drama series. If we fail to control our cost of sales and operating expenses, our profitability and financial condition may be adversely affected.

We recorded net loss in the three months ended March 31, 2021 and 2022.

In the three months ended March 31, 2021 and 2022, we recorded net losses of RMB11.9 million and RMB2.1 million, respectively. We may incur losses in the future for various reasons, many of which may be beyond our control. Furthermore, after the [REDACTED], we may incur additional compliance, accounting, and other expenses that we did not incur as a private company. If our revenue does not grow at a greater rate than our expenses, we may not be able to achieve profitability. Additionally, we may encounter unforeseen expenses, operating

RISK FACTORS

delays, or other unknown factors that may result in losses in the future. If our cost of sales and expenses continuously exceed our revenue, our business may be materially and adversely affected and we may not be able to achieve or maintain profitability.

The production and distribution of a drama series are subject to uncertainties. There is no guarantee that the production or distribution of our drama series can be kept within budget and on schedule.

We derive revenue mainly from the licensing of the broadcasting rights of our drama series. We typically pre-sell our original drama series before filming and receive prepayments, which are initially recorded as contract liabilities and are recognized as revenue when the relevant broadcasting rights are rendered or transferred to our customers. We recorded contract liabilities of RMB406.6 million, RMB170.4 million, RMB654.6 million and RMB820.1 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. The delivery of our drama series to our customers may be disrupted by unforeseeable events, such as the outbreak of contagious diseases, occurrence of force majeure events, regulatory changes and/or natural disasters or by unforeseen circumstances during production, such as accidents, equipment damage or malfunction, damages to cassettes (or digital files thereof), unavailability of filming locations, delay in obtaining the requisite permits or licenses, natural disasters and unavailability of producers, directors or actors due to injuries or health issues, other engagements or a ban from the video-based content market as a result of their personal behavior. The distribution of our drama series may also be delayed due to the changes in the production schedules or the failure to obtain the relevant distribution licenses, leading to the delay in the initial broadcasting of our drama series. In such events, we may be unable to fulfil our obligation in respect of the contract liabilities and may need to refund a portion or all of our contract liabilities not yet recognized as revenue to our customers, which could result in an adverse impact on our cash position and expose us to liquidity risk. In the event we are unable to successfully deliver our drama series to our customers in the future, we may be subject to claims to refund a portion or all of our contract liabilities, which could materially and adversely affect our business, results of operations and financial condition. Any delay or adjustment in production or distribution schedules may increase the production or distribution costs. If we are unable to pass such increased cost onto our customers, our expected investment return would be reduced. In addition, a delay in production or distribution schedule may cause a breach of the agreements with our customers and enable them to terminate the agreements, which would materially and adversely affect our business, financial condition and results of operations.

In addition, the drama series production process is complex and the production cost may exceed our expected budget. In circumstances where the production cost of a drama series significantly exceeds its budget, we and other co-investors may be required to contribute additional financial resources. Failure to obtain additional financial resources for a drama series project may result in substantial delay in production progress. Furthermore, when we are

RISK FACTORS

providing production services, we may need to bear the overrun costs pursuant to the relevant agreements, unless otherwise provided in the relevant agreements. Any of the above circumstances may materially and adversely affect our business, financial condition and results of operations.

If we are unable to compete effectively in the drama series industry, our business, financial condition and results of operations may be materially and adversely affected.

We operate in a fragmented, rapidly evolving and highly competitive market. We compete with existing drama series producers and/or distributors for audiences, distribution channels and their procurement budgets, as well as talents. We may also face competition from new market entrants in the future. For example, distribution platforms may independently through their in-house production teams or engage third party production services providers to produce their own drama series and therefore we may face competition arising from the vertical integration of distribution platforms (i.e. TV channels and online media platforms).

Some of our competitors may have broader audience reach, greater brand recognition, stronger relationships with leading distribution channels, longer operating histories, or greater financial, technological or marketing resources. As a result, they may have better resources, such as quality directors, cast and production crew, or be able to respond more quickly and effectively to new or changing opportunities, audience preferences, market trends, regulatory requirements or technologies than us. We cannot assure you that we will be able to compete successfully against current or future competitors. Such competition may pose challenges to our business operations, and materially and adversely affect our market share, financial condition, results of operation and profitability.

We have a limited operating history.

We started our business in 2014 and have a limited length of operating history. Our total revenue were RMB1,794.2 million, RMB1,426.2 million, RMB1,249.0 million and RMB470.6 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Although we have experienced significant business growth since our inception, we cannot assure you that our revenue will continue to increase at previous rates or at all. Our short operating history makes it difficult to assess our future prospects or forecast our future results.

The risks and challenges we might face involve our abilities to, among other things:

- complete and/or release our on-going drama series projects on schedule or at all;
- develop innovative ideas and concepts as well as quality scripts to produce new drama series projects;
- enhance and maintain the value of our brand;

RISK FACTORS

- develop or implement additional strategic initiatives to further enhance our monetization capabilities;
- develop and maintain relationships with our suppliers, customers and business partners, in particular major TV channels and top online video platforms;
- successfully compete with other market players;
- continue to attract, retain and motivate talented and skilled employees; and
- defend ourselves against litigation, regulatory interference and intellectual property claims.

In addition, the execution of our business strategies and future plans is also expected to require management attention and efforts and incur additional expenditures. There is no assurance that we will be able to successfully implement our business strategies or future plans, and any failure to do so may have an adverse effect on our business and results of operations. In particular, we plan to use (i) approximately 10% of the net [REDACTED] from the [REDACTED] to expand our IP pool; (ii) approximately 50% of the net [REDACTED] from the [REDACTED] to further produce our original drama series; (iii) approximately 15% of the net [REDACTED] from the [REDACTED] to facilitate our initiatives in emerging business opportunities; and (iv) approximately 15% of the net [REDACTED] from the [REDACTED] will be allocated to pursue strategic investment and acquisition opportunities. See “Future Plans and Use of [REDACTED]” for details. Our insights and expertise in existing businesses may not be as useful as we expect in implementing such plans. We cannot assure you that these efforts will be successful. Even if our business strategies or future plans are implemented, there is no assurance that they will successfully increase our market share or enhance our market position.

Any change in or discontinuation of preferential tax treatment or governmental grants that currently are available to us may have adverse impact on our results of operations.

Our PRC subsidiaries and our Consolidated Affiliated Entities are subject to the statutory EIT rate of 25%. Horgos Linmon and Horgos Linmon Black Tea, however, are entitled to EIT exemption for five years starting from the year in which they first generated revenue. According to the Preferential Filing Record of EIT (《企業所得稅優惠事項備案表》), Horgos Linmon has obtained the approval from the State Administration of Taxation for the entitlement of EIT exemption from July 26, 2016 to December 31, 2020, and an EIT exemption by local tax bureau for the next five years starting from January 1, 2021, Horgos Linmon Black Tea has registered with the State Administration of Taxation for entitlement of EIT exemption from October 16, 2017 to December 31, 2021 and local bureau’s EIT exemption for the next five years from January 1, 2022. See “Financial Information – Description of Key Statement of Profit or Loss Items – Income Tax Expense” for details.

RISK FACTORS

In 2019, 2020 and 2021 and the three months ended March 31, 2022, local governments have also granted us various financial subsidies and we recorded government grants in other income of RMB28.8 million, RMB13.4 million, RMB42.3 million and RMB5.3 million, respectively, in our consolidated statements of profit or loss. See “Financial Information – preferential tax treatment and government grants” for details. These financial subsidies have been given on a one-off basis and at the discretion of the local government authorities.

There can be no assurances that we will continue to enjoy these preferential tax treatment or government grants at the historical levels, or at all. Any change, suspension or discontinuation of these preferential tax treatment and government grants to us could adversely affect our financial condition, results of operations and cash flows.

Information on our pipeline projects may not prove to be accurate or indicative of our future results of operations.

As of the Latest Practicable Date, we had two drama series project that were to be broadcast, two drama series projects that were under filming/post-production and 29 drama series projects which were under script development/pre-production. For all four drama series projects that were to be broadcast or under filming/post-production and had yet to be broadcast, we have applied for the Application for Public Record (備案公示申請) and registered with the NRTA. However, the actual outcome of our pipeline projects might be different from what we planned due to a number of factors. For example,

- we may not be able to pre-sell or enter into definitive agreements to distribute projects that have completed production;
- our signed definitive distribution agreements may not be fully performed in accordance with their terms, or may be amended, modified, altered, terminated, or canceled;
- the genre, content or length of the pipeline projects may be subject to change during the production, post-production and regulatory review stages;
- at the stage of application for registration/filing, we may not complete the registration/filing due to factors beyond our control, such as scandals of suppliers and negative publication;
- Four, six, four and nil drama series projects of us did not come into fruition in 2019, 2020, 2021 and the three months ended March 31, 2022 and there are possibilities that our future drama series projects may not come into fruition;
- the expected broadcasting time may be subject to change as a result of a delay in the production or distribution process or the broadcasting schedule of our customers; and

RISK FACTORS

- the pipeline projects may not be successful or gain popularity among audiences and distribution platforms.

As a result, investors are cautioned not to rely on our project pipeline information presented in this document as an accurate indicator of our future earnings.

Our business depends significantly on our production capabilities and brand perception, and our brand image may be materially and adversely impacted by negative publicity.

We believe that maintaining and enhancing our Linmon (檸檬) brand is critical to our relationships with our business partners and customers. To the extent our drama series are perceived as of low quality or otherwise not appealing, our brand perception may be adversely impacted.

We are directly involved in pre-production, filming and post-production activities of the drama series production process for our original drama series. We also rely on the cast and filming and production crew to maintain their quality of performance and services. As there are no objective standards to assess the quality of a particular drama series, when we are producing our drama series, there is no assurance that the quality of the content we produce will meet the requirements and expectations of the distribution channels and audiences. Any failure to do so may have a negative impact on our reputation and our ability to maintain relationships with them, which in turn may have a material and adverse effect on our business and results of operations.

Furthermore, negative publicity, whether or not justified, involving us, our management, main cast members of our drama series, our business partners or our industry may harm our brand. In particular, given the nature of the video-based content market, we are more exposed and susceptible to negative publicity. Damage to our reputation and our brand may reduce demand for our content, cause suspension or termination of the broadcasting of our drama series, and have a material and adverse effect on our business, results of operations and financial condition. Moreover, any effort to rebuild our reputation and restore the value of our brand may be costly and time consuming, and such efforts may not ultimately be successful.

The COVID-19 pandemic could have a material adverse effect on our business, financial condition and results of operations.

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. In response, the Chinese government has taken a number of actions, including among other things, compulsory quarantine arrangements, travel restrictions, remote work arrangements and public activities restrictions. The COVID-19 pandemic also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We adopted strict disease prevention measures to reduce the risk of our employees and production crew onsite

RISK FACTORS

including sterilizing, ventilating the workplaces, and monitoring the body temperature of staff. The disease prevention measures incurred additional costs and adversely affected the production process of our drama series.

In addition, as a result of COVID-19, we adjusted the distribution plan of our film “Monster Run” (怪物先生). Instead of licensing the theatrical distribution rights to cinemas, we licensed the broadcasting rights to online video platforms as a reaction to the temporary closure of cinemas and generated revenue of RMB135.0 million in 2020.

Although the general conditions of the COVID-19 outbreak had been substantially improved since the second half of 2020, there has been temporary, regional cases of COVID-19 in China. In March 2022, more than 30,000 COVID-19 asymptomatic and confirmed cases were recorded in Shanghai and Shanghai has been subject to lockdown restrictions as ordered by the government to contain the spread of the COVID-19 since April 1, 2022. From March 14, 2022 to June 6, 2022, we arranged our employees in Shanghai to work from home due to the Shanghai Outbreak. As a result of the Shanghai Outbreak, we adjusted the production plan of two of our original drama series. Specifically, we adjusted the shooting location of one original drama series from Shanghai to Shenzhen and postponed the filming process of the other original drama series from April 2022 to June 2022. In addition, in April 2022, more than 300 COVID-19 confirmed cases were recorded in Beijing and we arranged our staff in Beijing to work from home from May 5, 2022 to May 30, 2022 as ordered by the government. To the best knowledge of our Directors, we had no projects affected by the Beijing Outbreak as of the Latest Practicable Date. See “Business – Impacts of the COVID-19 pandemic” for details. However, if the Shanghai Outbreak and the Beijing Outbreak were to prolong or worsen or any other regions in China were to experience new rounds of COVID-19 outbreaks, our business operations and financial performance may be materially and adversely affected as a result. In addition, the global spread of the COVID-19 pandemic in a significant number of countries around the world has resulted in, and may intensify, global economic distress, and the duration and extent of the impact of the COVID-19 outbreak cannot be reasonably estimated at this time. The extent to which it may affect our results of operations, financial condition and cash flow will depend on the future developments of the outbreaks, which is highly uncertain and cannot be predicted. Such uncertainty poses operational challenges to our services offerings. Our operations and ongoing projects could also be delayed significantly and disrupted if the pandemic were to prolong or worsen in China. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the PRC economy in general.

The continuous and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we lose their services.

Our success depends on the continuous and collaborative efforts of our senior management team and other key employees, including those from production and distribution departments. We rely on their familiarity with our business operations and their experience, expertise and influence in the video-based content market in the PRC. In particular, our green-light committee formed by four of our founding partners play an important role in our business operation, including (i) the review and determination of the scripts and scriptwriters;

RISK FACTORS

(ii) formulation of initial project proposal; (iii) formulation of marketing strategy and preliminary production schedule and budget; (iv) review of detailed production schedule and budget, as well as the casting and recruitment of production crew members; and (v) review of final production schedule and budget. See “Business – Our Business – Original Drama Series – Operation Flow” for details. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our senior management or key personnel, we may not be able to find suitable or qualified replacements easily or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected. In addition, if any member of our senior management or key employees joins a competitor or forms a competing business, we may lose crucial technological know-how, business secrets, customers and other valuable resources and our business and results of operations may be adversely affected. Each of our senior management and key personnel has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

We have devoted substantial resources to the development and accumulation of our IPs and treat them as trade secrets. In order to protect our IPs, we rely significantly on confidentiality provisions in the agreements with our employees and third parties. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, frustrating our ability to assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection may materially and adversely affect our competitive position.

We have incurred net liabilities and net current liabilities in the past, which we may continue to experience in the future.

We have incurred net liabilities and net current liabilities in the past. We had net liabilities of RMB906.0 million, RMB941.6 million, RMB1,322.5 million and RMB1,316.4 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. We had net current liabilities of RMB1,910.5 million, RMB1,617.2 million and RMB1,505.2 million as of December 31, 2020 and 2021 and March 31, 2022. Our net liabilities increased from RMB906.0 million as of December 31, 2019 to RMB941.6 million as of December 31, 2020 mainly due to the deemed distribution to shareholders of RMB87.4 million and dividends paid to non-controlling shareholders of RMB23.9 million, as partially offset by profit and total comprehensive income for 2020 of RMB62.5 million and disposal of subsidiaries of RMB12.5 million. Our net liabilities increased from RMB941.6 million as of December 31, 2020 to

RISK FACTORS

RMB1,322.5 million as of December 31, 2021 mainly due to the deferred tax impact as part of the Reorganization of RMB451.1 million, as partially offset by profit and total comprehensive income for 2021 of RMB60.9 million and equity-settled share award arrangements of RMB9.3 million. Our net liabilities decreased slightly to RMB1,316.4 million as of March 31, 2022 as a result of the loss and total comprehensive loss for the period of RMB2.1 million, as offset by equity-settled share award arrangements of RMB8.2 million. Net liabilities position can expose us to the risk of shortfalls in liquidity. This in turn would require us to undertake additional equity financing, which could result in dilution of your equity interests. Any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our prospects.

The fair value measurement of our convertible redeemable preferred shares is subject to uncertainties and risks, and changes in fair value may affect our financial performance.

Our convertible redeemable preferred shares were issued in relation to our multiple rounds of Pre-[REDACTED] Investment. We recorded changes in fair value of convertible redeemable preferred shares of a loss of RMB93.9 million, RMB239.2 million, RMB225.9 million and RMB70.5 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. We applied the discounted cash flow method and back-solve method to determine the underlying equity value of us and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. We also use key assumptions such as the timing of the liquidation, redemption or the liquidation event as well as the probability of the various scenarios, in valuing our financial assets at fair value through profit or loss. The fair value change of financial assets at fair value through profit or loss may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such redeemable preferred shares and therefore may cause our estimates to vary from actual results, which could adversely affect our results of operation and financial condition.

Our financial assets at fair value through profit or loss are subject to changes and the valuation of such assets is subject to uncertainties due to the use of unobservable inputs, which may adversely affect our financial performance.

Our financial assets at fair value through profit or loss amounted to RMB602.8 million, RMB679.9 million, RMB383.8 million and RMB274.4 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Our financial assets at fair value mainly included our investments in unlisted securities, our investment in a private equity fund, investments in some convertible redeemable preferred shares or ordinary shares with preferential rights issued by private investee companies, and the wealth management products we purchased during the Track Record Period, which may be subject to changes for the relevant period due to the additional disposal of such assets and gains. We also value the financial assets at fair value through profit or loss based on unobservable inputs. The valuation may involve

RISK FACTORS

a significant degree of judgement and assumptions which are inherently uncertain, and may result in material adjustment, which in turn may materially and adversely affect our results of operations. If there is any decrease of fair value on financial assets due to the change of the valuation of such financial assets, our net profit will be adversely affected. In addition, factors beyond our control can significantly influence and cause adverse changes to the estimates and thereby affect the fair value. These factors include, but are not limited to, general economic conditions, changes in market interest rates and stability of the capital markets.

Fair value changes on financial liabilities of co-investment arrangements are subject to uncertainties and may affect our financial condition and results of operations.

During the Track Record Period, our fair value changes on financial liabilities of co-investment arrangements were RMB7.3 million, RMB13.7 million, RMB39.3 million and nil in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. We co-invest in drama series through co-investment arrangements with other industry players. Our fair value changes on financial liabilities of co-investment arrangements represent the fair value losses in relation to the amounts received from third-party co-investors of our drama series. Under the co-investment arrangements where we act as an executive producer and are obliged to share the licensing revenue with such co-investors based on their respective investment amount, the amounts received from such co-investors are recognized as financial liabilities.

Financial liabilities under co-investment arrangements are for variable return and measured at fair value. The valuation of fair value changes in financial liabilities involves various parameters and unobservable inputs, as well as management estimates and assumptions which are subject to uncertainties. Details of our valuation techniques and sensitivity analysis of fair value to the unobservable inputs are set forth in note 36 to the Accountant's Report set out in Appendix I to this document. Changes in such estimates and assumptions may lead to fluctuations in fair values of our financial liabilities. If we incur any fair value losses, our financial condition and results of operations may be adversely affected.

The performance of our investments in associates and the share of profits and losses of associates may affect our financial condition or result of operations.

Our share of profits and losses of associates mainly related to our investment in Beijing Ark Reading Technology Co., Ltd. (北京方舟閱讀科技有限公司) and Shanghai Senmeijie Culture Media Co., Ltd. (上海森美介文化傳媒有限公司). Our share of profit and losses of associates principally represented the change in our share of net assets value of our associates and the goodwill on acquisition. We recorded share of losses of RMB3.1 million, RMB0.9 million and RMB0.7 million, respectively, in 2019, 2020 and the three months ended March 31, 2022, and share of profits of RMB2.2 million in 2021. If the performance of the associates deteriorate, the fair value of our share of results of associates, may decrease, which may adversely affect our financial condition and result of operations.

RISK FACTORS

In addition, our investments in associates are subject to liquidity risk. Our investment in associates not as liquid as other investment products, as there is no cash flow until proceeds from the disposal of investments and other income (for example, interests and dividends) are received. The illiquidity nature of our investment in such associates may significantly limit our ability to respond to adverse changes in the performance of such associates, which may also materially and adversely affect our financial condition and result of operations.

Our share-based payments represent the arrangement that we receive services from eligible suppliers and employees, which may cause shareholding dilution to our existing Shareholders and negatively impact our financial performance.

We operate a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our share-based payments mainly represent the arrangement that we receive services from certain eligible suppliers and employees as consideration for our equity instruments. Our share-based payments expense, after taking into account of the tax effect, amounted to RMB0.1 million, RMB1.1 million, RMB5.5 million and RMB6.1 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. To further incentivize suppliers and employees to contribute to our operations, we may grant additional share-based compensations in the future. Issuance of additional Shares with respect to such share-based payments may dilute the shareholding percentage of our existing Shareholders. Our expenses associated with share-based compensation may also increase substantially, which may have an adverse effect on our financial performance.

We may be exposed to risks associated with our prepayments, other receivables and other assets.

Our prepayments, other receivables and other assets consist of (i) prepayments to production-related service providers and actors for drama series production; (ii) deductible input value-added tax; (iii) deposits and other receivables which represent deposits for leased properties, and the payments we made in advance on behalf of an online video platform for the production of made-to-order drama series; (iv) receivables under co-financing arrangement which represent share of revenue from co-investors in relation to a drama series; (v) deferred [REDACTED] expense; (vi) interest receivable; and (vii) prepaid expense. As of December 31, 2019, 2020 and 2021 and March 31, 2022, the balance of our current and non-current prepayments, other receivables and other assets was RMB258.8 million, RMB257.2 million, RMB317.7 million and RMB285.4 million, respectively. However, there is no guarantee that the relevant service providers, actors and other parties will perform their obligations in a timely manner. If the relevant service providers, actors and other parties fail to perform their obligations in full or at all, we may be exposed to default on and impairment loss risks in relation to prepayments, other receivables and other assets, which may in turn materially and adversely affect our business and financial position.

RISK FACTORS

We are exposed to credit risk arising from our trade receivables. Failure to collect our trade receivables in a timely manner or at all could have a material and adverse impact on our business, financial condition, liquidity and prospects.

Our cash flow and profitability are subject to the timely settlement of payments by our customers for the drama series we licensed out and the production services we provided to them. Our customers primarily include online video platforms, TV channels and third-party distributors. During the Track Record Period, we generally granted a credit period to our customers ranging from 30 days to two years, depending on the specific payment terms in each contract. In practice, however, the collection period for certain customers, particularly TV channels, may be longer than the credit period stipulated in our agreements. We performed an impairment analysis at the end of each of the period within the Track Record Period and made provisions of RMB26.0 million, RMB26.5 million, RMB37.5 million and RMB38.0 million, respectively, for impairment of trade receivables as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. As a result, we recorded impairment losses on trade receivables of RMB3.8 million, RMB0.5 million, RMB11.0 million and RMB0.5 million in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. In 2019, 2020 and 2021 and the three months ended March 31, 2022, the turnover days of our trade receivables was 50 days, 89 days, 89 days and 83 days, respectively. See “Financial Information – Discussion of Certain Balance Sheet Items – Trade and Notes Receivables” for details.

We cannot assure you that we will be able to collect all or any of our trade receivables or collect the amount for any unbilled work on time, or at all, after meeting the agreed program payment milestones. Our customers may face unexpected circumstances, including, but not limited to, financial difficulties caused by fiscal constraints or changes in fiscal policy of the government or delays of the broadcast of our drama series due to changes in government policies. Our customers, particularly TV channels, may delay or even default in their payment obligation. As a result, we may not be able to receive such customers’ payment of uncollected debts in full, or at all, and we may need to make provisions for trade and notes receivables or drama series copyrights. The occurrence of such event would materially and adversely affect our financial condition and results of operations.

Our content marketing services may be subject to intellectual property infringement claims, administrative sanctions and lawsuits, which may be time consuming and costly to defend.

Our content marketing business is closely tied with our drama series production business. Since we produce and deliver marketing content, the content of our content marketing services might infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. We may from time to time in the future be subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our content marketing products or services without our awareness. Holders of such intellectual property rights may seek to enforce such

RISK FACTORS

intellectual property rights against us in various jurisdictions. If any third party infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

In addition, we may be subject to administrative sanctions or lawsuits from time to time in the course of our content marketing business. Our content marketing business is required to comply with the provisions of the Advertising Law of the PRC (《中華人民共和國廣告法》) and the Interim Measures for Administration of Internet Advertising (《互聯網廣告管理暫行辦法》) and is subject to the supervision of market supervision and management authorities. During the Track Record Period, the signing entities of our content marketing service agreements mainly include Shanghai Linmon, Horgos Linmon, Horgos Linmon Black Tea and Wuren Guanji, all of which have obtained certificates of compliance issued by the relevant competent market supervision and administration authorities certifying that such entities have not been subject to any administrative penalties from the market supervision and administration departments and have been in good standing. As confirmed by our Directors, we had not been subject to any review, enquiry or investigation by any PRC regulatory authorities in relation to our content marketing services during the Track Record Period and up to the Latest Practicable Date. Therefore, as advised by our PRC Legal Advisor, our content marketing business had been in compliance with the provisions of the Advertising Law of the People's Republic of China and the Interim Measures for the Administration of Internet Advertising, and has not been subject to any administrative penalties in relation to content marketing business during the Track Record Period and up to the Latest Practicable Date. However, we may receive formal and/or informal inquiries from government authorities and regulators regarding our compliance with laws and regulations, many of which are evolving and subject to interpretation. Claims arising out of actual or alleged violations of law could be asserted against us by advertisers, media publishers, competitors, or by governmental entities in civil or criminal investigations and proceedings or by other entities. These claims could be asserted under a variety of laws and regulations in different jurisdictions, including but not limited to advertising laws, Internet information services laws, intellectual property laws, unfair competition laws, data protection and privacy laws. We may also be subject to administrative sanctions or lawsuits due to actions by our cooperative actors, social media platforms or advertisers. There is no guarantee that we will be successful in defending ourselves in administrative and legal actions or in asserting our rights under various laws. Even if we are successful in our attempt to defend ourselves in administrative and legal actions or to assert our rights under various laws, enforcing our rights against various parties involved may be expensive, time-consuming and ultimately futile. These actions could expose us to negative publicity and to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including but not limited to suspension or revocation of licenses to conduct our content marketing business.

RISK FACTORS

We are exposed to inventory risks if we are not able to produce and deliver our drama series as planned.

Our inventories comprise raw materials (i.e. the cost of scripts and IP rights for production of our drama series which are yet to be broadcast), work in progress (i.e. drama series of which we are in the process of production) and finished goods. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our inventories amounted to RMB825.3 million, RMB336.9 million, RMB554.2 million and RMB353.1 million, respectively, representing approximately 34.5%, 21.6%, 24.2% and 14.7% of our total current assets, respectively. We carried out an inventory review on a project-by-project basis at the end of each Track Record Period and made provision for obsolete projects. Net realizable value of inventories is the estimated selling price in the ordinary business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and our historical experience of producing and distributing drama series of a similar nature. Our management reassessed the estimation at the end of each period within the Track Record Period. As of December 31, 2019, 2020 and 2021 and March 31, 2022, we made provisions for impairment of inventories of RMB124.8 million, RMB180.5 million, RMB176.7 million and RMB177.7 million, respectively, which we believe were adequate as of the end of each period during the Track Record Period.

Our distribution and promotion department set up distribution plans for each of our drama series. However, the distribution of a drama series is subject to uncertainties, including the evolving market trends, the broadcasting schedule of online video platforms or TV channels, as well as regulatory or industry policies, which are beyond our control and may affect our subsequent settlement of the ending balance of inventories of each period. As of May 31, 2022, none of our inventories as of March 31, 2022 were subsequently utilized or sold. The remaining inventories as of March 31, 2022 that had not been utilized as of May 31, 2022 are mainly expected to be utilized or sold in due course in accordance with the distribution plan of our drama series. See "Financial Information – Discussion of Certain Balance Sheet Items – Inventories" for details. In the event that we are not able to distribute our drama series according to our distribution plan, the relevant inventories may become obsolete and be impaired. As a result, our financial condition and results of operations could be materially and adversely affected.

Any disagreements or discontinuations of co-investment arrangements for drama series production could disrupt our operations or put our assets at risk.

We act as the sole/lead investor and executive producer of our original drama series and also invest in other drama series as a non-executive producer. While such arrangements may provide various advantages, situations may arise when we do not agree with the business goals or objectives of our co-investors or co-producers, or other factors may arise that make the continuation of the relationships unwise or untenable, especially when we act as minority investors with limited control. Any such disagreements or discontinuation of our relationships with the co-investors or co-producers could disrupt our operations, or put assets dedicated to the co-investment arrangements at risk. If we are unable to resolve issues with co-investors or

RISK FACTORS

co-producers, we may need to terminate the relevant arrangements. The unwinding of an existing arrangement could prove to be difficult or time-consuming, and the loss of revenue related to the termination or unwinding of such arrangement could adversely affect our results of operations. We cannot assure you that we will be able to maintain good relationships with our co-investors or co-producers.

Strategic investments or mergers and acquisitions may have a material and adverse effect on our business, financial condition and results of operations.

As part of our business growth strategy, we have invested in, and may in the future invest in, merge with or acquire businesses that we believe can enhance our production or distribution capabilities and competitive position. Our ability to implement such strategy will depend on our ability to identify suitable targets, our ability to reach agreements with them on commercially reasonable terms and the availability of financing to complete any such investment, merger or acquisition, as well as our ability to obtain any required shareholder or government approvals. Our strategic investments or mergers and acquisitions may subject us to uncertainties and risks, including:

- high acquisition and financing costs;
- potential ongoing financial obligations and unforeseen or hidden liabilities;
- potential loss of key business relationships and the reputation of the targets;
- failure to achieve our intended objectives, benefits or revenue-enhancing opportunities;
- costs associated with, and difficulties in, integrating acquired businesses and assets into our own;
- potentially significant impairment charges of goodwill and intangible assets arising from acquisitions;
- amortization expenses of other intangible assets;
- potential claims or litigation regarding our Board's exercise of its duty of care and other duties required under applicable laws and regulations in connection with any of our significant acquisitions or investments approved by the Board; and
- diversion of our resources and management attention from our existing business.

In addition, the assets or businesses we invest in, merge with or acquire may not generate results as we expect. There is no assurance that we will be able to effectively integrate the acquired business with our existing business, which would divert management and other resources. Furthermore, the acquired business may not achieve our expectations due to

RISK FACTORS

circumstances beyond our control, such as loss of key personnel. Our failure to address any of the above uncertainties and risks may have a material and adverse effect on our liquidity, financial condition and results of operations.

If we fail to effectively manage our growth, our operating performance may deteriorate.

We intend to continue to grow our business through organic expansion and acquisitions or strategic alliances. Our expansion has placed, and will continue to place, substantial demands on our managerial, financial, operational and other resources. Our planned expansion will also require us to maintain the consistency of the quality of our drama series to ensure that our market reputation and leadership do not suffer as a result of any deviations, whether actual or perceived. Our future results of operations depend to a large extent on our ability to manage this expansion and growth successfully. In particular, continued growth may subject us to the following additional challenges:

- challenges in the recruitment, training and retaining of highly skilled personnel and external counsels, including scriptwriters, directors and actors, filming and production studios, distribution and promotion services providers and quality control specialists for our growing operations;
- challenges in successfully improving and upgrading the quality and appeal of our drama series to accommodate the evolving demands and preferences of audiences;
- challenges in maintaining effective operational, financial and management controls; and
- challenges in responding to evolving industry standards and governmental regulations that impact our growing business, particularly in the areas of actor management and content examination.

There can be no assurances that our current procedures, resources and controls will be adequate to support our contemplated growth. If we fail to manage our growth effectively, our business, results of operations and prospects may be materially and adversely affected.

We had not obtained lease registration for certain properties.

During the Track Record Period, we leased certain properties without obtaining of the relevant lease registration, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. See "Business – Properties" for details. As advised by our PRC Legal Advisor, a lessor and lessee are required to obtain lease registration within 30 days after the lease execution. In the event that the lessor and lessee fail to obtain the lease registration within the 30-day period, the relevant housing authorities may require the lessor and lessee to obtain the relevant lease registration within a prescribed period and may impose fine if the lessor and lessee fail to register within the prescribed period. Our PRC Legal Advisor has advised us that the lack of lease registration of the lease contracts will not affect the validity of the lease

RISK FACTORS

agreements under PRC laws, and has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. However, we cannot assure you that our lessors will cooperate with us to register such leases due to factors beyond our control or our use of the relevant properties will not be further challenged in the future. Any of these may have an adverse effect on our business, financial condition, results of operation and prospects.

Legal disputes or proceedings may expose us to significant liabilities, divert our management's attention and materially and adversely impact our reputation.

During the ordinary course of our business operations, we may be involved in legal disputes or proceedings relating to, among other things, contractual disputes. Such legal disputes or proceedings may expose us to adverse publicity, subject us to substantial liabilities and may have a material and adverse effect on our reputation, business and financial condition.

If we become involved in material or protracted legal proceedings or other legal disputes in the future, we may need to incur substantial legal expenses and our management may need to devote significant time and attention to handle such proceedings and disputes, diverting their attention from our business operations. In addition, the outcome of such proceedings or disputes may be uncertain and could result in settlement or outcomes which may materially and adversely affect our financial condition and results of operations.

Any acts of bribery, corrupt practices or other improper conducts of our employees, co-investors, major customers and suppliers may materially and adversely affect our business, reputation, results of operations and financial condition.

In recent years, the State Council and various PRC government authorities have stepped up their efforts to combat bribery, corrupt practices and other improper conduct in the PRC. We cannot assure you that our employees will not be engaged in acts of bribery, corruption or other improper conducts. There is also no assurance that our internal control and risk management systems will prevent or detect any improper or illegal acts of our employees. The failure of our employees to comply with the PRC anti-corruption and other related laws and regulations may subject us to substantial financial losses and may have a negative impact on our reputation. In addition, if any of our co-investors are subject to investigations, claims or legal proceedings as a result of such improper or illegal acts, they may be subject to fines and penalties and thus may not be able to contribute their portion of investment funds to our projects on schedule or at all, thereby delaying the project progress. Our major customers or suppliers may fail to comply with the PRC anti-corruption and other related laws and regulations and may be subject to investigations, claims or legal proceedings, which may in turn adversely affect on our reputation. Any of the abovementioned circumstances may materially and adversely affect our business, reputation, results of operations and financial condition.

In addition, in recent years, the PRC tax authorities have become increasingly stringent in regulating the tax compliance of upstream and downstream entities in the drama series production industry. In the agreements we sign with our suppliers or customers, it is generally agreed that the parties thereto shall respectively bear the tax obligations according to the

RISK FACTORS

relevant laws, but we cannot guarantee whether our suppliers or customers can strictly comply with the tax laws. If our suppliers or customers fail to comply with PRC tax laws and other related laws and regulations, it may lead to negative news, investigation, administrative penalties or legal disputes or proceedings, which may affect their cooperation with us, and thus may adversely affect our reputation.

Our limited insurance coverage could expose us to significant costs and business disruption.

Insurance companies in the PRC generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. To the best of our Directors' knowledge, no insurance products that have been specifically designed for protecting the risks related to the Contractual Arrangements have been made available on the market. In line with general industry practice in the PRC, we do not maintain business interruption insurance or key man life insurance. See "Business – Insurance" for details. Any disruption in our business operations, litigation or natural disasters may result in our incurring substantial costs and the diversion of our resources, and we have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

The occurrence of any *force majeure* events, natural disasters, acts of war or outbreaks of contagious diseases in the PRC may have a material and adverse effect on our business and results of operations.

Any occurrence of *force majeure* events, natural disasters such as earthquakes, tornadoes, floods and droughts, acts of war, or outbreaks of contagious diseases or epidemics such as avian influenza, swine influenza, severe acute respiratory syndrome (SARS), Middle East respiratory syndrome coronavirus (MERS-CoV), or coronavirus disease 2019 (COVID-19), may disrupt the production of our drama series and normal social activities, and thus may have a material and adverse effect on the production, distribution and broadcasting schedules of our drama series. In particular, the outbreak of COVID-19 has endangered the health of many people residing in the PRC and significantly disrupted travel and local economy. Any of the afore-mentioned circumstances may materially and adversely affect our business and results of operations.

Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of the other Shareholders.

Prior to and immediately following the completion of the [REDACTED], our Controlling Shareholders will retain substantial control over our Company. Subject to our Articles of Association and the Cayman Companies Act, the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meetings of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free (other than on any matters that they

RISK FACTORS

are required to abstain from voting) to exercise their shareholder votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.

Certain information and statistics contained in this document with respect to the economies and the drama series market have not been independently verified and may not be reliable.

In this document, certain information and statistics are derived from government publications, other publications or market search report prepared by Frost & Sullivan, which commissioned by us. Nevertheless, the information from official government sources has not been independently verified by us, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of their respective directors and advertisers, or any other persons or parties involved in the [REDACTED] (excluding Frost & Sullivan) and, therefore, we make no representation as to accuracy of such information and statistics. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. Our investors should consider carefully how much weight or importance should be attached to or placed on such information and statistics.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

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

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in the TV programs and other related businesses. In particular, foreign investment in television program production and operation companies is prohibited pursuant to the Negative List. See “Regulatory Overview – Regulations in Relation to Foreign Investment” for details.

On March 15, 2019, the 2nd Session of the 13th National People’s Congress (第十三屆全國人民代表大會第二次會議) approved the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “FIL”), which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as “**Foreign Investors**”), including the following: (i) Foreign Investors establishing foreign-invested enterprises in the PRC alone or collectively with other investors; (ii) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (iii) Foreign Investors investing in new projects in the PRC alone or collectively

RISK FACTORS

with other investors; and (iv) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. See “Regulatory Overview – Regulations in Relation to Foreign Investment” for details.

The Company was incorporated under the laws of the Cayman Islands, and Shanghai Ninghe, our wholly-owned PRC subsidiary, is considered a foreign-invested enterprise and thereby shall be subject to the FIL. To comply with PRC laws and regulations, we conduct our drama series investment, production and distribution related businesses in the PRC through Shanghai Linmon, based on the Contractual Arrangements, which enable us to (i) have the power to direct the activities that most significantly affect the economic performance of Shanghai Linmon; (ii) receive substantially all of the economic benefits from Shanghai Linmon in consideration for the services provided by Shanghai Ninghe; and (iii) have an exclusive option to purchase all or part of the equity interests and assets of Shanghai Linmon when and to the extent permitted by PRC laws, or request Shanghai Linmon or any existing shareholder of it to transfer any or part of the equity interest and assets of Shanghai Linmon to another PRC person or entity designated by us at any time at our discretion. Because of these Contractual Arrangements, we are the primary beneficiary of Shanghai Linmon and hence treat Shanghai Linmon as our consolidated affiliated entity, and consolidate its and its subsidiaries’ results of operations into ours. Our Consolidated Affiliated Entities hold the licenses, approvals and key assets that are essential for our business operations.

In the opinion of our PRC Legal Advisor, (i) the ownership structures of our Company, Shanghai Ninghe and our Consolidated Affiliated Entities are in compliance with existing PRC laws and regulations, (ii) the Contractual Arrangements are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, and (iii) the business operations of our Company, Shanghai Ninghe and our Consolidated Affiliated Entities, as described in this document, had been in compliance with existing PRC laws and regulations, including the FIL, in all material aspects during the Track Record Period and up to the Latest Practicable Date. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Particularly, the FIL stipulates that foreign investment includes “Foreign Investors investing in the PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council.” We cannot assure you that Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the above-mentioned Contractual Arrangements. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC Legal Advisor. If the PRC government finds that the Contractual Arrangements do not comply with its restrictions or prohibitions on foreign investment in businesses, or the Contractual Arrangements are determined as illegal or invalid by the PRC government, or if the PRC government otherwise finds that we, Shanghai Ninghe or any of our Consolidated Affiliated

RISK FACTORS

Entities are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MOFCOM and NRTA, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and our Consolidated Affiliated Entities may not be able to comply;
- requiring us or our PRC subsidiaries and our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or other of our financing activities to finance the business and operations of our Consolidated Affiliated Entities; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. 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 Consolidated Affiliated Entities in our consolidated financial statements, if the PRC governmental authorities find our legal structure and contractual arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in our inability to direct the activities of our Consolidated Affiliated Entities that most significantly impact their economic performance and/or our failure to receive the economic benefits from our Consolidated Affiliated Entities, we may not be able to consolidate our Consolidated Affiliated Entities into our consolidated financial statements in accordance with the HKFRS, thus adversely affecting our results of operations.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Shanghai Linmon and its shareholders may fail to perform their obligations under our Contractual Arrangements.

Due to the PRC restrictions or prohibitions on foreign ownership of companies that engage in drama series investment, production and distribution related businesses in the PRC, we operate a substantial portion of our business in the PRC through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on the Contractual Arrangements to

RISK FACTORS

control and operate our Consolidated Affiliated Entities’ business. The Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See “Contractual Arrangements” for details.

Although we have been advised by our PRC Legal Advisor that our Contractual Arrangements constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these Contractual Arrangements may not be as effective in providing control over our Consolidated Affiliated Entities as direct ownership. If Shanghai Linmon or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in the PRC. However, there are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under the PRC laws. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these Contractual Arrangements. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements and our ability to conduct our business may be negatively affected.

We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities undergo an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of their assets and we may not have priority against such third-party creditors on the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law (《中華人民共和國企業破產法》) and recover any outstanding liabilities owed by our Consolidated Affiliated Entities to Shanghai Ninghe under the applicable service agreement. All remaining assets after paying off other debts shall be transferred to Shanghai Ninghe or any other entity or individual designated by Shanghai Ninghe at the lowest price permitted by PRC laws.

Unless required by PRC laws, Shanghai Linmon shall not be dissolved or liquidated without Shanghai Ninghe’s written consent. In addition, under the Contractual Arrangements, the shareholders of Shanghai Linmon do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Shanghai Linmon without our

RISK FACTORS

consent. In the event that the shareholders of Shanghai Linmon initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of Shanghai Linmon without our prior consent, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

The shareholders of Shanghai Linmon may have conflicts of interest with us, which may materially and adversely affect our business.

We have designated PRC nationals to be the shareholders of Shanghai Linmon. These persons may have conflicts of interest with us. Our Consolidated Affiliated Entities are beneficially owned by certain members of our Co-founders and management team, namely, Mr. Su Xiao, Ms. Chen Fei, Ms. Xu Xiao'ou and Mr. Zhou Yuan, and companies including Shanghai Guoshi, Shanghai Guoyun and Tencent Investment. Conflicts of interest may arise between the roles of these individuals and companies as shareholders, directors and/or officers of our Company and as shareholders, directors and/or officers of Shanghai Linmon. We rely on these individuals and companies to abide by the laws of the Cayman Islands which impose fiduciary duties upon directors and officers of our Company. Such duties include the duty to act *bona fide* in what they consider to be in the best interest of our Company as a whole and not to place themselves in a position in which there is a conflict between their duties to our Company and their personal interests. On the other hand, PRC laws also provide that a director or a management officer owes a loyalty and fiduciary duty to the company he or she directs or manages. We cannot assure you that when conflicts arise, shareholders of Shanghai Linmon will act in the best interest of our Company or that conflicts will be resolved in our favor. These individuals and companies may breach or cause Shanghai Linmon to breach the existing Contractual Arrangements. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

If we exercise the option to acquire equity ownership of Shanghai Linmon, the ownership transfer may subject us to certain limitations and substantial costs.

Pursuant to the Contractual Arrangements, Shanghai Ninghe or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Shanghai Linmon from its shareholders at a nominal price, unless the relevant PRC government authorities or PRC laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request.

The equity transfer may be subject to approvals from and filings with the MOFCOM and SAMR and/or their local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment with reference to its market value by the relevant tax authority. The

RISK FACTORS

shareholders of Shanghai Linmon will pay the equity transfer price they receive to Shanghai Ninghe or its designated person(s) under the Contractual Arrangements. The amount to be received by Shanghai Ninghe may also be subject to EIT, in which case such tax amounts could be substantial.

Our Contractual Arrangements may be subject to scrutiny by the 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 PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements among our PRC subsidiaries and our Consolidated Affiliated Entities do not represent an arms-length price and adjust our Consolidated Affiliated Entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Consolidated Affiliated Entities, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our Consolidated Affiliated Entities for under-paid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

RISKS RELATING TO THE PRC

China's economic, political and social conditions and government policies may continue to affect our business.

Substantially all of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and the industries by imposing industrial policies and regulating the PRC's macro economy through fiscal and monetary policies.

The PRC economy has undergone a transition from a planned economy to a market-oriented economy. The PRC government has, in recent years, taken various actions to introduce market forces for economic reform, to reduce State ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the economy and the industries by issuing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, monetary policies and preferential treatments to particular industries or enterprises.

RISK FACTORS

Our performance has been and will continue to be affected by China’s economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China’s economic growth. While China’s economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained. The global economic slowdown and the turmoil in the global financial markets that began in the second half of 2008, continued weakness in the U.S. economy and the sovereign debt crisis in Europe have collectively added downward pressure to economic growth in the PRC.

We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social, and regulatory developments and many of these risks are beyond our control. All such factors may materially and adversely affect our business and operations as well as our financial performance.

We may be subject to the approval or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raisings activities.

On December 24, 2021, the CSRC issued the Provisions of the State Council on Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) 《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》 (the “**Draft Administration Provisions**”), and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) 《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》 (the “**Draft Filing Measures**”). Under the Draft Administration Provisions and the Draft Filing Measures, securities offering and listing in an overseas market by a domestic company, either direct or indirect, shall be filed with CSRC. However, as of the Latest Practicable Date, the Draft Administration Provisions and the Draft Filing Measures has not been formally adopted, and due to the lack of further clarification, there are still uncertainties regarding the interpretation and implementation of the Draft Administration Provisions and the Draft Filing Measures, including the details or specific requirements of the filing. Assuming the Draft Administration Provisions and the Draft Filing Measures are formally implemented in their current form, as advised by our PRC Legal Adviser, if we have not yet completed our overseas securities [REDACTED] and [REDACTED] by then, we may be required to conduct the filing procedures according to the Draft Administration Provisions and the Draft Filing Measures. The PRC governmental authorities also may take actions requiring us, or making it advisable for us, to suspend the [REDACTED] before settlement and delivery of the Shares offered hereby.

Furthermore, according to Article 6 of the 2021 Negative List, with respect to the securities offering and listing in an overseas market by a domestic company engaging in the fields prohibited by the 2021 Negative List, the consent of the relevant competent authorities of the State shall be obtained, and overseas investors shall not participate in the operation and

RISK FACTORS

management of the enterprise, and overseas investors’ shareholding percentage shall be subject to the relevant provisions on administration of domestic securities investment by overseas investors. For more details, see “Regulatory Overview – Regulations in Relation to Foreign Investment.”

Therefore, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you will bear the risk that settlement and delivery may not occur. In addition, we cannot guarantee that the Draft Administration Provisions and the Draft Filing Measures formally implemented in their current form or any new rules or regulations promulgated in the future will not impose any additional requirement on us. If it is determined that we are subject to any CSRC approval, filing, other governmental authorization or requirements for future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial conditions. Furthermore, any uncertainty and/or negative publicity regarding such an approval, filing or other requirements may also have a material adverse effect on the [REDACTED] of our Shares.

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 the PRC.

The “Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors” (《關於外國投資者併購境內企業的規定》), or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances 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. Moreover, the “Anti-Monopoly Law” (《反壟斷法》) requires that the SAMR shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the “Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” issued by the MOFCOM (《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》) that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “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 are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. 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

RISK FACTORS

consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be deemed to be a PRC tax resident enterprise under the EIT Law, which may materially and adversely affect our profitability and the value of your investments.

We are a company incorporated under the laws of the Cayman Islands. Pursuant to the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its “de facto management bodies” within the PRC, such enterprise would generally be deemed as a “PRC resident enterprise” for tax purposes and be subject to an EIT rate of 25% on its global income. “De facto management bodies” is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, July 2011 and January 2014, the SAT issued several circulars to clarify certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises. We are currently not regarded as a PRC tax resident enterprise. However, there is no formal implementation of regulation on how to determine the “de facto management bodies” of foreign enterprises not controlled by PRC persons. Therefore, it is still uncertain how the PRC tax authorities would deal with our case. We cannot assure you that we will not be regarded as a PRC tax resident, and if we are regarded as a PRC tax resident enterprise by the PRC tax authorities, we would have to pay PRC EIT at a rate of 25% for our entire global income, which may materially and adversely affect our profits and hence our retained profit available for distribution to our Shareholders.

You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.

Under the EIT law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Under the PRC Individual Income Tax law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements. If we are treated as a PRC resident enterprise as described under “– We may be deemed to be a PRC tax resident

RISK FACTORS

enterprise under the EIT Law, which may materially and adversely affect our profitability and the value of your investments,” dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within the PRC and as a result be subject to the PRC income taxes described above. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-residents investors, the value of your investment in our Shares may be materially and adversely affected.

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

The value of the RMB against the Hong Kong dollar, the U.S. dollar 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 the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

The [REDACTED] from the [REDACTED] will be received in US dollars. As a result, any appreciation of the RMB against the Hong Kong dollar 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 costs. 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, our Shares in foreign currency terms.

The PRC government’s control of foreign currency conversion and restrictions on the remittance of RMB out of the PRC may limit our foreign exchange transactions and our ability to pay dividends and meet other obligations, and affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenue in RMB. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortage in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency out of China, or otherwise satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, by complying with certain

RISK FACTORS

procedural requirements. However, approval from or registration with appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of China in 2016 due to the weakening of the RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movements. More restrictions and substantial vetting process are put in place by 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.

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in the PRC. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System (外商投資綜合管理信息系統) (the “FICMIS”) and registration with other governmental authorities in the PRC. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local counterparts, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities must be recorded and registered by the NDRC and the SAFE or its local counterparts. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the [REDACTED] of this [REDACTED] and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the “Notice on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises” (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “SAFE Circular 19”), which took effect on June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from

RISK FACTORS

using RMB funds converted from their foreign exchange capital for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the "Notice on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange" (《國家外匯管理局關於改革和規範資本專案結匯管理政策的通知》) (the "**SAFE Circular 16**"). SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capital for expenditure beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in the PRC the [REDACTED] from this [REDACTED], which may materially and adversely affect our business, financial condition and results of operations.

The heightened scrutiny over acquisitions from the PRC tax authorities may have a material and adverse impact on our business, acquisition or restructuring strategies or the value of your investment in us.

On February 3, 2015, the SAT issued the "Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises" (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the "**Circular 7**"), which abolished certain provisions in the "Notice on Strengthening the Administration of Enterprise Income Tax on non-Resident Enterprises" (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) (the "**Circular 698**"), which was previously issued by the SAT on December 10, 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (the "**PRC Taxable Assets**").

For example, Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding EIT and without any other reasonable commercial purpose.

Except as provided in Circular 7, transfers of Chinese taxable property under the following circumstances shall be automatically deemed as having no reasonable commercial purpose, and are subject to EIT: (i) more than 75% of the value of the overseas enterprise is directly or indirectly from Chinese taxable properties; (ii) more than 90% of the total assets (cash excluded) of the overseas enterprise are directly or indirectly composed of investment in the PRC at any time during the year prior to the indirect transfer of Chinese taxable property, or more than 90% of the income of the overseas enterprise is directly or indirectly from China during the year prior to the indirect transfer of Chinese taxable property; (iii) the overseas enterprise and its subsidiaries directly or indirectly hold Chinese taxable property and have

RISK FACTORS

registered with the relevant authorities in the host countries (regions) in order to meet the local legal requirements in relation to organization forms, yet proved to be inadequate in their ability to perform their intended functions and withstand risks as their alleged organization forms suggest; or (iv) the income tax from the indirect transfer of Chinese taxable property payable abroad is lower than the income tax in the PRC that may be imposed on the direct transfer of such PRC Taxable Assets.

Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from EIT under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

Provisions of Circular 7, which impose PRC tax liabilities and reporting obligations, do not apply to “a non-resident enterprise acquiring and disposing of the equity interests of the same offshore listed company in a public market” (the “**Public Market Safe Harbor**”), which is determined by whether the parties and number and price of the shares acquired and disposed are not previously agreed upon, but determined in accordance with general trading rules in the public securities markets, according to one implementing rule for Circular 698. In general, transfers of the Shares by Shareholders on the Stock Exchange or other public markets would not be subject to the PRC tax liabilities and reporting obligations imposed under the Circular 7 if the transfers fall under the Public Market Safe Harbor. As stated in the section headed “Information about this Document and the [REDACTED],” potential investors should consult their professional advisors if they are in any doubt as to the tax implications of subscribing for, purchasing, holding, disposing of and dealing in the Shares.

We may be subject to penalties, including restrictions 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 regulations.

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local counterparts of the SAFE in connection with their direct or indirect offshore investment activities. The “Notice on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round tripping by Chinese Residents through Special Purpose Vehicles” (《關於境內居民通過特殊目

RISK FACTORS

的公司境外投融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular 37, was promulgated by the SAFE in July 2014 and requires PRC residents or entities to register with SAFE or its local counterparts 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 and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents 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 who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local counterpart 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 their profits and the proceeds from any reduction in capital, share transfer or liquidation to their 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, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into the PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into the PRC and deemed to have been evasive or illegal and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We have requested PRC residents that to our knowledge hold direct or indirect interest in our Company to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. Each of our individual beneficial owners who is required to complete the registration under SAFE Circular 37 has duly completed the foreign exchange registrations in relation to their offshore investments as PRC residents. However, there can be no assurance that the subsequent amendment of registration, when required, can be successfully completed in a timely manner. We cannot assure you that the SAFE or its local counterparts will not release explicit requirements or interpret the relevant PRC laws and regulations otherwise. 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 adversely affect our business and prospects.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how

RISK FACTORS

these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may materially and adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could materially and adversely affect our business and prospects.

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

In February 2012, SAFE promulgated the “Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies” (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “SAFE Circular 7”), replacing the previous rules issued by SAFE in March 2007. Under the SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local counterparts and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Also, SAFE Circular 7 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local counterparts before they exercise the share options. We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of this [REDACTED]. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiaries’ ability to distribute dividends to us, or otherwise materially and adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options. Our PRC subsidiaries have obligations to file documents with respect to the granted share options with relevant tax

RISK FACTORS

authorities and to withhold individual income taxes for their employees upon exercise of the share options. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC Government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. Newly enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. Furthermore, the PRC legal system is partly based on government policies and administrative rules that may take effect retrospectively. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you, and may adversely affect the value of your investment.

You may experience difficulties in effecting service of legal process and enforcing judgments or bringing original actions in the PRC or Hong Kong based on foreign laws against us and our Directors and management.

We are an exempted company incorporated in the Cayman Islands and substantially all of our assets are located in the PRC and substantially all of our current operations are conducted in the PRC as well. In addition, a majority of our current Directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons in the PRC for disputes brought in courts outside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and the PRC entered into the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and

RISK FACTORS

Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned” (《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》) (the “**Arrangement**”), pursuant to which a party with an enforceable final court judgment rendered by any designated PRC court or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant Hong Kong court or PRC court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares and there can be no assurance that an active market would develop after the [REDACTED].

Prior to completion of the [REDACTED], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [REDACTED]. The [REDACTED] is the result of negotiations between our Company and the [REDACTED] (for themselves and on behalf of the [REDACTED]), which may not be indicative of the price at which our Shares will be traded following completion of the [REDACTED]. The market price of our Shares may drop below the [REDACTED] at any time after completion of the [REDACTED]. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

The [REDACTED] price of our Shares may be volatile, which could result in substantial losses to you.

The [REDACTED] price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in Hong Kong may affect the volatility in the price of and [REDACTED] volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The [REDACTED] performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in

RISK FACTORS

Hong Kong and consequently may impact the [REDACTED] performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

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

As the [REDACTED] of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution in terms of the [REDACTED] net tangible book value. If we issue additional Shares in the future, purchasers of our Shares in the [REDACTED] may experience further dilution in their shareholding percentage.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and Controlling Shareholders, 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 Controlling Shareholders, or the perception or anticipation of such sales, could negatively 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.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date on which [REDACTED] in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

There is no assurance if and when we will pay dividends in the future.

Distribution of dividends will be at the discretion of our Board and subject to Shareholders' approval. A decision to declare or pay dividends and the amount of such dividends will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. See "Financial Information – Dividends" for details. As a result, there can be no assurance whether, when and in what manner we will pay dividends in the future.

Since there may be a gap of several Business Days between pricing and [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 commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be several Business Days after the [REDACTED]. As a result, investors may not be able to sell or otherwise deal in our Shares during that period.

RISK FACTORS

Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before [REDACTED] begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time [REDACTED] begins.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong.

Our corporate affairs are governed by the Articles of Association, the Cayman Companies Act and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong. This may mean that the remedies available to our minority Shareholders may be different from those available under the laws of Hong Kong or other jurisdictions. A summary of the constitution of our Company and the Cayman Islands Company Act is set out in Appendix III to this document.

Prospective investors should read the entire document carefully and are strongly cautioned against placing any reliance on the information in any press article or other media coverage which contains information not being disclosed or which is inconsistent with the information included in this document.

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Prior to the completion of the [REDACTED], there may be press and media coverage regarding our Group and the [REDACTED]. Our Directors would like to emphasize to prospective investors that we do not accept any responsibility for the accuracy or completeness of such information and such information is not sourced from or authorized by our Directors or our management team. Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information or the fairness or appropriateness of any forecast, view or opinion expressed by the press or other media regarding our Group or our Shares. In making decisions as to whether to invest in our Shares, prospective investors should rely only on the financial, operational and other information included in this document.