

RISK FACTORS

[REDACTED] in our Shares involves risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our Shares. You should pay particular attention to the fact that we are an exempted company incorporated in the Cayman Islands and that a majority of our business is located in the People’s Republic of China and we are governed by a legal and regulatory environment which may differ in some respects from that which prevails in other countries. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks and uncertainties, in which case the [REDACTED] of our Shares may decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business, financial condition, results of operations and prospects.

RISKS RELATED TO OUR BUSINESS

Live streaming platforms in China are subject to extensive regulations, which restrict our ability to maintain or increase our user base, or increase user traffic to our platform, which may materially and adversely affect our business and results of operations.

Internet information service providers in China, including live streaming platforms, are subject to a variety of existing and new rules, regulations, policies, and licensing requirements. For example, pursuant to the Administrative Measures on Internet Information Services, which was issued and adopted by the State Council of the PRC (the “State Council”), on September 25, 2000 and last amended on January 8, 2011, internet content providers are prohibited from distributing over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent, violent or defamatory. Internet content providers are also prohibited from distributing content that may be deemed by relevant government authorities as “socially destabilizing” or leaking “state secrets” of China. In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licenses of, any internet information service providers that is deemed to provide illicit content online, and such activities may be intensified in connection with any ongoing government campaigns to eliminate prohibited content online. In addition, pursuant to the Internet Live Streaming Service Management Regulations promulgated by the CAC on November 4, 2016 and took effect on December 1, 2016, live streaming platforms are required to establish a content review system, verify their users’ identities, enter into a service agreement with their users to specify both parties’ rights and obligations, and file the identity information of the publishers of online streaming programs with local government authorities for record. Also, according to the Measures for the Administration of Cyber Performance Business Operations issued by the Ministry of Culture (the “MOC”, which is the predecessor of the MCT) on December 2, 2016, which took effect on January 1, 2017, live streaming platforms shall require hosts on their platforms to make real-name registration. The Circular on Tightening the Administration of Internet Live-Streaming Services (《關於加強網絡直播服務管理工作的通知》) jointly issued by the MIIT, the CAC, and several other government

RISK FACTORS

agencies on August 1, 2018 reiterates the requirements for platforms to perform ICP registration and to obtain other applicable licenses for providing relevant online streaming services, and requires the operators to file with local public security authorities within 30 days after it commences online streaming services. According to the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020年修訂)》), it is illegal to produce, reproduce, publish, release and disseminate books, newspapers and periodicals, films, radio and television programs, stage art works, audio-visual products, electronic publications or network information that promote obscenity, eroticism, violence, cults, superstitions, gambling, suicide seduction, terrorism, separatism and extremism and other content that are harmful to the physical and mental health of minors. Online service providers are also prohibited from providing minors with products and services that may be addictive. Live streaming service providers are not allowed to provide minors under age 16 with an online live streaming host account registration service, and must obtain the consent from their parents or other guardians and verify the identity of the minors before allowing minors aged 16 or above to register live streaming host accounts. We have adopted measures that, as advised by our PRC Legal Advisor, are in compliance with relevant laws and regulations, and according to the iResearch Report, are consistent with industry practice to prevent minors from streaming on our platform or making virtual gifts. For details, see “Business — Risk Management and Internal Control — Minor Protection and Virtual Gifting Management.” However, we cannot assure you that our existing measures can identify and prevent all instances of virtual gifting by minors on our platform. During the Track Record Period and up to the date of this document, we have not been subject to any penalties in connection with protection of minors.

However, the PRC government may further tighten the account registration and identity verification requirements for minors or impose a higher standard with respect to the account registration and identity verification for all users on our platform in the future. Any such event may deter potential users from registering with our platform, which may in turn adversely affect the growth of our user base and business prospects.

According to the Notice on Promulgation of the Guiding Opinions on Strengthening the Standardized Administration of Online Live-streaming (關於印發《加強網絡直播規範管理工作的指導意見》的通知), which was promulgated on February 9, 2021, live-streaming platforms providing online audio-visual program services shall obtain the Permit for Dissemination of Audio-Visual Programs through Information Network (or complete registration with the national information registration management system for online audio-visual platforms) and complete the ICP record-filing. Related laws and regulations and their interpretation and enforcement involve significant uncertainties, and new laws and regulations may continue to be promulgated.

On February 7, 2021, Anti-monopoly Commission of the State Council promulgated the “the Anti-Monopoly Guidelines for the Internet Platform Economy Sector,” which provide guidance on competition and compliance for companies operating in the internet-related economy. Since the guidelines were issued recently, its implementation and enforcement remain uncertain. While we do not expect that the guidelines will have a material impact on our business, it may increase our compliance burden in our already highly-regulated industry.

RISK FACTORS

On August 30, 2021, the MCT published the Online Performance Brokerage Agencies Measures (《網絡表演經紀機構管理辦法》). According to the Online Performance Brokerage Agencies Measures, an online performance brokerage agency shall obtain a commercial performance license, not promote their hosts by encouraging virtual gifting with rankings and fake advertisements, and not falsely induce users to consume user tokens or provide virtual gifting. For details, see “Regulations — Regulations Relating to Online Live Streaming Services.” As advised by our PRC Legal Advisor, Online Performance Brokerage Agencies Measures do not impose the specific liability on online performance business operators like us, when the cooperating talent agencies violate the Online Performance Brokerage Agencies Measures. However, we need to verify that the agencies on our platform have obtained the required licenses. The relevant regulatory authorities shall prohibit the behavior, confiscate the performing equipment and illegal proceeds of, and concurrently impose a fine within the range of eight to ten times of the illegal proceeds on the relevant talent agencies if such talent agencies engage in commercial performance activities without approval. While the MCT gives a grace period of 18 months for online performance talent agencies to obtain the license, we may have to terminate our cooperation with our talent agencies if they are unable to obtain the license on time, which may have an adverse impact on our business and results of operations.

On June 8, 2022, the NRTA and the MCT issued the Code of Conduct for Streamers (《網絡主播行為規範》) (the “Code of Conduct”) which stipulates that: (1) for live streaming content that requires a high level of professional skills (such as medical and health care, finance, law and education), streamers should obtain the corresponding practice qualifications and report the practice qualifications to the live streaming platforms, and live streaming platforms should review and record the relevant qualifications; (2) during live streaming sessions, streamers shall not waste food, flaunt luxury goods, jewelry and other assets, or display sexually suggestive or provocative content; (3) live streaming platforms shall establish comprehensive internal policies to manage and monitor the activities of streamers on their platforms, and shall, among others, reprimand and discipline hosts who have violated the Code of Conduct, and ban the account of streamers who have repeatedly violated the Code of Conduct or applicable rules and regulations. We have adopted internal policies and community guidelines that require hosts on our platforms to adhere to principles consistent with those set forth in the Code of Conduct. However, we cannot assure you that hosts can consistently remain in compliance with the Code of Conduct or other applicable rules and regulations, and we may need to terminate cooperation with those hosts who have been found in serious violation of the Code of Conduct or other applicable rules and regulations, which may materially and adversely affect our results of operations. In addition, we may inadvertently fail to identify inappropriate activities of hosts on our platform, and become subject to warning or administrative penalties as a result.

During the Track Record Period, we did not have any material non-compliance incident. However, we had been subject to fines imposed by competent government authorities in connection with the inappropriate content displayed on our platform. As the live streaming industry in China is still evolving rapidly, new laws and regulations may be adopted from time to time to address new issues that come to the regulatory authorities’ attention and additional licenses and permits other than those we currently have may be required. In the interpretation and implementation of existing and future laws and regulations governing our business activities, considerable uncertainties still exist. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in

RISK FACTORS

effect due to changes in the relevant authorities’ interpretation of these laws and regulations. As there are uncertainties in the interpretation and implementation of the relevant laws and regulations such as the ones outlined above, our users may be discouraged from using our platform, and our business operations may be materially and adversely affected.

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

The size of our user base and the level of our user engagement are critical to our success. We currently generate significantly all of our revenue from our live streaming services. The effectiveness of our monetization method depends on our ability to increase the size of our user base and user engagement. If we fail to grow our user base, either due to our failure to retain existing users or attract new users, or if our users become less active or engaged, our users may spend less on our virtual items or other value-added services, or access our platform less frequently. Reduced user engagement could drive hosts away from our platform. We may need to invest significant resources to grow our user base and increase user engagement, whether through innovations, new or improved content or services, marketing and branding activities or other means. Historically, our active user base has experienced volatility. We cannot assure you that our user base and user engagement will continue to grow, and our revenues may decline as a result, which may materially and adversely affect our business, financial condition, results of operations and prospects.

For 2019, 2020, 2021 and the five months ended May 31, 2022, our average MAUs were 45.5 million, 50.1 million, 59.4 million and 58.6 million, respectively, and the increase in users for the same periods was 88.5 million, 24.9 million, 121.7 million and 23.7 million, respectively. Growing our large user base and maintaining a high level of user engagement require us to adequately and timely respond to changes in user preferences, attract and retain popular hosts and offer new features and content. A number of factors could negatively affect user retention, growth and engagement, including if:

- we fail to keep abreast with changes in industry trends or user preferences;
- we fail to maintain our user base, the breadth and diversity of our content and innovate products that keep our users interested and engaged on our platform;
- we fail to address user concerns related to privacy, safety, security or other factors;
- the technical or other problems prevent us from delivering our services in a timely and reliable manner or otherwise adversely affect user experience;
- the features and functions we design and develop to enhance our user experience and retention are not effective or long-lasting;
- we fail to develop and carry out new business initiatives, in particular with respect to developing our overseas businesses;
- we fail to upgrade our existing products or develop new products to adapt to new technologies such as 5G;

RISK FACTORS

- we suffer from negative publicity, fail to maintain our brand image or our reputation is damaged;
- we are unable to combat spam or inappropriate or abusive use of our platform, which may lead to negative publicity;
- we make adverse changes to our products and services or become no longer able to provide products and services in response to new legislation, regulations or government policies;
- the growth in the number of internet users in China, or the penetration of live streaming or voice-centric products stalls;
- we fail to expand to new geographic markets or sectors with high growth potential; and
- we fail to compete effectively.

If we fail to attract, cultivate and retain hosts or maintain our relationship with talent agencies, hosts may cease to produce content, and we may experience declines in the number of users accessing our platform and in the user engagement.

The quality of the content offered on our platform and the level of our user engagement are critical to our success. In order to attract and retain users and compete effectively, we must continue to offer interesting, attractive and useful content and enhance our users’ viewing experience. We largely rely on our hosts to create high-quality video and audio-based live streaming and social networking content, and we cannot guarantee that our hosts will continue to create popular content on our platform. For 2019, 2020, 2021 and the five months ended May 31, 2022, the increase in the number of hosts on our platform was approximately 905,000, 560,000, 444,000 and 164,000, respectively, and the active daily streaming time per active host during the same period was 148 minutes, 207 minutes, 261 minutes and 293 minutes for *Huajiao*⁽¹⁾, respectively. For 2019, 2020, 2021 and the five months ended May 31, 2022, the active daily streaming time per active host was 234 minutes, 244 minutes, 256 minutes and 254 minutes for *6.cn*⁽²⁾, respectively. If our hosts cease to produce content, or their content fails to attract or retain users, we may experience declines in our user traffic and user engagement, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We work closely with talent agencies to recruit and retain hosts. Our ability to maintain a stable supply of quality hosts and content depends on our ability to retain and improve our relationships with talent agencies and individual hosts, and attract new ones. We share with our hosts and their associated talents agencies a percentage of the revenue generated from virtual items gifted to such hosts during their live steaming sessions. If we fail to offer a stable and attractive revenue-sharing policy that is appealing to hosts and their associated talent agencies, they may turn to our competitors. In addition, certain talent agencies do not have exclusive collaboration with us. If other platforms offer better incentives, they may choose to devote more of their resources to other platforms, or encourage their content creators to stream on or

(1) Throughout this document, unless stated otherwise, *Huajiao*’s operating results included those of *Naitang* (formerly known as *Huazhi* until the official change of name in August 2022), a stand-alone audio-based product introduced in May 2019.

(2) Throughout this document, unless stated otherwise, we only include *6.cn*’s operating results in 2019 since the completion of the *Huajiao-6.cn* Merger (from May through December 2019).

RISK FACTORS

enter into an exclusive agreement with other platforms. Any of such events may reduce the supply of our hosts and quality content, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Although we have adopted various measures to further strengthen the relationships between us and our hosts and their associated talent agencies, they may still choose to leave our platform, and their departure may cause a corresponding decline in the volume of quality content and consequently, our user base. As we compete with other platforms and social media networks for viable hosts, we may not be able to compete effectively for host resources. Our hosts and their associated talent agencies may leave us for competing platforms despite their extensive and in-depth collaboration with us.

We may be involved in legal disputes with competing platforms for hosts. Although we are not the primary target of these legal disputes, such hosts may be subject to fines or even injunctions, which may render our investment in recruiting them ineffective. In order to retain our hosts, we must continue to improve monetization opportunities for them, and assist them in reaching a wider audience. We cannot assure you that our endeavor to attract and retain viable hosts will be successfully, or that our hosts will not leave us for our competitors.

Our hosts and their associated talent agencies may also choose to leave our platform because of contract disputes with us. We were involved in 60 contract disputes with our hosts and/or their associated talent agencies that were initiated during the Track Record Period, among which 20 disputes were still pending for final judgments as of the Latest Practicable Date. Among the 60 contract disputes with hosts and/or their talent agencies, 53 were related to the breach of exclusivity clause in the respective cooperation agreement by our hosts, and the remaining disputes were primarily related to the settlement amount of revenue-sharing arrangement with hosts and/or talent agencies. For the 40 disputes with final judgments, we were the plaintiff in 33 disputes and were awarded an aggregated compensation of approximately RMB11.3 million, and we paid approximately RMB1.9 million in damages and/or settlement as the defendant for remaining seven disputes, all of which were primarily related to disputes with hosts and/or talent agencies for revenue-sharing determination. As for 20 pending disputes, we were plaintiff for 19 pending disputes with an aggregate contract claims of RMB24.9 million, and we were named as the defendant for remaining one pending dispute with a maximum potential damages of approximately RMB50,000, which relates to a talent agency’s failure to settle payment with its associated host, who also named us as a co-defendant along with the talent agency. If viable hosts or key talent agencies end their collaboration with us due to dispute with us, our business, financial condition and result of operation may be adversely affected.

Our revenue growth is significantly dependent on our paying users. If we fail to continue to grow or maintain our paying user base, our revenues may not grow as we anticipate, which may materially and adversely affect our business operation, financial condition and results of operations.

Our revenues and results of operation depend on our ability to effectively monetize our large user base and convert more users to paying users. For 2019, 2020, 2021 and the five months ended May 31, 2022, our average MPUs were approximately 923,000, 908,000, 1.4 million and 1.6 million, respectively. In order to sustain our revenue growth, we must continue to attract users onto our platform, ensure high level of user engagement and effectively monetize our content, product matrix, and service offerings. To effectively monetize our user base, we need to continue to develop products and services that are desirable

RISK FACTORS

to our users, as well as set proper pricing strategies. Although our business has experienced significant growth in recent years, we may not achieve a similar growth rate in the future, as users’ demand for our products and services may decline, or we may fail to anticipate and cater to users’ demand effectively.

Our ability to convert our active users to paying users and continue to grow our paying user base depends on many factors, many of which are out of our control. The amount of virtual items that users are willing to purchase and gift to our hosts can be volatile and can fluctuate from time to time. Any significant decline in virtual gifting by paying users will adversely affect our financial condition and results of operations. Although we try to optimize the merchandizing of our virtual items, if we fail to maintain attractive pricing for our virtual items and other value-added services, our users may be less likely to purchase them. We cannot guarantee that our attempts to monetize our content and products will continue to be successful, and therefore the future revenues and income potential of our business are difficult to evaluate. For example, our hosts may be less willing to remain on our platform as the amount of virtual items gifted from audience decreases due to the deterioration of general economic conditions or the decrease in their disposable income. Any decline in the number of paying users may materially and adversely affect our results of operations.

The markets in which we operate are highly competitive, and we face significant competition in many major aspects of our operations. If we fail to compete effectively, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We face intense competition from other internet companies in China in the video and audio social entertainment streaming industry. In addition, we also compete with other internet companies that provide video- and audio-based products to users in China. As we expand into overseas markets, we may also face intense competition from internet companies operating on a global scale. Some of our competitors may have longer operating histories and greater financial, technical and marketing resources than we do, or have advantages in attracting and retaining users and hosts. In addition, our competitors may have larger user bases or more established brand names than we do and therefore would be able to more effectively leverage their user bases and brand names to provide more popular content. Furthermore, industry consolidation through mergers and acquisitions may arise from time to time as platforms seek to grow their users, business scale and capabilities in different content formats, which may give rise to greater competition.

We compete for user time spent on our platform and viable hosts. As viewers are unlikely to view live streaming on two different platforms simultaneously, and given that many hosts may enter into exclusive contracts with other platforms, competition for user traffic and viable hosts is intense, and our competitors may poach hosts from our platform. We believe the diversity and quality of content play a key role in capturing user attention and time, which affects the revenue generated from virtual gifting during live streaming. In addition, our users face a vast array of entertainment choices. Other forms of entertainment, including other internet-based activities such as online video or gaming, as well as offline activities such as television, movies, and sports, may be perceived by our users to offer greater variety,

RISK FACTORS

affordability and interactivity. We also compete against other forms of entertainment for users’ discretionary time and spending. If we are unable to sustain sufficient interest in our platform, we may be replaced by other forms of entertainments.

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

We may not be successful in implementing our future business plans and strategies, which may materially and adversely affect our business, results of operations, financial conditions and growth prospects.

We strive to achieve sustainable growth and further strengthen our industry leadership in the China’s entertainment live streaming market by implementing our business strategies. See “Business — Growth Strategies” for details. The successful implementation of our future business plans and strategies may be affected by a number of factors including the availability of sufficient funds, government policies relevant to our industry, economic conditions, our ability to maintain our existing competitive advantages, our relationships with our major hosts and talent agencies, and the threat of substitutes and new market entrants. There is no assurance that our business plans can be implemented in a timely and successful manner. Should there be any material adverse change in our operating environment which results in our failure to implement any part of our business plans, the growth in our business will be adversely impacted. Any material adverse change in our operating environment resulting in our failure to implement any part of our business plan may also cause our revenue growth not being able to offset the increase in host costs and operating expenses, and our financial condition and prospects may be adversely affected.

In addition, the successful implementation of our business strategies and future plans as described in “Business — Our Growth Strategies” and “Future Plans and [REDACTED]” is (i) based on circumstances currently prevailing and bases and assumptions that certain circumstances will or will not occur; and (ii) dependent on a number of factors including the availability of funds, increasing demand for our products and services, our ability to expand our business and to retain viable hosts and/or talent agencies, and recruit competent management and employees. Some of the factors are beyond our control and by nature, are subject to uncertainty, such as the general market conditions, and the change in government

RISK FACTORS

policies or regulatory regimes of our industry. There is no assurance that our business strategies and future plans can be implemented successfully. Any failure or delay in the implementation of any or all of these strategies and plans may have a material adverse effect on our profitability and prospects.

If we fail to maintain our unique community culture and our vibrant ecosystem, our user interactions, engagement and experience will be materially and adversely affected, which would materially and adversely affect our business, financial condition and results of operations.

We have cultivated an interactive and vibrant online social community. We also strive for providing users with a superior user experience by continuously improving our user interface and the features of our platform, and encouraging active interactions among our users and hosts. As a result, our platform fosters a vibrant ecosystem for our users and hosts to interact, giving rise to significant user needs which we could address by continuously developing products and services that meet the dynamic user demands, such as our recently launched audio-based products. We believe that maintaining and promoting a vibrant community culture and ecosystem is critical to the retention and expansion of our user base. We have taken multiple initiatives to preserve our community culture, values and ecosystem. Despite our efforts, we may be unable to maintain our community culture and ecosystem and cease to be the preferred platform for our users and hosts. For example, conflicts among our users or hosts and inflammatory comments posted on our platform may damage our community culture and brand image, which would be detrimental to our business operations.

We may not be able to prevent misconduct or inappropriate content from being displayed on our platform, which may not align with the regulatory standards and social morality, or against potential government’s policy and directions of the PRC, subject us to liabilities, and adversely impact our brand image, business and results of operations.

Our platform enables users and hosts to present and exchange information, interact with others and engage in various other online activities, many of which are conducted in real time. As it is difficult to control their behavior in real time, our platform may be misused by individuals or groups of individuals who engage in, among other things, immoral, inappropriate, disrespectful, fraudulent or illegal activities. Users and hosts may engage in conversations or activities on our platform that may be deemed vulgar, sexually suggestive or illegal under PRC laws and regulations. While we have developed technologies and implemented a series of measures, including user protection system and manual review team, to detect inappropriate content and activities, we may not be able to fully prevent inappropriate content from being posted on our platform or inappropriate activities from being carried out on our platform, which may not align with the regulatory standards and social morality, or against potential government’s policy and directions of the PRC. As advised by our PRC Legal Advisor, depending on the specific type of and impact caused by inappropriate content, we and our hosts face penalties such as confiscation of illegal proceeds, fines and criminal liability. In particular, according to the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “Internet Culture Provisions”), relevant governmental authorities may

RISK FACTORS

order us to remove inappropriate content, confiscate proceeds generated from such content, and impose a fine of RMB10,000 to RMB30,000 in the event that content on our platform contains information prohibited by the Internet Culture Provisions or any laws or regulations. See “Regulation — Regulations Relating to Internet Audio-visual Program Services.” In serious cases, we may face penalties such as suspension of business, revocation of our Online Culture Operating License, and/or criminal liabilities in certain circumstances. In addition, hosts on our platform may bear liabilities under Public Security Administration Punishments Law of the PRC (《中華人民共和國治安管理處罰法》) (the “Public Security Administration Law”). For example, if a host violates the Public Security Administration Law by publicly insulting or slandering others in a live streaming session, he or she will be detained for no more than five days or be fined up to RMB500. In serious cases, he or she may be detained for five to 10 days and concurrently be fined up to RMB500. Moreover, as we have limited control over the offline behavior of our users and hosts, to the extent that such behavior is linked to our platform, our ability to protect our brand image and reputation may be limited. Our business and the public perception of our brand may be materially and adversely affected by misconduct conducted on or linked to our platform.

From time to time, we also receive reports or complaints about inappropriate activities by users or hosts. During the Track Record Period, we were involved in nine incidents with fines imposed by government authorities for inappropriate content displayed on our platform. These incidents were related to sexually suggestive language and/or performance with fines ranging from RMB10,000 to RMB15,247.73 individually and amounting to approximately RMB100,000 in aggregate. These fines were imposed on us after we had identified inappropriate content and reported the hosts to the relevant authorities. We cannot assure you that we will be able to promptly detect all illegal or inappropriate contents displayed on our platform, or that we will not be subject to similar regulatory penalties in the future. We may be subject to fines or other disciplinary actions, including suspension of certain services if we are deemed to not have taken actions to stop user misconduct or the display of inappropriate or illegal content posted by third parties on our platform or distributed to our users. If any of our users suffers or alleges to have suffered physical, financial or emotional harm arising from any contact initiated on our platform, we may face civil lawsuits or other proceedings initiated by the affected user, or governmental or regulatory actions. Defending such actions could be costly and involve significant time and attention of our management and other resources, which could materially and adversely affect our business, financial condition, results of operations and prospects. There can be no assurance that we can detect all illegal or inappropriate content displayed on, retrieved from or linked to our platform or website. If we are held liable for any of the aforementioned incidents in the future, our business, financial condition and results of operations may be materially and adversely affected.

Moreover, the PRC government and regulatory authorities have adopted regulations governing content contained within videos and other information over the internet. Under these regulations, internet content providers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent, violent or defamatory. These laws and regulations are subject to interpretation by the relevant

RISK FACTORS

authorities, and it may not be possible to determine in all cases whether certain content is prohibited. Failure to identify and prevent illegal or inappropriate content from being uploaded or streamed on our platform may subject us to liability. If we fail to comply with PRC laws and regulations, we may face fines or other penalties or may lose licenses we need to operate our business and suffer reputational harm, which may materially and adversely affect our business, financial condition, results of operations and prospects.

The majority of content on our platform is live streaming conducted by our hosts, who may use music, images and videos without obtaining licenses or copyrights. It may be particularly challenging for us to monitor for compliance with the relevant intellectual property laws. While we have enforced and continue to enforce a copyright protection and takedown policy consistent with standard industry practice in each of the jurisdictions in which our products are distributed, we cannot guarantee that we will be able to effectively prevent inappropriate or illegal content from being posted on our platform, or that we can timely identify or remove all the content that may violate relevant laws and regulations or may otherwise harm our reputation or brand image. Our inability to avoid misconducts or contents that are vulgar and sexually suggestive on our platform may not align with the regulatory standards and social morality, and against potential government’s policy and directions of the PRC, and subject us to liabilities or regulatory penalties, all of which will adversely impact our brand image, business and results of operation.

We face uncertainties with respect to the enactment, interpretation and implementation of Notice 78.

The NRTA promulgated the Notice 78, which sets forth registration requirements for platforms providing online show live streaming or e-commerce live streaming as well as requirements for real-name registration, limits on user spending on virtual gifting, prohibitions of virtual gifting by minors, live streaming review personnel requirements, content tagging requirements and other requirements. For more information on Notice 78, see “Regulations — Regulations Relating to Online Live Streaming Services.” As advised by our PRC Legal Advisor, there is currently no explicit provisions as to what limits on virtual gifting will be imposed by the relevant competent authorities pursuant to Notice 78, and it is unclear how and to what degree any such limits would be imposed on different platforms. Given there is no explicit provisions on how to set the limit on virtual gifting, we have not been able to set such limit on our platform and we are currently not able to assess the impact this requirement under Notice 78 will have on the virtual gifting activities on our platform. Any such limits ultimately imposed may negatively impact our revenues derived from virtual gifting and our results of operations. Notice 78 also sets forth requirements for certain live streaming businesses with respect to, among others, real-name registration and restrictions on minors on virtual gifting. We collect certain information of our hosts and users and have implemented several account registration and identity verification measures. See “Business — Data Security and Privacy.” and “Business — Risk Management and Internal Control.” However, the PRC government may further tighten the account registration and identity verification requirements for minors or impose a higher standard with respect to the registration and identity verification for all users on our platform in the future. Any such event may deter potential users from registering with

RISK FACTORS

our platform, which may in turn adversely affect the growth of our user base and business prospect. Since Notice 78 has been issued quite recently and some of the requirements in Notice 78 are unclear and have no explicit provisions or implementation standards, we are still in the process of getting further guidance from regulatory authorities and evaluating the applicability and effects of the various requirements under Notice 78 on our business. Any further rule-making under Notice 78 or other intensified regulation with respect to live streaming may increase our compliance burden in the live streaming business, and may have an adverse impact on our business and results of operations.

If we fail to obtain requisite approvals, licenses or permits applicable to our business or to comply with applicable laws and regulations, our business, results of operations, financial condition and prospects may be materially and adversely affected.

Our business is subject to governmental supervision and regulation by the relevant PRC government authorities. As the live streaming industry in China is still at a relatively early stage of development, government authorities may from time to time issue new laws, rules and regulations governing these industries, enhance enforcement of existing laws, rules and regulations, and require us to obtain new and additional approvals, licenses or permits. Considerable uncertainties could exist with respect to the interpretation and implementation of existing and future laws and regulations governing our business activities.

As confirmed by our PRC Legal Advisor, we have obtained all material approvals, licenses and permits that are necessary to conduct our business operations from the relevant PRC government authorities, including the Online Culture Operating License (網絡文化經營許可證), the ICP License (增值電信業務經營許可證) and Audio-Visual Permit. As of the Latest Practicable Date, Mijing Hefeng was in the process of renewing its filing with the National Network Audio-Visual Platform Information Registration Management System. As required by the Notice on Promulgation of the Guiding Opinions on Strengthening the Standardized Administration of Online Live-streaming (關於印發《關於加強網絡直播規範管理工作的指導意見》的通知) and other applicable PRC laws and regulations, live streaming platforms providing online audio-visual program services shall obtain the Audio-Visual Permit or complete the requisite filing procedure. See “Business — Licenses and Regulatory Approvals” and relevant discussion in “Regulation” for details. We may fail to renew these approvals, licenses or permits upon expiration in a timely manner.

In addition, we may be required to obtain additional licenses or permits as a result of our business expansion, change in our operations or change in laws and regulations applicable to us. If we fail to obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenues that were generated through the unlicensed business operations, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

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

We receive, store and process personal information and other user data, and utilize security features to monitor users’ interactions and safeguard user data. Despite of our efforts, concerns about collection, use or disclosure of personal information or other privacy-related and data security matters, even if unfounded, could damage our reputation and business operations. The Constitution Law of the PRC, the PRC Criminal Law, the PRC Civil Code and the PRC Cyber Security Law protect individual privacy and personal data security by requiring the consent of internet users prior to the collection, use or disclosure of their personal data. However, in light of the constantly evolving and potentially more stringent regulatory requirements of cybersecurity and data privacy, and the possible changes in regulations and interpretations, it remains unclear as to how and to what extent such regulatory requirements will apply to us. In particular, on June 10, 2021, the SCNPC promulgated the Data Security Law of People’s Republic of China (《中華人民共和國數據安全法》) (the “Data Security Law”), effective from September 1, 2021. The Data Security Law provides that data processing activities that may affect national security shall be subject to a data security review procedure. On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the July Opinion, which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies, and the laws and regulations regarding data security, cross-border data flow and management of confidential information are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process. On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law (《個人信息保護法》) (the “PIPL”), which became effective on November 1, 2021, setting forth detailed rules for handling sensitive personal information. Furthermore, the Ninth Amendment to the Criminal Law of the PRC prohibits the selling or otherwise illegally disclosing a citizen’s personal information, and if such information is obtained during the course of performing duties or providing services, additional penalties could be imposed.

On December 28, 2021, the Cybersecurity Review Measures was released by CAC and other regulatory authorities, which further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Cybersecurity Review Measures, in addition to the procurement of network products and services by critical information infrastructure operators, any data processing activity that affects or may affect national security shall also be subject to the cybersecurity review. In accordance with the Cybersecurity Review Measures, internet platform operators holding personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when they seek listing in a foreign country. Even though we are not required to proactively apply for the cybersecurity review for our [REDACTED] in Hong Kong, on the basis that Hong Kong is not a “foreign country” within the meaning of the Cybersecurity Review Measures and that the cybersecurity review for the procurement of network products and services by critical information infrastructure operators shall not be applied to us, as we are not identified as a CIIO as of the date of the

RISK FACTORS

document. However, it remains uncertain as to whether the Office of Cybersecurity Review will initiate cybersecurity review *sua sponte*. We strictly protect information provided by users and, under our privacy policy, we will not provide any of our users’ personal information to any third party without consent or otherwise requested by laws and regulations. While we strive to comply with our data and privacy policies as well as all applicable data protection laws and regulations in the PRC and overseas, we may not be able to successfully protect our users’ privacy and data for reasons beyond our control and our protective measures may not be sufficiently effective. Any failure or perceived failure to do so may result in proceedings or actions against us by government entities, users or others, which could damage our reputation and adversely affect our business, financial condition, results of operations and prospects. During the Track Record Period, certain of our products were deemed collecting and using user information in a non-complaint manner and we were ordered to make rectification within a designated period. We timely made rectification and passed the later review by the governmental authorities. We were not subject to any fines imposed by the regulators for such non-compliance incidents. During the Track Record Period and up to the Latest Practicable Date, other than those as disclosed in “Business — Data Security and Privacy.” there was no governmental investigation, penalty or administrative orders pending against us in relation to unlawful collection and use of user information. Concerns about the security of personal data could also lead to a decline in general internet usage, which could lead to a lower number of registered, active or paying users on our platform.

There are a number of legislative proposals in the European Union and the United States, at both the federal and state level, as well as other jurisdictions that could impose new obligations in areas affecting our business. New laws or regulations concerning data protection, or the interpretation and application of existing consumer and data protection laws or regulations, may be inconsistent with our practices. The introduction of new services or other actions that we may take may subject us to additional laws, regulations, or other government scrutiny. For example, the European Union adopted the General Data Protection Regulation (“GDPR”), which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. The GDPR requires submission of personal data breach notifications to designated European privacy regulator in each country our business operate in, and includes significant penalties for non-compliance with the notification obligation as well as other requirements of the regulation. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

Our business may also be adversely impacted by actions taken by governments in China and overseas in response to alleged data privacy and data security threats. Such government actions and future unfavorable restrictions on the operations of China’s technology companies may limit our opportunities to expand into overseas markets and materially and adversely affect our business.

RISK FACTORS

Our historical performance may not be indicative of our future results, and we may not be able to effectively manage our growth as a result of the increased complexity and evolving nature of our business.

We experienced continuous growth in our revenue during the Track Record Period. We generated revenue of RMB2,830.9 million, RMB3,683.5 million, RMB4,599.7 million, RMB1,801.6 million and RMB2,087.4 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively. Although we strive to grow our business, we cannot assure you that our revenues will be able to grow at the same rate as in the past. In addition, as market competition intensifies and our industry matures, our user base and user engagement may not grow as we expected.

Many aspects of our business are unique and evolving. We operate in China’s video and audio social entertainment industry, which is relatively new and rapidly developing, and is subject to significant challenges, including increasing government regulation over the internet industry and live streaming industry, and changes in user preferences. As such, we may not be able to predict future market trends and adjust our business accordingly. Our growth prospects should be considered in light of the risks and uncertainties that a company operating in a rapidly evolving industry may encounter, including, among others, risks and uncertainties regarding our ability to:

- retain existing users on, and attract new users to, our platform and increase user engagement;
- develop and deploy diversified and distinguishable virtual items, functions, features and services that are appealing to our users;
- maintain stable relationship with our hosts and their associated talent agencies;
- defend ourselves against litigation, regulatory investigations, and intellectual property, privacy or other claims;
- develop and implement successful monetization measures;
- maintain stable relationship with our business partners, including payment channels, mobile app distribution channels, server and bandwidth providers, and other third-party service providers;
- increase brand awareness through marketing and promotional activities;
- upgrade existing technologies and infrastructure and develop new technologies to support our increasing user traffic, improve the user experience and enhance our product functionality; and
- attract, retain and motivate talented employees.

RISK FACTORS

All of these endeavors involve risks and will require substantial management efforts and significant resources, which could impede our ability to maintain reliable service levels for our users, research and develop products, improve our operations, auditing and human resources management, and financial and management controls, and enhance our internal data protection systems. If we fail to achieve the necessary operational efficiency as we grow, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

In 2020, we incurred net losses of RMB1,524.7 million, primarily due to the impact of the recognition of an impairment loss of RMB1,777.7 million in 2020 for the goodwill arising from the Huajiao-6.cn Merger. We cannot assure you that we can achieve or maintain profitability in the future, which will depend on our ability to continuously grow revenues in a cost-effective way. Our ability to grow cost-effectively will primarily depend on our ability to improve our operational efficiency, which may not increase or reach a sufficient level to achieve profitability. Our ability to continue to improve operational efficiency will depend on, among other things, our ability to efficiently attract and retain users, enhance user engagement, manage our operating expenses, in particular with respect to our selling and marketing expenses and research and development expenses, optimize our operations, and achieve greater economies of scale. In particular, our selling and marketing expenses were RMB362.0 million, RMB451.4 million, RMB544.8 million, RMB227.3 million and RMB218.1 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 12.8%, 12.3%, 11.8%, 12.6% and 10.4% of our total revenue in the same periods, respectively. Our research and development expenses were RMB132.1 million, RMB156.2 million, RMB207.9 million, RMB87.9 million and RMB93.6 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively, representing 4.7%, 4.2% , 4.5%, 4.9% and 4.5% of our total revenue in the same periods, respectively. Our expenditure in marketing initiatives and research and development efforts may turn out to be inefficient and eventually fail to achieve the intended goals, and we may not be able to improve our financial condition as a result. Our ability to improve our financial condition and achieve or maintain our profitability will also depend on various external factors, many of which are beyond our control, such as the healthy development of China’s video and audio social entertainment industry.

We may also incur losses in the future due to our continued investment in our marketing initiatives, products and services, and technologies. Changes in the macroeconomic and regulatory environment in China, or the competitive dynamics of our industry, and our inability to respond to these changes in a timely and effective manner may also impact our profitability. Accordingly, we cannot assure you that we will be able to become or remain profitable in the future, and our accumulated losses may adversely affect our overall ability to declare and pay dividends after the [REDACTED].

RISK FACTORS

We incurred impairment charges to our goodwill during the Track Record Period, and we may record impairment losses of goodwill and/or other intangible assets in the future.

Our net loss in 2020 was primarily resulted from impairment loss of goodwill. Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed from the acquired entity as a result of our acquisitions of interests. We recorded goodwill of RMB2,459.5 million, RMB699.8 million, RMB699.8 million and RMB699.8 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. In 2020, we recorded impairment loss of goodwill of RMB1,843.2 million. Due to the business adjustments adopted by Huafang Technology, the operator of *6.cn*, including its strategic focus on attracting hosts and users to its mobile-based live streaming products, *6.cn* experienced a decline in business performance in 2020. As a result, our management made more conservative adjustments when forecasting the financial performance of *6.cn* in 2020. For details, see “Financial Information — Key Components of Our Results of Operations — Impairment Loss of Goodwill.”

We are required to test our goodwill and intangible assets for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. We may record impairment of goodwill and intangible assets acquired in connection with our acquisitions if the carrying value of our goodwill and intangible assets acquired in connection with our past or future acquisitions are determined to be impaired. Material impairment losses could negatively affect our financial condition and results of operations.

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

We had deferred tax assets of RMB139.0 million, RMB108.2 million, RMB63.8 million and RMB41.1 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. We did not recognize deferred tax assets for cumulative tax losses of RMB10.5 million, RMB123.2 million, RMB144.0 million and RMB158.2 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively, as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entities. See Note 23(b) to the Accountants’ Report in Appendix I to this document for the movements of our deferred tax assets during the Track Record Period.

Our deferred tax assets relate to deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts to the extent that the utilization of such differences and losses against future taxable profits is probable. This requires significant judgment on the tax treatments of transactions and an assessment of the probability that adequate future taxable profits will be available for the deferred tax assets to be utilized. The carrying amount of deferred tax assets is reviewed at the end of each period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. We cannot guarantee we can recover or predict the movement of our deferred tax assets. Failure to recover deferred tax assets may adversely affect our financial position in the future.

RISK FACTORS

We are exposed to risks associated with the fair value change in financial assets measured at fair value and valuation uncertainty regarding the use of unobservable inputs.

We had financial assets at fair value through profit or loss of RMB384.3 million, RMB258.1 million, RMB45.3 million and RMB533.8 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively, which represented our financial products issued by banks. We had financial assets at fair value through other comprehensive income of RMB18.7 million, RMB39.4 million, RMB66.0 million and RMB92.5 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively, which represented our equity investment in certain technology companies. See “Financial Information — Other Financial Assets.” During the Track Record Period, we measured our financial assets at fair value through profit or loss and our financial assets at fair value through other comprehensive income using observable inputs. See Note 25(d) to the Accountants’ Report in Appendix I to this document.

The financial assets decreased by RMB105.5 million and RMB186.2 million in 2020 and 2021, respectively, primarily due to a decrease of RMB126.2 million and RMB212.8 million in financial products issued by banks in the same periods, respectively, as a result of a change in our investment decision from financial products issued by banks to bank deposits. The financial assets increased by RMB515.0 million in the five months ended May 31, 2022, primarily because we utilized more cash and cash equivalents by investing in financial products issued by banks in the five months ended May 31, 2022.

We cannot assure you that we will not have our financial assets at fair value measured using unobservable inputs in the future. We are subject to the risks that any of our counterparties, such as the banks that issued financial products, may not perform their contractual obligations, such as in the event that any such counterparty declares bankruptcy or becomes insolvent. Any material non-performance of our counterparties with respect to the financial products we invested in could materially and adversely affect our financial position and cash flow. Furthermore, the financial products issued by banks are subject to the overall market conditions, including the capital markets. Any volatility in the market or fluctuations in interest rates may reduce our financial position or cash flow, which, in turn, could materially and adversely impact our financial condition. In addition, general economic and market conditions affect the fair value of these financial products.

Additionally, the fair value of our financial products issued by banks and equity investments measured at fair value has been estimated by reference to their recent transaction prices or using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. A variety of factors can significantly influence and cause adverse changes to the assumptions and estimates we use and thereby affect the fair value of our financial products issued by banks and equity investments. These factors include general economic conditions, change in market interest rates and stability of the capital markets. Any of these factors could cause our estimates to vary from actual results and result in the substantial fluctuation in the fair value of our financial products issued by banks and equity investments. Any material declines in the fair value of our financial assets at fair value and the uncertainty due to the use of unobservable inputs for valuation may have a material adverse effect on our financial condition.

RISK FACTORS

If we fail to perform our contract obligation our liquidity and financial positions may be materially and adversely affected in the future.

Our contract liabilities were RMB66.4 million, RMB79.5 million, RMB85.8 million and RMB83.9 million as of December 31, 2019, 2020 and 2021 and May 31, 2022, respectively. Our contract liabilities primarily consisted of pre-payment of top-ups on our platform in connection with our live streaming services, and prepayment made by customers for our advertising services. Contract liabilities would be recognized as revenue upon the rendering of services. Almost all of the contract liabilities balance as of December 31, 2019, 2020 and 2021 and May 31, 2022 was recognized as revenue within one year. See “Financial Information — Contract Liabilities” and Note 19 to the Accountants’ Report in Appendix I to this document. However, if we fail to fulfill our obligations with respect to our contract liabilities, we may not be able to convert such contract liabilities into revenue as expected. Furthermore, if we fail to fulfill our obligations with respect to our contract liabilities, customers or users may request not to prepay us in the future. Any of these circumstances could materially and adversely affect our business, results of operations, cash flow and liquidity condition.

We have incurred and may continue to incur substantial share-based compensation expenses.

We have adopted the employee shareholding ownership platform that permits the grant of restricted shares to our management team and employees. We believe the grant of share-based compensation is important to our ability to attract, retain and motivate our management team and qualified employees. We recognize share-based payments based on the fair value of awarded restricted shares, measured at grant date using the valuation model of Average Asian Option Pricing Model to determine the fair value of the underlying restricted shares, taking into account the terms and conditions upon which the shares were granted. We recorded share-based compensation expenses of RMB19.3 million, RMB18.8 million, RMB84.0 million, RMB20.0 million and RMB13.9 million in 2019, 2020, 2021 and the five months ended May 31, 2021 and 2022, respectively. As a result, any additional grant of restricted shares, restricted share units and/or options will further increase our share-based compensation expenses, which may adversely affect our financial performance, and dilute existing shareholders’ shareholding.

We may recognize impairment loss on our prepayments, deposits and other receivables.

We recorded prepayments, deposits and other receivables of approximately RMB55.5 million, RMB75.2 million, RMB138.5 million and RMB139.2 million as of December 31, 2019, 2020, 2021 and May 31, 2022, respectively. During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of (1) prepayment made by us for purchase of streaming services, (2) prepayment to promotion, information technology and legal and other professional services for the [REDACTED], and (3) prepayment to other professional services. The deposits represented deposits for office leases. Although these financial assets included in the above balances related to receivables had no recent history of material defaults, and as of December 31, 2019, 2020 and 2021 and May 31, 2022, the loss allowance for such balances was approximately RMB156,000, RMB474,000, RMB361,000 and RMB220,000, respectively, we cannot assure you that there would not be any impairment

RISK FACTORS

charges on our prepayments, deposits or other receivables in the future. If we record impairment losses on such balances in the future, our business, financial condition and results of operations may be materially and adversely affected.

Heightened tensions in international relations may adversely impact our business, financial condition and results of operations.

Recently there have been heightened tensions in international relations. These tensions have affected both diplomatic and economic ties between affected countries. Heightened tensions could reduce levels of trade, investments, technological exchanges and other economic activities between affected countries. The existing tensions and any further deterioration in the international relationship between China and other countries may have a negative impact on the general, economic, political and social conditions in these countries including China, particularly, the potential negative impact of overseas regulatory changes as a result of geopolitical tension, data privacy or other risks. In light of our overseas expansion and operations of social networking business, such negative impact could adversely affect our business, financial condition, and results of operations.

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

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

Prior to being acquired by us, *Monkey* and *HOLLA* were removed from Apple’s App Store in January 2020 for alleged violation of Apple’s terms of services, although Apple did not specify the users or content that allegedly violated its terms of services. Due to the removal, from January 2020 to the Latest Practicable Date, *Monkey* and *HOLLA* apps could not be downloaded from the Apple’s App Store, but the existing users were still able to access these apps if downloaded prior to the removal. Nonetheless, *HOLLA* and *Monkey* apps remained available on Google Play marketplace when the apps were removed from Apple’s App Store. We also developed webpage client for *Monkey* shortly after its removal from Apple’s App Store. As of the Latest Practicable Date, *Monkey* and *HOLLA* were available for download from other app stores and distribution channels. In 2021 and the five months ended May 31, 2022, we generated 2.6% and 3.2% of our total revenues, respectively, from *HOLLA* Group, which operates our overseas social networking products, including *Monkey* and *HOLLA*.

App distribution channels such as Apple typically have strong bargaining power. Their terms and policies for app developers may be impacted by geopolitics considerations and generally favor the respective app distribution channels. Major app distribution channels have broad discretion in interpreting their terms and policies, and in dealing with alleged instances

RISK FACTORS

of non-compliance or violations by app developers. We cannot assure you that our apps will not be removed from the app stores of major app distribution channels in the future, or that such app distribution channels will lift the ban over our apps in a timely manner or at all. In addition, changes to the credit period or the settlement cycle of these distribution channels may materially and adversely affect our cash flow. Disputes with distribution channels, such as disputes relating to intellectual property rights, distribution fee arrangements and billing issues, may also arise from time to time, and we cannot assure you that we will be able to resolve such disputes in a timely manner or at all. Any failure on our part to maintain good relationships with these major app distribution channels could cause the number of downloads and activations of our platform to decrease, which will have a material and adverse effect on our business, financial condition, results of operations and prospects.

We could be adversely affected by applicable sanction laws as a result of our payments received from users located in certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, the United Kingdom, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organizations, including the United Kingdom, the European Union, the United Nations, and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries.

During the Track Record Period, we received payments through Apple's App Store and Google Play from users of certain apps operated under HOLLA Group that are located in the Sanctioned Countries. These apps are all published and distributed through Apple's App Store and Google Play, which are U.S. platforms. During the Track Record Period, revenues generated from payments received from users located in the Sanctioned Countries accounted for less than 1.0% of our total revenue.

U.S. primary sanctions could apply to us in specific situations, including transactions with or involving a Sanctioned Country or Sanctioned Target. However, as advised by our International Sanctions Legal Adviser, the risk to us for transactions with a Sanctioned Country is small given that (1) we have now implemented internal controls to prevent transactions with a Sanctioned Country or Sanctions Target; (2) the underlying software involved in our apps contains no U.S.-origin content; (3) our apps are published and publicly available without restriction; (4) the distribution of our apps for personal communications and related services and payments may benefit from the general licenses published by OFAC for internet communications; and (5) the U.S. person involvement in our operations is relatively limited. As further advised by our International Sanctions Legal Adviser, our group companies incorporated in the Cayman Islands and the British Virgin Islands are directly subject to the sanctions regimes of the United Kingdom (which implement the sanctions imposed by the United Nations and by the European Union), however, our business dealings in the Relevant Jurisdictions do not appear to be unlawful under those sanctions regimes nor under those currently implemented in Australia.

RISK FACTORS

While we have implemented internal control measures to minimize, and in many cases eliminate, our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. We cannot provide any assurance that our future business will be free of sanctions risk or our business will conform to the expectations and requirements of the authorities of the United States or any other jurisdictions. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations, the United Kingdom, the United Kingdom overseas territories, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of us.

Mr. Zhou, our chairman of the Board, non-executive Director and our controlling shareholder, has been named as the defendant in a putative shareholder class action lawsuit in the United States that could have a material adverse impact on our reputation.

Mr. Zhou, our chairman of the Board, non-executive Director and our controlling shareholder, has been named as one of defendants in a putative shareholder class action in the United States, which has yet to be resolved as of the date of this document. We are currently unable to estimate the outcome of this lawsuit or any possible loss or range of loss, if any, associated with the resolution thereof. In the event that the initial defense of this case is unsuccessful, there can be no assurance that Mr. Zhou will prevail in any appeal, which may adversely affect our reputation.

We or our directors or officers may also face similar legal proceedings, claims and investigations in the future. The existence of such proceedings and any adverse outcome thereof, including any plaintiff’s appeal of a judgment, could have a material adverse effect on our business, reputation, financial condition and results of operations. Resolution of these matters may utilize a significant portion of our resources and divert management’s attention from the day-to-day operations, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

The success of our business depends on our brand recognition and the market perception of our brand. If we fail to maintain and enhance our brand recognition, our business, results of operations and prospects may be materially and adversely affected.

We market our services primary under the brand of “*Huafang*.” In our overseas market, we conduct our business operations under HOLLA Group. We depend on our reputation and brand image to attract users, hosts and talent agencies and grow our business in an efficient and sustainable manner. Therefore, maintaining and enhancing our brand recognition is critical to the success of our business. From time to time, we conduct marketing activities across various media to enhance our brand, improve public perception of our brand, and promote our new

RISK FACTORS

products, services, and businesses. We have invested, and will continue to invest in marketing expenditures to promote our brand, improve public perception, and enhance brand royalty. However, we cannot assure you that these measures will be successful, or that we will be able to maintain and enhance our brands and remain our leadership position in China’s entertainment live streaming industry.

Negative publicity about us, our users, hosts, our business and our management could threaten the perception of our brands. For example, hosts may distribute illicit, false, offensive or controversial content through live streaming notwithstanding our terms of use and our internal policies, which could result in negative comments and complaints, or subject them or us to administrative proceeding and, in serious cases, legal proceedings. See also “— Misconduct and inappropriate content may adversely impact our brand image, business and results of operations, and we may be held liable for information or content displayed on, retrieved from or linked to our platform or website or distributed to our users.” In addition, we may also receive negative publicity if users or hosts are involved in any illegal activities, scandals or rumors that are linked to our platform. During the Track Record Period, we had received negative publicity, including negative internet and blog postings, in relation to us, our users and hosts, and content on our platform. Certain of such negative publicity may come from malicious harassment or unfair competition acts by third parties. Any such negative publicity, regardless of veracity, could damage our reputation, cause relevant hosts to lose fans, subject us to government or regulatory investigations, divert our management’s attention, or cause us to incur additional other resources. We may not be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Our reputation may also be damaged for many other reasons, including misconduct of our employees or any third parties we conduct business with. As a result of any aforementioned circumstance, our brand recognition may suffer, our operational and financial performance may be adversely affected, and the [REDACTED] of our Shares may decline.

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

We have been and may in the future be subject to intellectual property infringement claims or other allegations by third parties for services we provide or for information or content displayed on, retrieved from or linked to, recorded, stored or made accessible on, our platform, or otherwise distributed to our users, including in connection with the music, images, videos and games played, recorded, stored or made accessible on our platform, which may materially and adversely affect our business, financial condition, results of operations, prospects and reputation. We have entered into an agreement with the Music Copyright Society of China (“MCSC”), which allow us to use music content licensed by the MCSC on our platform. However, we may still be subject to potential copyright infringement claims by third parties in relation to content licensed from the MCSC. There is no guarantee that we will enter into license agreements with other major music copyright owners and operators in China on terms

RISK FACTORS

that are satisfactory to us or at all. Even when we are able to enter into license agreements, we cannot guarantee that such agreements will continue to be renewed timely or indefinitely. Additionally, under our agreements with content creators, we have the rights to use the intellectual properties produced by them during their live streams on our platform.

If our hosts play music using their own devices during live streaming, such use of music would not be covered under our agreements with MCSC or other music copyright owners. Under relevant PRC laws and regulations, internet information online service providers which provide storage space for users to upload works or links to content provided by third parties, could be held liable for copyright infringement under various circumstances, including situations where such service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes upon the copyright of others and such service provider fails to take necessary actions to prevent such infringement. We have implemented procedures to reduce the likelihood that content might be used without proper licenses or third-party consents and to ensure prompt responses and actions to notices from copyright holders requesting removal of infringing content. However, these procedures may not be effective in preventing the unauthorized distribution of copyrighted content and we may be deemed to have failed to take necessary actions against such infringement. Therefore, we may face liability for copyright or trademark infringement, defamation, unfair competition, libel, negligence, and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through our platform. In particular, from time to time we may face allegations of unauthorized use of music on our platform. While we have internal control procedures to ensure compliance with the relevant copyright laws and to enforce a copyright protection and takedown policy that complies with applicable laws, we may still be subject to allegations of copyright violations, whether or not such allegations are legitimate. In addition to live streaming, we allow hosts to upload text, graphics, audio, videos and other content to our platform and viewers to access and content on our platform. We have also implemented technological measures to respond to incidents or users' complaints regarding intellectual property infringements on our platform, such as infringements on patents and copyrights, held by third parties. Despite our standard procedures, from time to time, we may still be involved in infringement disputes with third parties, as we cannot assure you that content posted by users or hosts do not infringe upon the intellectual property right of other parties, or that we can remove such content from our platform in a timely manner. For example, during the Track Record Period, certain third parties initiated or threatened us with lawsuits alleging copyright infringement claims. Specifically, we were named as the defendant in 16 copyright infringement lawsuits during the Track Record Period and as of the Latest Practicable Date, the total unsettled claim amount of the remaining one lawsuit of copyright infringement by Huafang Technology and Holla Technology pending for final judgment was below RMB1.0 million, calculated based on the maximum amount subject to the claims and potential legal expenses sought from us. While we intend to defend these lawsuits vigorously and believe that we have valid defenses to these claims, there can be no assurance that a favorable outcome will be obtained. During the Track Record Period, the total liability we incurred as a result of these lawsuits was immaterial.

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

RISK FACTORS

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

Our business model will continue to evolve, which may not lead to expected results.

Many elements of our business are innovative, evolving and relatively unproven, and we may continue to adjust our business based on the rapidly developing market. Our new business ventures may not achieve the expected result or gain sufficient market acceptance. We may not succeed in monetizing new business ventures. Furthermore, there are few proven methods of projecting user demand or available industry standards on which we can rely. We are also constantly seeking to improve our products and business models. However, our attempts to improve our existing products and services, and develop new products and business models may not be successful and therefore it is relatively difficult to evaluate the growth potential of our business.

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

Our future success is significantly dependent upon the continued service of our senior management and other key employees. If any of our senior management or key personnel becomes unable or unwilling to contribute their services to us, we may not be able to replace them easily or at all, and their departure may impact our existing corporate culture. In addition, they may join a competitor or form a competing company. As a result, our business may be severely disrupted, our results of operations and financial condition may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain qualified personnel with comparable industry know-how and skills. We have entered into employment and non-compete agreements with our senior management and other key personnel, which contain non-solicitation and confidentiality provisions. However, these agreements and provisions do not ensure the continued service of these senior management and key personnel, and we may not be able to enforce these agreements and provisions.

Our existing operations and future growth require a sizeable and qualified personnel. For example, we depend, in part, on our employees to develop and refine technologies utilized in our operations, such as data processing, AI automation and 3D engine technologies, or plan and execute our overseas expansion strategies. We also rely on experienced personnel to anticipate

RISK FACTORS

and effectively respond to the changing preferences of users and market trends. Our failure to retain and attract qualified personnel in a timely manner may materially and adversely affect our business, results of operations and financial condition.

Our industry is characterized by high demand and intense competition for talent. In order to attract and retain talent, we may need to offer higher compensation, better trainings, more attractive career trajectory and other benefits to our employees, which may be costly and burdensome. We cannot assure you that we will be able to attract or retain qualified personnel necessary to support our future growth. We may fail to manage our relationship with our employees, and any disputes between us and our employees, or any labor-related regulatory or legal proceedings may divert managerial and financial resources, negatively impact staff morale, reduce our productivity, or harm our reputation and future recruiting efforts. In addition, as our business has grown rapidly, our ability to train and integrate new employees into our operations may not meet the increasing demands of our business. Any of the above issues related to our personnel may materially and adversely affect our results of operations and future growth.

We use third-party online payment service providers to process user payments on our platform, which subject us to payment processing-related risks.

We partially rely on third-party online payment service providers, such as WeChat Pay, Alipay and Apple Pay, to support business transactions and therefore we are subject to certain restrictions by these platforms. We are susceptible to fraud, user data leakage and other illegal activities in connection with online payment. We do not have control over the security measure of such third-party online payment service providers, and security breaches of such online payment systems could expose us to complaints, litigation, and potential liability for failing to secure confidential customer information, which could damage our reputation.

In addition, we pay interchange and other fees for certain payment channels, which may increase our operating costs and thus reduce our profitability. We are also subject to other general rules, regulations and regulatory requirements governing electronic fund transfer, which may change or be reinterpreted by relevant governmental authorities from time to time. If we fail to comply with these rules, regulations and regulatory requirements, we may be subject to fines, have to pay higher transaction fees, or even lose our ability to process electronic fund transfers, any of which could materially and adversely affect our business, financial condition and results of operations.

Moreover, we cannot predict whether the service providers that we work with may be subject to the supervision of People’s Bank of China (the “PBOC”). PBOC may publish rules, guidelines and interpretations from time to time regulating the operation of financial institutions and payment service providers, which may in turn affect how they provide payment services to us. If required by PBOC or other relevant governmental authorities in the future, we may need to adjust or suspend our cooperation model with such payment service providers, and may be subject to fees and other sanctions.

RISK FACTORS

Unauthorized use of our intellectual properties by third parties may harm our brands and reputation, and the expenses incurred in protecting our intellectual property rights may materially adversely affect our business.

We regard our copyrights, trademarks and other intellectual properties as critical to our success, and rely on a combination of trademark and copyright laws, trade secrets protection, restrictions on disclosure and other agreements that restrict the use of our intellectual properties to protect these rights. We also enter into agreements containing confidentiality obligations with our employees and any third parties who may access our proprietary technology and information, and we rigorously control access to our proprietary technology and information. 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, third parties may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties.

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

Implementation of intellectual property laws in worldwide has historically been lacking, primarily because of ambiguities in the laws and difficulties in enforcement. Policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary to enforce our intellectual property rights. Future litigation could result insubstantial costs and diversion of our resources, and could disrupt our business and materially and adversely affect our financial condition and results of operations.

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

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

RISK FACTORS

In addition, we may acquire additional assets, technologies or businesses that are complementary to our existing business. Future acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial or operating results we expect. In addition, acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the incurrence of debt, the incurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business.

Our failure to address these risks or other problems encountered in connection with our future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and expenses and harm our business generally. For example, the Huajiao-6.cn Merger and the acquisitions of Holla Technology and Beijing Lingdong failed to realize the benefits we expected. In particular, we incurred significant impairment on goodwill in connection with Huajiao-6.cn Merger and the acquisition of Holla Technology, which adversely affected our financial condition during the Track Record Period. See “Risk Factors — Risks Related to Our Business — We incurred impairment charges to our goodwill during the Track Record Period, and we may record impairment losses of goodwill and/or other intangible assets in the future.” If we use our equity securities to pay for acquisitions or investments, we may dilute the value of our Shares. If we borrow funds to finance acquisitions or investments, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Such acquisitions and investments may also lead to significant amortization expenses related to intangible assets, impairment charges or write-offs. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition to possible shareholders’ approval, we may also have to obtain approvals and licenses from the government authorities for the acquisitions and comply with applicable laws and regulations, which could result in increased costs and delays.

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

Although we currently have sufficient capital resources to support our operations, we may in the future require additional capital beyond those generated by the [REDACTED] from time to time to grow our business, including to increase and diversify our product offerings, attract more users and hosts, develop new monetization methods and expand to overseas market, improve our technology infrastructure, or conduct acquisition of complementary businesses and technologies. Accordingly, we may need to sell additional equity or debt securities to raise additional capital. Future issuances of equity or equity-linked securities could significantly dilute our existing Shareholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. The incurrence of debt financing would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our Shareholders.

RISK FACTORS

Our ability to obtain additional capital is subject to a variety of uncertainties, including:

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

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. If we are unable to obtain adequate financing on terms satisfactory to us when we require it, our ability to continue to support our business growth could be significantly impaired, and our business and prospect could be materially and adversely affected.

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

As of the Latest Practicable Date, we did not maintain any business interruption insurance, litigation insurance, product liability insurance or key man life insurance, which are not mandatory under PRC laws. We do not maintain insurance policies covering damages to our technology infrastructure or our leased properties. Any business disruption, litigation or natural disasters, or any significant damages to our technology infrastructure or facilities may cause to incur substantial costs and divert our resources, and we may have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our technology and operations depend on the performance of the internet infrastructure and fixed telecommunications networks in China, any disruption of or interference with which would adversely affect our business, results of operations and financial condition.

Our technology and operations depend on the performance and reliability of the internet and fixed telecommunications infrastructure in China. Almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. Moreover, we primarily rely on a limited number of telecommunications service providers to provide us with communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China’s internet infrastructure or the fixed telecommunications networks. In addition, the national networks in China are connected to the internet through international gateways. These international gateways are the only channels through which a domestic user can connect to the internet and may not sufficiently support the continually growing demand for internet usage. With the expansion of our business, we may be required to upgrade our technology and

RISK FACTORS

infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China can support the demands associated with the continued growth in internet usage. If we cannot increase our capacity to deliver our online services, we may not be able to accommodate the increases in traffic we anticipate from our expanding user base and the adoption of our services may be hindered, which could adversely impact our business and profitability. In the event of disruptions, failures or other problems with internet infrastructure, we or our users may not have access to alternative networks on a timely basis, if at all. Additionally, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decelerate. Such deceleration may adversely affect our ability to continue expanding our user base.

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

Any compromise of the cybersecurity of our platform could materially and adversely affect our business, operations and reputation.

Our products and services involve the storage and transmission of users’ and hosts’ information, and security breaches expose us to a risk of loss of this information, litigation and potential liability. Historically, we have experienced cyber-attacks of varying degrees from time to time, and we have been able to rectify damages caused by such cyber-attacks without significant impact to our operations in the past. Our security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, hosts, or users to disclose sensitive information in order to gain access to our data or our users’ or hosts’ data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the

RISK FACTORS

market perception of the effectiveness of our security measures could be harmed, we could lose users and hosts, and may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business, reputation and results of operations.

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

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

Failure to comply with PRC property laws and relevant regulations regarding certain of our leased properties may adversely affect our business, results of operations and financial condition.

According to the PRC Land Administration Law, land in urban districts is owned by the state. The owner of a property built on state-owned land generally possesses the proper land and ownership certificate or other legal documentations to demonstrate that it is the owner of the properties and that it has the right to enter into lease agreements with the tenants or to authorize a third party to sublease the properties. As of the Latest Practicable Date, lessors of some of our leased properties had not provided us with their authorization from the legal owners of the relevant properties to sublease such properties to us. If any of the lessors is not the legal owner or had not been duly authorized by the legal owner, the relevant lease agreements may be deemed invalid and, as a result, we may be challenged by the legal owners of the properties or other third parties, and may be forced to vacate the relevant properties and relocate our offices.

Under the applicable PRC laws and regulations, the parties to a lease agreement are required to register and file such lease agreement with the relevant government authorities. As of the Latest Practicable Date, none of our leased properties had been registered or filed. While as confirmed by our PRC Legal Advisor, the lack of registration will not affect the validity of the lease agreements nor our rights to use or occupy the leased properties under PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which may subject us to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease.

RISK FACTORS

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

We have experienced, and expect to continue to experience, seasonality in our business. For example, we generally experience an increase in revenue from live streaming services in the fourth quarter of each year for the China market, as live streaming platforms generally organize marketing campaigns, host contests and other activities, which tend to attract more users and stimulate content production and user engagement on our platform towards the end of each year. We also experience fluctuations in revenue in connection with our overseas operations. Revenue generated from our overseas social networking products generally increases during summer and winter vacation periods, as the local younger users tend to spend more time on our apps to socialize with others. Revenue generated from our overseas social networking products tends to decrease during major local festivals when local users tend to decrease their online time or suspend virtual social events temporarily for offline activities. We expect our revenue to continue to fluctuate based on seasonal factors that affect the online video and audio social entertainment market in China and globally. Other seasonal trends that affect us or our industry as a whole may develop, and current seasonal trends may become more extreme, all of which would contribute to fluctuations in our results of operations. As a result, historical patterns of our results of operations may not be indicative of our future performance, and period-to-period comparisons of our results of operations may not be meaningful. Our results of operations in future quarters or years may fluctuate and deviate from the expectations of securities analysts and investors, and any occurrence that disrupts our business during any particular quarters could have a disproportionately material adverse effect on our liquidity and results of operations.

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

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

In addition, we currently cooperate with third party payment channels such as WeChat Pay, Alipay and Apple Pay to process payments for us. These third party payment channels are subject to anti-money laundering obligations under applicable anti-money laundering laws and

RISK FACTORS

regulations in China, which require them to comply with certain anti-money laundering requirements, including the establishment of a customer identification procedure, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. If a third-party payment channel fails to perform its anti-money laundering obligations, it may be subject to fines or other proceedings in accordance with the relevant regulations. We have also adopted internal control measures to fulfill our obligations under applicable anti-money laundering laws, which require us, among others, to cooperate with financial institutions in customer due diligence to fulfill their anti-money laundering obligations, cooperate with anti-money laundering investigations, and maintain transaction records as required by applicable anti-money laundering laws. If any of our third-party payment channel fails to comply with applicable anti-money laundering laws and regulations, or if we are unable to fulfill our obligations under applicable anti-money laundering requirement, our reputation could suffer and we could become subject to regulatory intervention, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We face risks related to natural disasters, health epidemics and other outbreaks, such as the COVID-19 pandemic, which could significantly disrupt our operations.

Our business could be adversely affected by the effects of natural disasters, other health epidemics or other public safety concerns. In recent years, there have been other breakouts of epidemics in China and globally. Our operations could be disrupted if one of our employees is suspected of having COVID-19, H1N1 flu, avian flu or another epidemic, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the PRC economy in general and the video and audio social entertainment live streaming industry in particular.

The worldwide outbreak of COVID-19 pandemic has resulted in significant disruptions in the global economy. Since early 2020, China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak and, in response, governments have implemented, among other measures, restrictions on mobility and travel and cancelation of public activities, to contain the spread of the virus. As a result, our operations have to a certain extent been impacted by delays in business activities, commercial transactions and general uncertainties surrounding the duration of the governments’ extended business and travel restrictions. In particular, the travel restrictions resulted in the reduction in size or even cancelation of our offline events, which temporarily affected some of our marketing activities. The COVID-19 outbreak had also resulted in government-imposed lockdowns and workplace closures. Furthermore, a portion of our employees were required to work remotely and our operations in those regions were interrupted to the extent that onsite services of our employees were required. We have taken measures to reduce the impact of this epidemic outbreak, including, upgrading our telecommuting system, monitoring our employees’ health on a daily basis and optimizing our technology system to support potential growth in user traffic.

RISK FACTORS

We have experienced increase in the size and engagement of our active user base in 2020. However, any increase in demand for online social and entertainment activities as a result of the lockdown and various social distancing initiatives associated with the COVID-19 outbreak may be temporary and not sustainable. The general concerns and uncertainties about the pandemic and the economy and the overall weakening consumer sentiment may have negatively affected our business.

There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. These emergency measures have been significantly relaxed by the Chinese government. However, there has been occasional outbreaks of COVID-19 in various cities in China, and the Chinese government may again take additional measures to contain the resurgence of COVID-19. The potential downturn brought by and the duration of the COVID-19 outbreak may be difficult to assess or predict as the actual effects will depend on many factors beyond our control. While we believe the impact on our business due to the outbreak of COVID-19 was limited, it is difficult for us to quantify the impact and estimate the extent to which the COVID-19 outbreak impacts our long-term results.

We are also vulnerable to natural disasters and other calamities. Although we have servers that are hosted in an offsite location, our backup system does not capture data on a real-time basis and we may be unable to recover certain data in the event of a server failure. We cannot assure you that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services on our platform. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, the offline events operated by us may be canceled or delayed. Government advices regarding, or restrictions on holding offline events and travels, in the event of an outbreak of any contagious disease or occurrence of natural disasters may have a material adverse effect on our business and operating results.

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

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition, and results of operations. There have been political matters which resulted in increased tensions between China and the United States. In addition, China has implemented, and may further implement, measures in response to new trade policies, treaties and tariffs initiated by the U.S. government. Such measures may further escalate the tensions between the countries or even lead to a trade war. Any further escalation in trade tensions between China and the United States or a trade war, or the

RISK FACTORS

perception that such escalation or trade war could occur, may have negative impact on the economies of not only the two countries concerned, but the global economy as a whole. As a result, our business, financial condition, results of operations and prospects would be adversely affected.

Certain of our overseas operations, such as *Monkey*, target users in the United States. While our overseas operations have not been adversely affected by the trade war between China and the United States, if there were any further escalation of tensions between China and the United States or if any further restrictions on internet companies from China were imposed by the United States, our business may be adversely affected. In addition, our potential acquisitions and investments, as well as operations, in the United States may be affected by heightened regulatory requirements or scrutiny if the current China-U.S. disputes continue to escalate. Furthermore, there is no guarantee that China will not impose any additional U.S.-specific restrictions on top of its existing restrictions.

Our users may suffer from third-party fraud when purchasing our user tokens and our reputation may suffer as a result.

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

In the past, we have experienced incidents in which users may have paid for our user tokens through fraudulent methods, including the exploitation of the settlement policies of third-party online payment channels. Although we have implemented authentication mechanisms that help us detect such fraudulent paying methods, we cannot guarantee that our mechanisms will identify and prevent all fraudulent purchases in the future. These fraudulent transactions may cause harm to our financial results and business operations.

Any flaws or misuse of AI technologies, whether actual or perceived, committed by us or by other third parties, could have a material adverse effect on our regulatory compliance and corporate social responsibility record.

AI technologies are at early stages of development and will continue to evolve, and similar to many innovations, AI technologies present risks and challenges. Potential misuse for inappropriate purposes or biased applications, including assigning unequal risk scoring based on racial, cultural background, or gender by third-party service providers or inadvertently by

RISK FACTORS

us, may produce biased analysis and discrimination against certain search subjects on our platform, or unfairly target certain groups or group of people using our platform, which may in term breach public confidence in our platform, or violate applicable laws and regulations in China and other jurisdictions. Such misuse, whether actual or perceived, could affect user perception on public opinions on us, undermine our corporate social responsibility record, damage our reputations and materially and adversely affect our business and results of operations.

Our controlling shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

As of the Latest Practicable Date, our controlling shareholders, Mr. Zhou, through Mr. Zhou Group, owned 38.21% of the total issued share capital of our Company, and Songcheng Performance, through Global Bacchus Limited owned 37.06% of the total issued share capital of our Company. Immediately after the completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] or any option granted under the [REDACTED] Share Option Scheme is not exercised), our controlling shareholders will own approximately [REDACTED]% and [REDACTED]% of our then issued share capital. Our controlling shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of directors and other significant corporate actions. See “Relationship with Our Controlling Shareholders” for details. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the [REDACTED] of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, our controlling shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

We have been involved, and may continue to be involved in legal proceedings or arbitration claims, and the court ruling or arbitration award may not be favorable to us.

We have been involved, and may continue to be involved, in legal proceedings or arbitration claims during the ordinary course of our business, including those in relation to contractual disputes and intellectual property disputes. We may also bring legal proceedings or arbitration claims against others. Such proceedings or claims, regardless of their outcomes, could harm our reputation, divert our management’s attention and cause us to incur a substantial amount of legal expenses. If the outcomes of these legal proceedings are unfavorable to us, we will face legal liabilities and suffer financial or reputational damages, which could materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

During the Track Record Period, we had brought certain arbitration claim against certain relevant parties in connection with the Disposal of Beijing Lingdong. See “Business — Legal Proceedings — Lingdong-related Arbitration.” If the outcome of such arbitration proceeding is unfavorable to us, we may be unable to recover damages incurred in connection with the Disposal of Beijing Lingdong and suffer financial loss as a result.

The discontinuation of any preferential tax treatments available to us in China could adversely affect our results of operations and financial condition.

Under PRC tax laws and regulations, certain of our PRC subsidiaries and Consolidated Affiliated Entities enjoyed, or are qualified to enjoy, certain preferential income tax benefits. The modified Enterprise Income Tax Law, effective on December 29, 2018 (the “EIT Law”), and its implementation rules generally impose a uniform income tax rate of 25% on all enterprises, but grant preferential treatment to small low-profit enterprises to enjoy a reduced enterprise income tax rate of 20%, and to high and new technology enterprise to enjoy a reduced enterprise income tax rate of 15%. During the Track Record Period, some of our Consolidated Affiliated Entities and PRC subsidiaries were subject to a preferential income tax rate of 15% and other preferential tax treatment as they were accredited as high and new technology enterprises. In the event the preferential income tax treatment for these Consolidated Affiliated Entities and PRC subsidiaries is discontinued or is not verified by the local tax authorities, and the affected entity fails to obtain preferential income tax treatment based on other qualifications, such entity will become subject to the standard PRC enterprise income tax rate of 25% or it may not be able to claim tax deductible expense, any of which could cause our income tax expenses to increase and have a material adverse effect on our results of operations.

RISKS RELATED TO OUR CORPORATE STRUCTURE

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

We are a company incorporated under the laws of the Cayman Islands, and WFOE, our wholly-owned PRC subsidiary, is considered as a foreign-invested enterprise. The PRC government prohibits foreign investment in internet cultural activities and internet audio-visual program services and restricts foreign investment in value-added telecommunications services businesses. See “Regulations on Value-Added Telecommunications Services,” “Regulations relating to Internet Audio-Visual Program Services,” “Regulations relating to Online Live Streaming Services,” and “Regulations relating to Foreign Investment” in “Regulation.” Due to these restrictions, we conduct our operations in China through our Consolidated Affiliated Entities. Although we do not have any equity interest in our Consolidated Affiliated Entities, we are able to exercise effective control over them and receive substantially all of the economic

RISK FACTORS

benefits of their operations through the Contractual Arrangements with our Consolidated Affiliated Entities and their shareholders. For a description of the Contractual Arrangements, see "Contractual Arrangements."

Our PRC Legal Advisor is of the opinion that our Contractual Arrangements (1) do not violate any explicit provisions of PRC laws, rules or regulations currently in effect and (2) our agreements with the Consolidated Affiliated Entities constitute valid and binding obligations against each party to such agreements in accordance with their terms, except that the dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration may not be recognized or enforced by PRC courts. However, our PRC Legal Advisor also advised us that as there are substantial uncertainties regarding the interpretation and application of the PRC laws, rules and regulations, including those governing our business, or the enforcement and performance of our Contractual Arrangements, there can be no assurance that the PRC government would ultimately take a view that is consistent with the opinion of our PRC Legal Advisor. If the PRC government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that we, Huafang Technology or any of its subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, would have broad discretion in dealing with such violations or failures, including, without limitation:

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

RISK FACTORS

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

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

On March 15, 2019, the National People’s Congress of the PRC adopted the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “PRC Foreign Investment Law” or “FIL”), which came into force on January 1, 2020. The PRC Foreign Investment Law defines “foreign investment” as investment activity in China conducted directly or indirectly by foreign investors in any of the following manners: (1) the foreign investor, by itself or together with other investors, establishes a foreign-invested enterprise in China; (2) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests in enterprises in China; (3) the foreign investor, by itself or together with other investors, invests and establishes a new project in China; or (4) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法實施條例》) (the “Implementation Regulations”), which became effective on January 1, 2020. Pursuant to the Implementation Regulations, in the event of any discrepancy between the Foreign Investment law and the Implementation Regulations and relevant requirements for foreign investment promulgated prior to January 1, 2020, the Foreign Investment Law and the Implementation Regulations shall prevail. The Implementation Regulation on the Foreign Investment Law is silent on how to define and regulate variable interest entities, while adding a catch-all clause that “other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council” can fall within the concept of “foreign investment”, which leaves uncertainty as to whether a foreign investor’s control of PRC onshore variable interest entities via contractual arrangements will be recognized as “foreign investment”. Pursuant to the PRC Foreign Investment Law, PRC governmental authorities will regulate foreign investment by applying the principle of pre-entry national treatment together with a “negative list”, which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in industries which are listed as “prohibited” in such negative list; and, after satisfying certain additional requirements and conditions as set out in the “negative list”, are allowed to make investments in the industries which are listed as “restricted” in such negative list. With respect to any foreign investor that fails to comply with such negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance, and impose other penalties.

RISK FACTORS

The internet cultural activities (except for music related activities), internet audio-visual program services, and value-added telecommunications services that we conduct through our Consolidated Affiliated Entities are subject to foreign investment restrictions or prohibitions as set out in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) issued by MOFCOM and the NDRC, which became effective on January 1, 2022. It is unclear whether any new “negative list” to be issued under the PRC Foreign Investment Law will be different from such existing list.

However, uncertainties still exist in relation to interpretation and implementation of the Foreign Investment Law, especially in regard to the nature of consolidated affiliated entity contractual arrangements and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. We cannot assure you that future laws and regulations will not provide for contractual arrangements as a form of foreign investment in the future. In the event that any possible implementing regulations of the Foreign Investment Law or any other future laws or regulations deem contractual arrangements as a way of foreign investment, our Contractual Arrangements may be deemed as invalid and illegal, and we may be required to unwind the Contractual Arrangements and/or dispose of any affected business. Also, if future laws or regulations mandate further actions to be taken with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If we fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, our current corporate structure, corporate governance and business operations could be materially and adversely affected.

Our Contractual Arrangement may not be as effective in providing operational control as direct ownership. Huafang Technology or its Registered Shareholders may fail to perform their obligations under our Contractual Arrangement.

Due to the PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in China, we operate a portion of our business in China through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on the Contractual Arrangements with Huafang Technology and its Registered Shareholders to control and operate their 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 agreements with the Consolidated Affiliated Entities 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 Huafang Technology as direct ownership. If Huafang Technology or its Registered Shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. The Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from the Contractual Arrangements will be

RISK FACTORS

resolved through arbitration or litigation in China. However, the legal system in China is not as developed as in other jurisdictions. Uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, 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 PRC law. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce the Contractual Arrangements. In the event we are unable to enforce the Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements, and our ability to conduct our business may be adversely affected.

As some of our agreements under the Contractual Arrangement may not have fully detailed the parties’ rights and obligations, our remedies for a breach of these agreements may not be guaranteed.

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

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

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

RISK FACTORS

The Registered Shareholders of Huafang Technology may have conflicts of interest with us, which may materially and adversely affect our business.

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

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

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

Additionally and pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by PRC tax authorities within ten years after the taxable year when the transactions are conducted. We may be subject to adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements among our WFOE, Huafang Technology and its Registered Shareholders are not on an arm's length basis and therefore constitute favorable transfer pricing. As a result, the PRC tax authorities could require that our Consolidated Affiliated Entities adjust their taxable income upward for PRC tax purposes. Such an adjustment could increase our Consolidated Affiliated Entities' tax expenses without reducing the tax expenses of our WFOE, subject our

RISK FACTORS

Consolidated Affiliated Entities to late payment fees and other penalties for under-payment of taxes, and result in the loss of any preferential tax treatment our WFOE may have. As a result, our consolidated results of operations may be adversely affected.

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

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

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

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

RISKS RELATED TO DOING BUSINESS IN CHINA

Adverse changes in the economic, political and social conditions of China could have a material adverse effect our business, results of operations and financial condition.

We derive substantially all of our revenues from our operations in China. As a result, our revenues and net income are impacted to a significant extent by economic, political and social conditions in China and globally, as well as economic conditions specific to online and mobile internet usage and advertising. China’s economic conditions are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The global macroeconomic environment is facing new challenges and there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies. Recent international trade disputes, including tariff actions announced by the United States, the PRC and certain other countries, and the uncertainties created by such disputes may cause

RISK FACTORS

disruptions in the international flow of goods and services and may adversely affect the Chinese economy as well as global markets and economic conditions. There have also been concerns about the economic effect of the military conflicts and political turmoil or social instability in the Middle East, Europe, Africa and other places. The global economy, markets and levels of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, political uncertainty, levels of employment, inflation or deflation, real disposable income, interest rates, taxation and currency exchange rates. Any severe or prolonged slowdown in the global economy may adversely affect the Chinese economy which in turn may adversely affect our business and operating results.

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

Uncertainties and changes in the Chinese legal system could materially and adversely affect our business.

Our business operations are based in China through our WFOE and its subsidiaries and our Consolidated Affiliated Entities, all of which are organized under PRC laws. Our business in China is governed by PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. On March 15, 2019, the National People’s Congress promulgated the Foreign Investment Law, which comes into effect on January 1, 2020 and replace the trio of laws regulating foreign investment in China. These laws, regulations and legal requirements, including those governing PRC tax matters, are relatively new and amended frequently, and their interpretation and enforcement often raise uncertainties that could limit the reliability of the legal protections available to us. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until the violations have occurred. Furthermore, the PRC administrative and court authorities have significant discretions in interpreting and implementing or enforcing statutory rules and contractual terms,

RISK FACTORS

and it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we may enjoy in China versus other more developed legal systems. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to enforce our contractual or tort rights. Such uncertainties may result in substantial operating expenses and costs, and any litigation in China may result in diversion of resources and management’s attention, and therefore materially and adversely affect our business and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorizations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorizations may materially and adversely affect our business, results of operations and financial condition.

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

The PRC government has adopted certain regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements could result in the revocation of ICP License and other required licenses and the closure of the concerned websites. The website operator may also be held liable for such prohibited information displayed on, retrieved from or linked to such website. In addition, the MIIT has published regulations that subject website operators to potential liability for content included on their websites and for the actions of users and others using their websites, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local internet service provider, or ISP, to block any internet website maintained outside China in accordance with the relevant PRC laws and regulations. The State Secrecy Bureau, which is directly responsible for the protection of state secrets of the PRC government, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the dissemination of online information.

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

RISK FACTORS

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

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

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

As we expand our operations, we expect to incur more expenditures denominated in Renminbi, while the [REDACTED] from the [REDACTED] and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar or U.S. dollar may affect the relative purchasing power in Renminbi terms of the [REDACTED] from the [REDACTED]. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar may affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

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

RISK FACTORS

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

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

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

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

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our WFOE and/or our Consolidated Affiliated Entities.

Any funds we transfer to our WFOE, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, the information of capital contributions to our WFOE should be reported to MOFCOM or its local branches and filed with other governmental authorities in China. Additionally, any foreign loan procured by our WFOE is required to be registered with the SAFE or its local branches, and our WFOE may not procure loans which exceed the difference

RISK FACTORS

between its registered capital and its total investment amount as approved by MOFCOM or its local branches. Any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities for a term of over one year must be approved by the NDRC and the SAFE or its local branches. We may not obtain these governmental approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our Consolidated Affiliated Entities. If we fail to receive such approvals or complete such registrations, our ability to use the [REDACTED] of the [REDACTED] and to capitalize our PRC operations may be negatively affected, which could adversely affect our WFOE’s liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE issued the Circular on Performing the Administration Approach regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (“SAFE Circular 19”). SAFE Circular 19 allows foreign-invested enterprises in China to convert foreign currencies into Renminbi in order to pay their registered capital and make equity investments in Renminbi. However, it still prohibits foreign-invested enterprises from making security market investments, offering entrustment loans and purchasing any investment properties, unless otherwise permitted by other relevant PRC laws and regulations. On June 9, 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (“SAFE Circular 16”), which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested enterprises to issue Renminbi entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. As a result, SAFE Circular 19 and SAFE Circular 16 may restrict our ability to convert, transfer and use the net [REDACTED] from the [REDACTED].

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

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM and other government authorities jointly issued the Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) which was effective as of September 8, 2006 and amended on June 22, 2009 (the “M&A Rules”). The M&A Rules and other regulations and rules concerning mergers and acquisitions established procedures and requirements that could make merger and acquisition activities by foreign investors time consuming and complex. For example, the M&A Rules requires that MOFCOM be notified in advance of any change-of control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (1) any important industry is concerned, (2) such transaction involves factors that have or may have impact on the national economic security, or (3) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the SCNPC on August 30, 2007 and effective as of August 1, 2008 requires transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators

RISK FACTORS

participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be notified and cleared by MOFCOM before they can be completed. In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (“Circular No. 6”), which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular No. 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns, and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. In August 2011, MOFCOM promulgated the Rules on Implementation of Security Review System (“MOFCOM Security Review Rules”), to replace the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM effective from March 2011 and expired by the end of August 2011, for implementing Circular No. 6. The MOFCOM Security Review Rules, which became effective on September 1, 2011, explicitly provide that MOFCOM will look into the substance and actual impact of the transaction and further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, and obtaining control through contractual arrangements or offshore transactions.

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

The approval of or filing procedure with the CSRC may be required in connection with the [REDACTED], and, if required, we cannot predict whether we will be able to obtain such approval.

On December 24, 2021, the CSRC issued the Provisions of the State Council on the 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

RISK FACTORS

發行證券和上市備案管理辦法(徵求意見稿)) (the “Draft Measures”). The Draft Administration Provisions and the Draft Measures are open for public comments until January 23, 2022. The Draft Administration Provisions and the Draft Measures regulate overseas securities offering and listing activities by domestic enterprises in direct or indirect form. The Draft Administration Provisions specify that the CSRC has regulatory to regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities, and adopt a filing-based regulatory regime. Overseas offerings and listings that are prohibited by specific laws and regulations, constitute threat to or endanger national security, involve material ownership disputes, the PRC domestic companies, their controlling shareholder or actual controller involving in certain criminal offence, or directors, supervisors and senior management of the issuer involving in certain criminal offence or administrative penalties, among other circumstances, are explicitly forbidden. The Draft Measures provide supplementary rules for the Draft Administration Provisions by specifying the primary filing procedures for overseas securities offerings and listings activities by domestic enterprises in direct or indirect form. If the Draft Administration Provisions and the Draft Measures are fully implemented as-is, we may be required to file in accordance with the Draft Measures. Public consultation for the Draft Administration Provisions and the Draft Measures ended on January 23, 2022. However, the final version and effective date of such regulations are subject to change with substantial uncertainty.

If it is determined in the future that CSRC approval, filing or other procedural requirements are required to be met for and prior to the [REDACTED], it is uncertain whether we can or how long it will take us to obtain such approval or complete such procedures and any such approval could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for the [REDACTED], could subject us to sanctions by the relevant PRC governmental authorities. The governmental authorities may impose restrictions and penalties on our operations in the PRC, such as suspension of our operations, stopping the [REDACTED], limiting our ability to pay dividends outside of the PRC or taking other actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the [REDACTED] of the Shares. In addition, if the PRC governmental authorities later promulgate new rules or explanations requiring that we obtain their approvals for filings, registrations or other kinds of authorizations for the [REDACTED], we cannot assure you that we can obtain the approval, authorizations, or complete required procedures or other requirements in a timely manner, or at all, or obtain a waiver of the requisite requirements if and when procedures are established to obtain such a waiver.

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

Under the PRC enterprise income tax law that became effective on January 1, 2008, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform EIT tax rate of 25% on its worldwide income. On April 22, 2009, the SAT

RISK FACTORS

issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the “Circular 82”), which sets out certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Further to the Circular 82, on July 27, 2011, the SAT issued the Administrative Measures of Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (“SAT Bulletin 45”), which became effective on September 1, 2011, to provide more guidance on the implementation of the Circular 82. According to the Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered a PRC tax resident enterprise by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (1) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (3) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (4) not less than half of the enterprise’s directors or senior management with voting rights habitually reside in the PRC. SAT Bulletin 45 provides further rules on residence status determination, post-determination administration as well as competent tax authorities procedures.

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

RISK FACTORS

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

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

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

RISK FACTORS

establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to PRC real properties or to equity investments in a PRC resident enterprise, which are not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the competent tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest.

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

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

We are a holding company incorporated in the Cayman Islands, and we may rely on dividends to be paid to us by our WFOE for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our Shares and to service any debt we may incur. If our WFOE incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, a wholly foreign-owned enterprise in China, such as our WFOE, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. Any limitation on the ability of our WFOE to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

Furthermore, the ability of our WFOE to pay dividends in turn depends on service fees paid by our Consolidated Affiliated Entities pursuant to the Contractual Arrangements. Although our WFOE, our Consolidated Affiliated Entities and their subsidiaries have no plan to pay any dividends in the foreseeable future, if they incur debt on their own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends or make other payments to us, which may restrict our ability to satisfy our liquidity requirements.

RISK FACTORS

In addition, the PRC enterprise income tax law and its implementation rules provide that a withholding tax rate of 10% will be applicable to dividends payable by PRC companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC and governments of other jurisdictions in which the non-PRC-resident enterprises are incorporated. As of May 31, 2022, our WFOE and our Consolidated Affiliated Entities (including their subsidiaries) had not paid any dividends and had no plan to pay any dividends in the foreseeable future.

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. All of our executive Directors and executive officers reside within China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon these individuals, or to bring an action against us or against these individuals in Hong Kong in the event that you believe your rights have been infringed under the Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our Directors and officers. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

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

Pursuant to the Notice on Strengthening the Administration on Enterprise Income Tax for Non-Resident Enterprise Equity Transfer (the “SAT Circular 698”) issued by the SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, and such overseas holding company is located in a tax jurisdiction that (1) has an effective tax rate of less than 12.5% or (2) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority of the PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

RISK FACTORS

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

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

There are uncertainties as to the application of Bulletin 7 and Bulletin 37. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce,

RISK FACTORS

avoid or defer PRC tax. Bulletin 7 and Bulletin 37 may be determined by the tax authorities to be applicable to previous investments by non-resident investors in our Company, if any, if such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing non-resident investors may become at risk of being taxed under Bulletin 7 and Bulletin 37 and may be required to expend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we should not be taxed under Bulletin 7 and Bulletin 37, which may have a material and adverse effect on our financial condition and results of operations or such non-resident investors’ investments in us. We have conducted and may conduct acquisitions involving changes in corporate structures. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

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

In July 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015. If our Shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiary may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws and regulations for evasion of applicable foreign exchange restrictions. However, we may not at all times be fully aware or informed of the identities of all our Shareholders or beneficial owners that are required to make such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC residents or entities have complied with, and

RISK FACTORS

will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such Shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, and limit our subsidiaries’ ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

Inflation in China could negatively affect our profitability and growth.

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

RISKS RELATED TO THE [REDACTED]

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

Prior to the [REDACTED], there has been no [REDACTED] for our Shares. The [REDACTED] for our Shares was the result of negotiations among us and the [REDACTED] and the [REDACTED] (for themselves and on behalf of the [REDACTED]) and the [REDACTED] may differ significantly from the [REDACTED] for the Shares following the [REDACTED]. We have applied to [REDACTED] and [REDACTED] in the Shares on the Stock Exchange. We cannot assure you that the [REDACTED] will result in the development of an active, liquid [REDACTED] for the Shares. In addition, the [REDACTED] and [REDACTED] of the Shares may be volatile. The following factors may affect the [REDACTED] and [REDACTED] of our Shares:

- actual or anticipated fluctuations in our operating and financial results, such as turnovers, earnings and cash flow;
- changes in earnings estimate or recommendations by financial analysts; general market conditions or other developments affecting us or our industry;
- potential litigation or regulatory investigations;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of additional Shares by us or other Shareholders.

RISK FACTORS

Moreover, the securities market has from time to time experienced significant [REDACTED] and volume fluctuations that were unrelated or not directly related to the operating performance of the underlying companies. For example, the recent political unrest and the ongoing and occasionally violent protests ensuing the Hong Kong Legislative Council’s proposed amendments to the Fugitive Offenders Ordinance and the Mutual Legal Assistance in Criminal Matters Ordinance and the relevant developments have apparently impacted market sentiment in the Hong Kong capital market. Hang Seng Indexes have experienced significant fluctuations since July 2019. Such fluctuations, whether caused by market, industry or political factors, may have a material and adverse effect on the [REDACTED] and [REDACTED] of our Shares.

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

The [REDACTED] 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, China, the United States and elsewhere in the world. In particular, the performances of and fluctuations in the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatilities in the [REDACTED] and [REDACTED] of our Shares. A number of China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their [REDACTED]. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based companies listed in Hong Kong and consequently may impact the [REDACTED] performance of our Shares. These broad market and industry factors may significantly affect the [REDACTED] and volatility of our Shares, regardless of our actual operating performance.

Since there will be a gap of several days between [REDACTED] and [REDACTED] of our Shares, holders of our Shares are subject to the risk that the [REDACTED] 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 five Hong Kong business days after the [REDACTED]. Accordingly, holders of our Shares are subject to the risk that the [REDACTED] of our Shares could fall before [REDACTED] begins as a result of adverse market conditions or other adverse development which could occur between the time of sale and the time [REDACTED] begins.

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

The [REDACTED] of the Shares is higher than the net tangible book value per Share immediately prior to the [REDACTED]. Therefore, purchases of the Shares in the [REDACTED] will experience an immediate dilution in [REDACTED] net tangible book

RISK FACTORS

value, and our existing Shareholders will receive an increase in the [REDACTED] adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interests if the [REDACTED] exercise the [REDACTED] or if we obtain additional capital in the future through [REDACTED].

We have significant discretion as to how we will use the [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.

Our management may spend the [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return. For details of our intended [REDACTED], see “Future Plans and [REDACTED].” However, our management will have discretion as to the actual application of our [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific use we will make of the [REDACTED] from this [REDACTED].

Any future sales, or perceived sale, of a substantial amount of our Shares in the public market could have a material adverse effect on the prevailing [REDACTED] of our Shares and our ability to raise capital in the future.

Future sales of a substantial amount of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the [REDACTED] of our Shares from time to time. See “[REDACTED]” for a more detailed discussion of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the [REDACTED] of our Shares may decline as a result of future sales of a substantial amount of our Shares or other securities relating to our Shares in the [REDACTED], the issuance of new Shares or other securities relating to our Shares, or the perceptions that such sales or issuances may occur. This could negatively affect the [REDACTED] of our Shares and our ability to raise equity capital in the future.

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

This document, particularly “Industry Overview,” contains information and statistics relating to our industry. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be

RISK FACTORS

discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the [REDACTED] for our Shares and [REDACTED] could decline.

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

As we do not expect to pay dividends in the foreseeable future after the [REDACTED], you must rely on [REDACTED] of our Shares for return on your investment.

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

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

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a majority of our Directors and executive

RISK FACTORS

officers reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon these individuals, or to bring an action against us or against these individuals in Hong Kong in the event that you believe your rights have been infringed under the Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

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

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

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

As a result of all of the above, our public Shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board of Directors or Controlling Shareholders than they would as public shareholders of a company incorporated in Hong Kong. For a discussion of significant differences between the provisions

RISK FACTORS

of the Cayman Companies Act and the laws applicable to companies incorporated in Hong Kong and their shareholders, see “Summary of the Articles of Association and Cayman Islands Company Law” in Appendix III to this document.

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

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

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

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